# Finance

*Loan-Officer*
*Loan Officer Certification Exam*

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## Product Version

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# Latest Version: 6.0

## Question: 1

On an adjustable rate mortgage (ARM) with a cap of 2/2/5, what does the 5 represent?

A. The maximum amount the rate can adjust during the life of the loan
B. The initial term in years for the initial fixed rate
C. The initial fixed rate
D. The maximum rate the ARM can adjust to

**Answer: A**

Explanation:
The caps on an adjustable rate mortgage (ARM) are broken down into three categories, In this scenario, the first 2 is the maximum amount the interest rate can change the first time it adjusts. The second 2 is the maximum amount the rate can adjust each subsequent adjustment. Both of these adjustments are up or down. The 5 represent the maximum it can adjust over the life Of the loan. If the initial rate was 3%, then the maximum rate it could go up to is 8%. The adjustments are based on the index that the ARM is tied to such as the London Interbank Offered Rate (LIBOR), Federal funds rate, or the prime rate.

## Question: 2

What is the typical length of a construction loan?

A. 6 months
B. 1 year
C. 18 months
D. 2 years

**Answer: B**

Explanation:
A typical construction loan is I year. A construction loan usually requires a minimum of 20% down, and they often will require only an interest only payment. They require the borrower to provide plans and a description of materials with their associated costs. Once the home is completed, a lender will pay off the construction loan with a traditional mortgage. This is considered a rate and term refinance because the borrower has an existing lien against the property. Construction loans are held by individual banks rather than sold on the secondary market. For this reason, terms and interest rates can vary from bank to bank.

## Question: 3

What is the minimum down payment for a United States Department of Agriculture Single Family Rural Development Loan (RD)?

A. 0% (no down payment)
B. 3%
C. 3.5%
D. 5%

**Answer: A**

Explanation:
Rural development (RD) loans do not require a down payment. They are designed to help promote home ownership in rural communities. Only certain areas within the United States are eligible for RD financing. Also, there are income limits for those who want to use this program. The income limits are based on the median income in the area and family size. RD loans have stricter underwriting guidelines than a Federal Housing Administration (FHA) or Veterans Administration (VA) loan. For example, typically the maximum debt-to-income ratio is 43%. The property also cannot be an income-producing farm or ranch

## Question: 4

Which loan program typically does NOT qualify as an assumable loan?

A. Federal Housing Administration (FHA)
B. Rural Development (RD)
C. Conventional—Fannie Mae/Freddie Mac
D. Veterans Administration (VA)

**Answer: C**

Explanation:
To assume a loan means that a lender transfers ownership of a mortgage to a different borrower. The new borrower would then have the same rate, payment, remaining balance, and remaining term of the mortgage that was assumed. Typically, conventional loans are not assumable. There are a few adjustable rate mortgages that qualify for an assumption, but a majority of mortgages backed by Fannie Mae and Freddie Mac are not assumable. Federal Housing Administration (FHA), Veterans Administration (VA), and Rural Development (RD) loans are assumable. A potential borrower would have to qualify for the assumption similar to qualifying for a mortgage. An assumption is an attractive feature in a rising rate environment.

## Question: 5

When a lender is offering a 7/1 adjustable rate mortgage at 3%, what does the 7 represent?

A. The maximum interest rate of the mortgage

B. The base index rate
C. The number of months before the rates adjusts
D. The initial fixed term of the initial rate

**Answer: D**

Explanation:
The 7 represents the initial fixed term of the initial rate. [n this scenario the initial rate of would be fixed for 7 years before it would adjust. A majority of adjustable rate mortgages have an initial fixed term and then adjust annually after the initial term. Historically the initial rate is lower than fixed-rate loans, especially the 30-year fixed rate.

## Question: 6

Which of these are considered prep aids at the mortgage closing or settlement?

A. The appraisal
B. The property taxes
C. The title insurance
D. The underwriting fee

**Answer: B**

Explanation:
Prepaid are costs that a borrower pays at the closing that are not yet due. These expenses are part of funding the escrow account. They include property taxes, homeowners insurance, flood insurance, and private mortgage insurance. They can also include a Sanitary and Improvement District for the repair of roads and sewers.

## Question: 7

What would be the interest-only payment on a $150,000 loan with an interest rate of 4.5%?

A. $560.00
B. $562.50
C. $625.00
D. $630.75

**Answer: B**

Explanation:
To calculate an interest-only payment, you must multiply the loan amount ($150,000) by the interest rate (.045), and divide that number by 12. Interest-only payments are no longer available on loans that are backed by Fannie Mae or Freddie Mac. Also, you cannot have an interest-only payment on a Federal Housing Administration, Veterans Administration, or Rural Development

loan. Interest-only payments are available on home equity lines of credit, in-house/portfolio bank loans, and nonconforming and jumbo loans. They are considered higher risk because the interest-only period of payments eventually ends, the original principle balance remains, and the new payment could be higher.

## Question: 8

Who is NOT considered an acceptable gift donor on a conventional loan?

A. A close family friend
B. A spouse
C. A domestic partner
D. A cousin

**Answer: A**

Explanation:
A gift is a monetary gift that a donor gives to a borrower to cover down payment and closing costs. Acceptable gift donors include any relative by blood, marriage, or adoption. They also include a fiancé or domestic partner. A friend is not an acceptable donor on a conventional loan. Also, a builder, real estate agent, or developer cannot give a gift to the borrower for the down payment. In some instances, they may be able to contribute to closing costs if they meet the requirements set for allowable contributions by an interested party to the transaction.

## Question: 9

On a Federal Housing Administration (FHA) loan, what is NOT an acceptable source to verify income of a borrower who is currently employed?

A. Copies of the most recent paystub that show the borrowers year-to-date income
B. W2s for the last 2 years along with the most recent paystub
C. Two months of bank statements showing a borrower's wages being direct deposited
D. A written verification from the employer that shows the borrowers income

**Answer: C**

Explanation:
Two months of bank statements showing a direct deposit is not sufficient to document a borrower's income on a Federal Housing Administration (FHA) loan. The standard verification is the most recent paystub along with a written verification of income (VOE) that covers 2 years. If a borrower has had multiple employers over the last 2 years, there will need to be a VOE from all of the employers. If the standard verification method can't be done then, the two most recent paystubs, W2s for the last 2 years, and a verbal verification of employment over the phone is acceptable.

## Question: 10

Unless there is a valid change of circumstance, what fee is subject to zero tolerance?

A. Property' insurance premiums
B. The loan origination fee
C. Recording fees
D. The settlement fee

**Answer: B**

Explanation:
Unless there is a valid change of circumstance, there is zero tolerance to change a fee disclosed on the lender estimate that is paid directly to the lender. A valid change of circumstance such as a change in the estimated appraised value, a change in the initial down payment, or a change in the purchase price would allow a lender to issue a new lender estimate with updated fees. Fees that are part of the escrow account are not subject to this rule. Fees that are paid to a third party in which a borrower did not have the opportunity to select the party can change, as long as the cumulative amount of those fees does not go up by 10%.

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