Exam Review Questions

The following questions are intended to help you review the key concepts in each module. The answer key can be downloaded from the online course space. Please refer to the Accessing Your Course and Exam Guide for instructions on how to access the course space.

Introduction to Mortgage Banking

1. The process of transferring loan documents to a warehouse bank or an investor is called:
   a. Fulfillment
   b. Closing
   c. *<u>Shipping</u>*
   d. Commitment termination

2. The underwriter:
   a. Originates loans
   b. *<u>Accepts or rejects loan applications</u>*
   c. Orders the property appraisal report
   d. Sets the mortgage loan interest rate

3. Multiple answer. Select all that apply. The closer:
   a. Prepares the borrower's loan application
   b. *<u>Concludes the transaction</u>*
   c. Prepares documents to be submitted to the underwriter
   d. *<u>Interacts with the title and escrow companies</u>*

Ethics

1. The Mortgage Bankers Association Canons of Ethics contains ethical standards pertaining to:
   a. Honesty in advertising
   b. Confidentiality
   c. Compliance with laws
   d. *All of the above*

2. The Mortgage Bankers Association Canon of Ethics concerning competition:
   a. Requires members to disclose any financial or other conflicts of interest
   b. *Supports healthy competition in the real estate finance industry*
   c. Permits MBA members to pursue takeovers of industry competitors
   d. Requires MBA members to refrain from committing fraud against the public

Regulatory Compliance

1. Under the Truth in Lending Act (TILA), a lender offering a borrower an adjustable rate mortgage (ARM) must:
    a. *Disclose general and specific information about the loan's variable rate feature*
    b. Provide borrower with comparison shopping information about other lenders' ARM rates
    c. Not discriminate against the borrower based upon borrower's receipt of public assistance
    d. Provide a disclosure of the loan's suitability for the borrower's risk profile

2. PDQ Mortgage Company is located in Lake Placid County. Since it opened, PDQ has made mortgage loans only to Lake Placid and surrounding counties. Recently a borrower applied for a loan to purchase a property in Anytown. PDQ's mortgage loan originator informed the borrower that "PDQ does not lend money for properties in Anytown." PDQ Mortgage Company should be aware that its policy of refusing to make loans in Anytown:
    a. *Likely runs afoul the Community Reinvestment Act (CRA)*
    b. Is permissible under the Truth in Lending Act (TILA) as long as PDQ advertises that it will not do business in Anytown
    c. Is permissible as long as PDQ informs the borrower that it refuses to make loans in Anytown
    d. Likely violates the Real Estate Settlement Procedures Act (RESPA)

Laws Affecting the Mortgagee's Interest in Property

1. A table lamp is not real property because:
   a. It is not mentioned in the deed to the property
   b. *It is not permanently attached to the real property*
   c. It is included in the real estate sales contract

2. The deed to the house where Jones lives includes a clause that says that Jones may live at the property "only during the life of Jones' children." Jones' interest in the property is:
   a. Fee simple absolute
   b. Leasehold
   c. *Life estate*
   d. Joint tenants with right of survivorship

3. Abe, Barbara, and Catherine purchased real property together as joint tenants with right of survivorship. Barbara died. David wants to purchase a 100% ownership of the property and has applied for a mortgage loan with XYZ Mortgage Company. XYZ will lend David the money only if he purchases the 100% interest. XYZ should be aware that:
   a. *Abe and Catherine can convey the 100% ownership to David**
   b. Barbara's heir(s) must sign the deed with Abe and Catherine to convey the 100% ownership to David

4. When real property is conveyed by eminent domain:
   a. The real property owner is usually in default under his/her mortgage loan
   b. *The government must pay the real property owner fair compensation*
   c. The real property passes upon the owner's death according to state law

5. It is important to record the lender's mortgage:
   a. *So that the lender has the correct lien/security position or priority*
   b. With the promissory note
   c. To establish the borrower's ownership in the real property

6. XYZ Mortgage wants to transfer ownership rights in a mortgage loan to FGH Mortgage. To complete the transfer, XYZ will sign a(n):

   a. General warranty deed

   b. Special warranty deed

   c. *Assignment*

Loan Products

1. Multiple answer. Select all that apply. Which are some of the factors that affect an investor's appetite for certain loan products?

    a. *Risk of default or loss*

    b. *Exaggerated prepayment speeds*

    c. *Costs to service based on structure*

    d. *Risk for potential fraud*

    e. *Liquidity*

2. A jumbo or super jumbo loan is considered to be a ________ loan product, while a loan that is eligible for purchase by Fannie Mae or Freddie Mac is most likely a ________ loan product.

    a. conforming; government-sponsored

    b. *non-conforming; conforming*

    c. subprime; government-sponsored

    d. conforming; alternative A

3. FHA charges a ______ to protect lenders in the event the borrower fails to repay the mortgage loan.

    a. *mortgage insurance premium (MIP)*

    b. small processing fee

    c. private mortgage insurance (PMI) premium

    d. funding fee

4. The increased number of payments with a bi-weekly mortgage results in the following benefits:

    a. *reduces the total interest cost on the loan*

    b. *principal amortizes more quickly*

    c. *loan is paid off faster*

    d. smaller monthly payments

5. Multiple answer. Select all that apply. The following are true statements about adjustable rate mortgages (ARMs):

   a. *The amount of monthly payments may change when the interest rate adjusts*

   b. ARMs may be offered only to subprime borrowers

   c. *ARMs may have an annual and lifetime cap governing how much the interest rate may change.*

   d. ARMs were made illegal by the Dodd-Frank Act

6. A(n) ___________ loan is an alternative A product that does not cause the balance of the loan to decrease and does not build equity in the home unless the value of the home increases.

   a. *interest-only*

   b. no documentation

   c. hybrid ARM

   d. stated income

Loan Production

1. Wholesale lenders can perform all of the loan production functions EXCEPT:
   a. *Take loan applications*
   b. Underwriting
   c. Closing
   d. Funding

2. Compared with retail production, wholesale production is more risky for the mortgage lender because:
   a. *Loan quality might be more difficult to monitor*
   b. It costs more to originate a wholesale loan
   c. Wholesalers cannot diversify their territories
   d. The mortgage lender needs a large outside sales force to support wholesalers

3. Wholesale lending may involve table funding which means that:
   a. The investor attends closing
   b. *A third-party originator closes the loan in its own name for simultaneous assignment to the investor who advanced money to fund closing*
   c. The buyer/borrower brings to the closing proceeds from the sale of another property to fund the down payment
   d. The warehouse lender delivers funds at the time of closing

4. The wholesale production channel allows mortgage lenders to do which one of the following?
   a. *Reach groups of customers that they would not have otherwise reached*
   b. Better comply with mortgage lending laws and regulations
   c. Eliminate the need for a quality control department
   d. Audit all high-risk loans

5. The stages of loan production are:

   a. Borrower's loan application, credit review, and underwriting

   b. File set-up, credit documentation review, and submission to underwriting for approval

   c. *Origination, processing, underwriting, and closing*

   d. Data entry, review commitment, and closing

6. A borrower's debt-to-income ratio is the relationship between gross monthly income and monthly:

   a. Housing expense

   b. Payment obligation on long-term debts

   c. Payment obligation on long- and short-term debts

   d. *Housing expenses and payment obligations on long-term debts*

7. A borrower's housing expense ratio is the relationship between gross monthly income and monthly:

   a. Utility expenses to be paid for the real property

   b. *Payment obligation for mortgage PITI (principal, income, taxes, and insurance) and other applicable housing expenses*

   c. Payment obligation on long- and short-term debts

8. "Stable income" as it pertains to qualifying a borrower for a mortgage loan is income that:

   a. Is not noted on a verification of employment (VOE)

   b. *Generally has been received by the borrower for 2 years and is expected to continue for another 3 years*

   c. Equals net monthly income

9. Belinda Borrower earns $48,000 per year. She leases her car at $200 per month. She currently owes VISA $1,500 and Macy's $500. She is purchasing a condo with monthly condominium fees of $150 and her proposed PITI is $850. What is Belinda's housing ratio?

   Note: Assume each credit card payment is 5% of the balance.

   a. *25%*

   b. 28%

   c. 33%

   d. 47%

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    Note: Assume each credit card payment is 5% of the balance.

    a. 25%

    b. 28%

    c. *33%*

    d. 47%

11. Mary Mortgagor earns $65,400 per year. Her car payment is $400 per month. She currently owes MasterCard $2,500 and Sears $250. She is purchasing a townhouse with homeowners' association dues of $100 and her proposed PITI is $965. What is Mary's housing ratio?

    Note: Assume each credit card payment is 5% of the balance.

    a. *20%*

    b. 29%

    c. 30%

    d. 32%

12. Michael Mortgagor signed a real estate contract to purchase a home for $200,000. He is selling a house and will net $60,000 from that sale. Assuming that Michael uses the net proceeds from the sale of his house as a down payment for the new home, calculate Michael's loan-to-value (LTV) ratio.

    a. 43%

    b. 63%

    c. 67%

    d. *70%*

13. Betty Borrower signed a real estate contract to purchase a home for $420,000. The mortgage lender's appraisal valued the home at $415,000. Betty's mortgage lender will permit a loan-to-value (LTV) ratio of 80%. Based upon this information, Betty's loan amount will be:

    a. *$332,000*

    b. $334,000

    c. $336,000

14. The loan processor should regularly communicate with the underwriter to:

    a. Verify the interest rates for loans in process so that the closing documents are correct

    b. *Be able to better anticipate the underwriter's concerns about particular loans to ensure "clean" submissions to the underwriter*

    c. Set up the loan servicing

15. Multiple answer. Select all that apply. Which of the following are benefits of an automated underwriting system (AUS)?

    a. *Potential of increased efficiency in loan processing.*

    b. The loan processor and underwriter no longer need to review a borrower's documentation (such as verification of employment, property appraisal, etc.)

    c. The lender does not need to provide the borrower with a loan estimate.

    d. *The underwriter does not need to conduct a risk analysis for the loan.*

16. Which one of the following loans is likely to represent the greatest risk of default, based solely on the borrower's source of income and loan type?

    a. *Self-employed borrower, adjustable rate mortgage (ARM)*

    b. Salaried borrower, fixed rate loan

    c. Self-employed borrower, fixed rate loan

    d. Salaried borrower, adjustable rate mortgage (ARM)

17. The loan-to-value (LTV) ratio is the relationship between a borrower's loan amount and:

    a. Real property's sales price

    b. Real property's appraised value

    c. Average of the real property's sales price and appraised value

    d. *Lesser of the real property's sales price or appraised value*

18. The security instrument with three parties is the:

    a. *Deed of trust*

    b. Security deed

    c. Mortgage

19. Multiple answer. Select all that apply. The goal(s) of the closing process include(s):

    a. *Legally valid transfer of title and recording of lender's security instrument*

    b. Completion of the property appraisal report

    c. *Compliance with all lender/investor requirements*

    d. Assessment of the risk of making the loan to the borrower

    e. *Compliance with all applicable laws/regulations*

20. In order to keep ahead of shipping deadlines, a company's shipping department should:

    a. Renegotiate investors' commitments

    b. *Communicate regularly with the secondary marketing department*

    c. Assist with originating loans

Loan Servicing

1. Which of the following meets the goal of cost minimization in loan administration?
    a. *Make every effort to avoid foreclosures*
    b. Create good feelings with customers
    c. Enhance the reputation of the company
    d. Make investors feel secure

2. Multiple answer. Select all that apply. Potential ancillary servicing income includes:
    a. *Life and disability insurance*
    b. Warehouse spread
    c. *Late fees*
    d. Origination fees

3. Billy Borrower receives a package of documents, including the following: an automated clearing house (ACH) direct deposit form, a loan amortization schedule, a letter welcoming Billy as a new customer. Who is the most likely player in the mortgage process to have sent these documents to Billy?
    a. Broker
    b. Closer
    c. *Servicer*
    d. Originator

4. Escrow is a term used to describe the following:
    a. Portion of the mortgage payment that is used to pay down loan principal
    b. Payments made towards closing costs and down payments
    c. Payments made toward hazard and mortgage insurance (only)
    d. *Portion of the mortgage payment that is used to pay the real estate taxes, hazard insurance, and mortgage insurance*

5. Which strategies are best for creating customer goodwill in loan administration?

   a. Outsource functions that require special expertise such as tax services

   b. Simplify communication by using voice messaging systems

   c. Increase economies of scale by purchasing supplies in bulk

   d. *Display a positive customer service attitude*

6. Match each loan administration goal to the action that best achieves it.

a.	Reduce costs	*B*	Hedge the servicing portfolio.
b.	Reduce risk	*A*	Increase economies of scale by purchasing supplies in bulk.
c.	Create good will	*C*	Display a customer service attitude.

Quality Assurance and Fraud

1. For pre-closing quality assurance audit purposes, loans originated by a newly licensed broker could be considered:
   a. Conforming
   b. *High risk*
   c. Early payment default
   d. Non-conforming

2. Smith was happy to go to closing on the purchase of his property. He was even happier to obtain a low-interest mortgage loan rate that was available only to a borrower who promised to live in the property for 1 year after closing. Smith had been negotiating a lease of the property with Jones for 3 weeks prior to closing. Finally, they were able to reach agreement and signed the lease the day after closing. Jones immediately moved into the property and began paying rent to Smith. Smith engaged
   a. Flipping
   b. *Occupancy fraud*
   c. Property value misrepresentation
   d. Fraud at the closing table

3. A fraud scheme might include fabrication of:
   a. Bank accounts
   b. Rental history
   c. Buyer
   d. *All of the above*

4. With respect to "high risk" loans, mortgage bankers should:
   a. Audit 100% of high risk loans after closing
   b. *Audit 100% of high risk loans before closing*
   c. Audit according to investor guidelines
   d. Conduct only an appraisal review

5. In a flipping scheme, the fraudster typically obtains:

   a. A straw buyer who intends to repay the mortgage

   b. *An inflated appraisal to obtain a mortgage that is higher than the true market of the property*

   c. Multiple appraisals to substantiate the value of the property

   d. Permission from the seller of the property to sign the deed on the seller's behalf

6. Smith obtained a mortgage loan from XYZ Mortgage Company. She used an inflated appraisal to obtain a loan that actually exceeded the true market value of the property. Smith never made any mortgage payments on the XYZ loan and used excess loan funds to purchase jewelry and other real estate. When obtaining the mortgage from XYZ, Smith committed:

   a. *Fraud for profit*

   b. Flipping

   c. Occupancy fraud

   d. Fraud for property

Secondary Marketing

1. Multiple answer. Select the three options that complete the following sentence. The secondary market is where _______, _______, and ______ buy and sell existing mortgages.
    a. *lenders*
    b. *investors*
    c. borrowers
    d. *GSEs*

2. A mortgage banker and an investor decide to share the default risk of making a loan on an investment property. Which type of agreement will be made?
    a. A purchase of an equal share for each after the loan is sold into an MBS pool
    b. *A participation loan sale*
    c. No agreement can be made where each shares the default of one loan
    d. A whole loan sale

3. Multiple answer. Select all that apply. The investments below can be categorized either as short-term, money market investments or long-term, capital market investments. Select the long-term, capital market investments.
    a. *mortgages*
    b. certificates of deposit
    c. *corporate bonds*
    d. commercial paper

4. Yield, stated as a percentage, measures the amount and timing of _________ a mortgage will generate and the potential for ______ on the mortgage.
    a. *cash flow, default*
    b. risk, income
    c. good will, payoff
    d. ROI, risk

5. When the interest rate on a $100,000 mortgage loan is at par with the current market rate, the price that an investor will offer for it will be _________ the loan amount.

   a. below (discounted from)

   b. above (a premium above)

   c. *unchanged (the same as)*

6. Which of the following offers a guarantee that carries the full faith and credit of the United States and allows lenders to sell their MBS to investors for a higher price than they would get for the whole mortgages?

   a. Freddie Mac

   b. Fannie Mae

   c. *Ginnie Mae*

   d. Farmer Mae

Warehouse Lending

1. Non-interest-paying deposits made by the lender into the lender's demand deposit account at a warehouse bank are called:

    a. Leverage

    b. Liquidity

    c. *Compensating balances*

    d. The haircut

2. The period between the lender's or the warehouse lenders' release of funds and its receipt of the collateral documents is called:

    a. *Wet-funded stage*

    b. Dry-funded stage

    c. Gestation repo stage

3. During the warehousing process, the warehouse bank usually is repaid when the:

    a. Loan is refinanced

    b. *Lender sells the loan to an investor*

    c. Maturity date arrives

    d. Maximum on the credit line is reached

Commercial/Multifamily Lending

1. The four major types of property in the commercial/multifamily lending category are apartments/multifamily, office, retail, and ______.
    a. mixed use
    b. healthcare/senior living
    c. hotel/motel
    d. *industrial*

2. A residential building with _____ or more units is considered multifamily.
    a. two
    b. four
    c. *five*
    d. ten

3. True or False? Compared to servicing in residential lending, servicing in commercial lending is more concerned with the property than the borrower.
    a. *True*
    b. False

4. How frequently must commercial servicers perform reviews of the property in the form of property inspections and analysis of the income and expense statements?
    a. Monthly
    b. Semi-annually
    c. *Annually*
    d. Once every five years

5. True or false? In commercial/multifamily lending, the financing vehicle determines which players will be involved after the loan closes and their relationships to the other players.
    a. *True*
    b. False

6. Multiple answer. Select all that apply. Which of the following are financing vehicles in commercial lending?

   a. *Portfolio transactions*

   b. *Commercial mortgage-backed securities (CMBS)*

   c. *Government-sponsored enterprises (GSE) transactions*

   d. *Collateralized debt obligations (CDOs)*

7. In commercial lending, which calculation is the ratio of the amount of the loan to the appraised value, sales price or the hard cost of the construction of the real property, whichever is less?

   a. Debt coverage ratio (DCR)

   b. Debt to income ratio (DTI)

   c. *Loan to value ratio (LTV)*

   d. Net operating income (NOI)

8. In commercial lending, this ratio is the annual net operating income divided by the annualized principal and interest payment

   a. *Debt coverage ratio (DCR)*

   b. Debt to income ratio (DTI)

   c. Loan to value ratio (LTV)

   d. Effective gross income