

Free SAFE MLO Practice Test: 25 Questions

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How to use: Give yourself about 40 minutes (the real test averages about 1.6 minutes per question: 120 questions in 190 minutes). Circle one answer for each. Check the key on the last pages. The real passing score is 75% (19 of 25 here).

Federal Mortgage-Related Laws

1. Under FCRA as amended by FACTA, consumers may obtain a free credit report from each nationwide bureau at least:

- A. Once a month
- B. Once every 12 months
- C. Once every 2 years
- D. Only after adverse action

2. RESPA and Regulation X generally apply to which loans?

- A. Only FHA and VA loans
- B. All commercial real estate loans
- C. Only loans above the conforming loan limit
- D. Federally related mortgage loans secured by 1–4 family residential property

3. Which transaction is exempt from RESPA/Regulation X?

- A. A purchase loan on a second home
- B. An FHA-insured purchase loan
- C. A loan made primarily for a business, commercial, or agricultural purpose
- D. A refinance of the borrower's principal residence

4. The special information booklet ("Your Home Loan Toolkit") must be given to a consumer applying for:

- A. A refinance
- B. A closed-end subordinate-lien loan
- C. A reverse mortgage
- D. A purchase-money loan secured by a first lien

5. Under Regulation X, when must the special information booklet be provided?

- A. At closing
- B. Within 30 days of application
- C. No later than 3 business days after the application is received
- D. Only if the consumer asks for it

6. An affiliated business arrangement is permitted under RESPA when:

- A. The referral fee is under \$100
- B. The affiliate charges less than market rate
- C. The consumer signs a waiver of RESPA rights
- D. The relationship is disclosed, the consumer isn't required to use the affiliate, and the only thing of value received is a return on ownership interest

Uniform State Content (SAFE Act)

7. An employee loan processor who performs only clerical tasks under the direction of a licensed MLO:

- A. Must hold a state MLO license
- B. Generally does not need an MLO license
- C. Must register as a federal MLO
- D. Needs a license only if paid hourly

8. The NMLS unique identifier assigned to an MLO:

- A. Changes each time the MLO switches employers
- B. Is permanent and must be shown on applications and solicitations
- C. Is only used internally by regulators
- D. Expires each December 31

9. The SAFE Act was enacted in 2008 as part of:

- A. The USA PATRIOT Act
- B. RESPA
- C. The Housing and Economic Recovery Act of 2008 (HERA)
- D. The Dodd-Frank Act

General Mortgage Knowledge

10. A loan with low payments that leaves a large lump-sum due at maturity is a:

- A. Balloon loan
- B. Fully amortizing loan
- C. Graduated equity loan
- D. Biweekly loan

11. Which is considered a 'nontraditional mortgage product' for SAFE education purposes?

- A. 30-year fixed-rate loan
- B. Interest-only loan
- C. Any loan with PMI
- D. FHA 30-year fixed-rate loan

12. The VA funding fee is:

- A. Paid to the real estate agent
- B. A fee paid to VA that helps fund the loan guaranty program
- C. Optional for every borrower
- D. The same as FHA MIP

13. A loan that isn't insured or guaranteed by a government agency is called:

- A. An FHA loan
- B. A conventional loan
- C. A VA loan
- D. A USDA loan

14. A "jumbo" loan is a conventional loan that:

- A. Is insured by FHA
- B. Always has a balloon payment
- C. Has a rate below the prime rate
- D. Exceeds the conforming loan limit set by FHFA

Mortgage Loan Origination Activities

15. Which appraisal approach is given the most weight for an owner-occupied single-family home?

- A. Income approach
- B. Cost approach
- C. Sales comparison approach
- D. Gross rent multiplier only

16. The Uniform Residential Loan Application is commonly known as Fannie Mae Form:

- A. 1003
- B. 1004
- C. 1008
- D. 4506-C

17. A self-employed borrower will typically be asked to provide:

- A. One recent paystub
- B. Two years of personal (and business, if applicable) tax returns
- C. A gift letter
- D. Only a bank statement

18. When a borrower uses gift funds for the down payment, the lender typically requires:

- A. A promissory note from the donor
- B. A signed gift letter stating no repayment is expected
- C. The donor's credit report
- D. Nothing, if the gift is from family

19. Gross monthly income is \$8,000 and the proposed PITI payment is \$2,000. What is the housing (front-end) ratio?

- A. 20%
- B. 25%
- C. 28%
- D. 33%

20. Which is one of the 8 underwriting factors under the ability-to-repay rule?

- A. The consumer's marital status
- B. The neighborhood's racial makeup
- C. The consumer's age
- D. The consumer's monthly debt-to-income ratio or residual income

Ethics

21. Which is a red flag for possible mortgage fraud?

- A. Borrower has two years at the same job
- B. Seller pays borrower's down payment outside of closing and it's not disclosed
- C. Appraisal matches the contract price
- D. Borrower provides IRS transcripts

22. The Dodd-Frank Act prohibits covered persons from engaging in:

- A. UDAAP — unfair, deceptive, or abusive acts or practices
- B. All adjustable-rate lending
- C. Any mortgage over \$1 million
- D. Electronic signatures

23. Persuading a homeowner to transfer the deed or take on loans designed to extract the home's equity for the lender's benefit is:

- A. Equity stripping
- B. Cash-out refinancing (always)
- C. Escrow analysis
- D. Subordination

24. The Fair Housing Act prohibits discrimination in residential real estate transactions based on:

- A. Income level
- B. Occupation
- C. Credit score
- D. Race, color, religion, sex, handicap, familial status, or national origin

25. "Familial status" protection under the Fair Housing Act covers:

- A. Elderly people only
- B. Roommates
- C. Married couples only
- D. Households with children under 18, pregnant persons, and people getting custody of children

Answer key with explanations

1. B: Correct — at least one free report every 12 months from each nationwide bureau.

Source: 15 U.S.C. 1681j(a)(1)(A) (<https://www.law.cornell.edu/uscode/text/15/1681j>)

2. D: Correct — §1024.2 and §1024.5(a) define coverage this way.

Source: 12 CFR 1024.5(a) (<https://www.ecfr.gov/current/title-12/section-1024.5>)

3. C: Correct — §1024.5(b)(2) exempts business-purpose credit.

Source: 12 CFR 1024.5(b)(2) (<https://www.ecfr.gov/current/title-12/section-1024.5>)

4. D: Correct — §1024.6(a) requires it for purchase transactions.

Source: 12 CFR 1024.6(a)(3) (<https://www.ecfr.gov/current/title-12/section-1024.6>)

5. C: Correct — §1024.6(a)(1).

Source: 12 CFR 1024.6(a)(1) (<https://www.ecfr.gov/current/title-12/section-1024.6>)

6. D: Correct — those are the §1024.15(b) conditions.

Source: 12 CFR 1024.15(b) (<https://www.ecfr.gov/current/title-12/section-1024.15>)

7. B: Correct — supervised employee processors/underwriters are generally exempt.

Source: 12 U.S.C. 5103(b) (<https://www.law.cornell.edu/uscode/text/12/5103>)

8. B: Correct — it's permanent and must be displayed per SAFE/state rules.

Source: 12 U.S.C. 5102(13) (<https://www.law.cornell.edu/uscode/text/12/5102>)

9. C: Correct — SAFE is Title V of HERA.

Source: 12 U.S.C. 5101 (enacted by Pub. L. 110-289, Div. A, Title V) (<https://www.law.cornell.edu/uscode/text/12/5101>)

10. A: Correct — a balloon payment is due at the end.

Source: 12 CFR 1026.18(s)(5)(i) (<https://www.ecfr.gov/current/title-12/section-1026.18>)

11. B: Correct — the SAFE Act defines a nontraditional mortgage product as any product other than a 30-year fixed-rate mortgage (12 U.S.C. §5102(7); 12 CFR §1008.23). Interest-only qualifies.

Source: 12 U.S.C. 5102(7) (<https://www.law.cornell.edu/uscode/text/12/5102>)

12. B: Correct — it offsets the cost of the no-down-payment, no-monthly-MI program. Exempt: veterans receiving (or entitled to) VA disability compensation, surviving spouses receiving DIC, active-duty Purple Heart recipients (with proof by closing), and service members with a pre-discharge proposed or memorandum rating before closing.

Source: VA: Funding fee and closing costs (<https://www.va.gov/housing-assistance/home-loans/funding-fee-and-closing-costs/>)

13. B: Correct — conventional loans aren't FHA, VA, or USDA loans.

Source: 12 CFR 1003.4(a)(2) & comment 4(a)(2)-1 (loan type) (<https://www.ecfr.gov/current/title-12/section-1003.4>)

14. D: Correct — it's too large for Fannie Mae or Freddie Mac to purchase.

Source: 12 U.S.C. 1717(b)(2) (GSE loan limits; annual adjustment via FHFA house price index) (<https://www.law.cornell.edu/uscode/text/12/1717>)

15. C: Correct — based on comparable recent sales.

Source: Fannie Mae Selling Guide B4-1.3-08 (comparable sales) (<https://selling-guide.fanniemae.com/sel/b4-1.3-08/comparable-sales>)

16. A: Correct — Form 1003 (Freddie Mac Form 65).

Source: Fannie Mae: URLA (Form 1003) (<https://singlefamily.fanniemae.com/delivering/uniform-mortgage-data-program/uniform-residential-loan-application>)

17. B: Correct — two years of returns is the usual standard. Fannie Mae may accept one year of returns in some cases (Selling Guide B3-3.2-01).

Source: Fannie Mae Selling Guide B3-3.2-01 (self-employed) (<https://selling-guide.fanniemae.com/sel/b3-3.2-01/underwriting-factors-and-documentation-self-employed-borrower>)

18. B: Correct — the gift letter confirms no repayment obligation.

Source: Fannie Mae Selling Guide B3-4.3-04 (personal gifts) (<https://selling-guide.fanniemae.com/sel/b3-4.3-04/personal-gifts>)

19. B: Correct — $\$2,000 \div \$8,000 = 25\%$.

Source: CFPB: Debt-to-income ratio (<https://www.consumerfinance.gov/ask-cfpb/what-is-a-debt-to-income-ratio-en-1791/>)

20. D: Correct — §1026.43(c)(2)(vii).

Source: 12 CFR 1026.43(c)(2)(vii) (<https://www.ecfr.gov/current/title-12/section-1026.43>)

21. B: Correct — undisclosed side payments misrepresent the borrower's equity.

Source: 18 U.S.C. 1014 (<https://www.law.cornell.edu/uscode/text/18/1014>)

22. A: Correct — UDAAP is enforced by the CFPB.

Source: 12 U.S.C. 5531(a) (<https://www.law.cornell.edu/uscode/text/12/5531>)

23. A: Correct — a predatory practice.

Source: 12 U.S.C. 5531(d) (<https://www.law.cornell.edu/uscode/text/12/5531>)

24. D: Correct — 42 U.S.C. §3605.

Source: 42 U.S.C. 3605(a) (<https://www.law.cornell.edu/uscode/text/42/3605>)

25. D: Correct — 42 U.S.C. §3602(k).

Source: 42 U.S.C. 3602(k) (<https://www.law.cornell.edu/uscode/text/42/3602>)

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