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QUESTION 1

To be effective, compliance risk management professionals must design a framework to ensure that bank management understands the risks and the steps that must be taken to mitigate them. The many roles compliance professionals fill incorporate risk management aspects including:

- A. Coordinating regulatory exams to explain risks to examiners
- B. Overseeing compliance training targeting higher risk areas
- C. Tracking regulatory proposals and final rules to understand new risks
- D. All of these

Correct Answer: D

Section: (none)

Explanation

Explanation/Reference:

QUESTION 2

They also embrace the concept of risk-based compliance management. They expect compliance management to be tailored to the bank, be it large or small, offering standard or specialty financial services, simple or complex products lines, and adjusted as appropriate for the customer base as that issued for the Bank Secrecy Act, also establishes their expectations that a bank's program be risk based. Who are they?

- A. Outsourcing firms
- B. Foreign financial service providers
- C. Bank regulatory agencies
- D. Risk management organizations

Correct Answer: C

Section: (none)

Explanation

Explanation/Reference:

QUESTION 3

A compliance professional's responsibilities include all of the following EXCEPT:

- A. Understanding the business units operating environment and risk tolerance

- B. Performing risk assessments with the assistance of business units to determine current risk levels and risks associated with the bank's products, lines of business, customers, and locations, among other factors
- C. Working with business units to ensure prompt corrective action for any detected errors
- D. Assisting business lines with compliance training for employees, as needed

Correct Answer: D

Section: (none)

Explanation

Explanation/Reference:

QUESTION 4

_____ should include basic elements designed to understand and mitigate risk. It usually includes:

Written program

Compliance-related policies and procedures

- A. Tactical Compliance procedure
- B. Rank solution
- C. Compliance program
- D. None of these



Correct Answer: C

Section: (none)

Explanation

Explanation/Reference:

QUESTION 5

In a compliance program, tactical compliance procedures should be integrated into business line procedures, such as how to deliver an Adverse Action Notice when an application is declined. In this case:

- A. Regulations should be applied consistently to procedures throughout the bank
- B. Revisions to procedures should be based on compliance expertise and not mere editing
- C. Providing solutions to mitigate any identified risk
- D. Assisting business units in developing or revising policies and procedures to reflect current regulatory requirements

Correct Answer: AB

Section: (none)

Explanation

Explanation/Reference:

QUESTION 6

Which of the following should be done during research and interpreting regulations Compliance professionals in mitigating compliance risk?

- A. Track regulatory proposals
- B. Implementing final regulatory rules
- C. Understanding the business units' operating environment and risk tolerance
- D. Ranking solutions as high, moderate and low risk

Correct Answer: ABD

Section: (none)

Explanation

Explanation/Reference:



QUESTION 7

The compliance program should address plans to verify adherence to applicable regulations through:

- A. Ongoing monitoring to evaluate the program, self monitoring and corrective action
- B. Self monitoring
- C. Periodic reviews
- D. Ongoing monitoring to evaluate the program, self monitoring and periodic reviews

Correct Answer: A

Section: (none)

Explanation

Explanation/Reference:

QUESTION 8

There is no established template for documenting compliance risk. Each institution should develop a risk assessment that fits its risk profile. The components that are commonly used throughout the industry are as follows EXCEPT:

- A. Risk assessment
- B. Measuring key risk indicators
- C. Identifying key performance indicators
- D. Training the leadership of compliance regulation program

Correct Answer: D

Section: (none)

Explanation

Explanation/Reference:

QUESTION 9

In Compliance regulation and risk assessment key performance indicators usually include:

- A. Fines or penalties
- B. Customer complaints
- C. Regulatory criticism from a regulator or internal or external auditors
- D. None of these

Correct Answer: ABC

Section: (none)

Explanation

Explanation/Reference:

QUESTION 10

For example on a 0-5 scale:

A simple risk map based on this example might look like the following

Likelihood High	Mod – 2	High – 4	High – 5
Likelihood Moderate	Low – 1	Mod – 3	High – 4
Likelihood Low	Low – 0	Mod – 2	Mod – 3
	Exposure Low	Exposure Moderate	Exposure High

The risk trend shows the direction of risk and probable change to risk over the next 12 months. A trend toward increasing risk means that

- A. Management may want to take additional action through more controls or increased reviews
- B. Risk may prompt a decrease in controls and improved efficiencies
- C. Controls currently in place are appropriate to succeed in keeping risks within management's established risk-tolerance level
- D. Risk measurements exceed management's tolerance for risk

Correct Answer: A

Section: (none)

Explanation

Explanation/Reference:

QUESTION 11

Compliance professionals have a duty to keep senior management and the board apprised of the state of compliance within the bank through which of the following:

- A. Self-monitoring and audit results
- B. Proactive compliance controls
- C. Timely and accurate regulatory reporting
- D. All of the options mentioned above

Correct Answer: D

Section: (none)

Explanation

Explanation/Reference:

QUESTION 12

After a compliance officer develops a base of knowledge of regulations, he or she must begin the art of applying regulations in a risk management environment. Which of the following is NOT out of a few things to be kept in mind when determining what to do FIRST?

- A. Think practically about your role as an advisor. Involve the business units in the decision process rather than making decisions for them
- B. Calculate the institution's consolidated risk profile
- C. Make sure you understand the level of risk the bank will tolerate, so decisions do not exceed this limit
- D. Add value by analyzing regulatory requirements for the business units before you present proposed or final rules or solutions

Correct Answer: B

Section: (none)

Explanation

Explanation/Reference:



QUESTION 13

In the mid-1980s a movement began among the federal supervisory agencies to produce a uniform ARM regulation. In 1988, the Federal Reserve Board added the uniform ARM disclosure requirements to a regulation. Therefore, most of the original OCC ARM consumer protection requirements are now found in this new regulation. Adjustable rate mortgage loans made by national banks may be subject to the OCC's ARM regulation or the requirements of this new regulation, or both. This new regulation is:

- A. Regulation Z
- B. Truth in Lending
- C. CFR 34.21, 34.22 and 34.23
- D. FIRREA penalty

Correct Answer: AB

Section: (none)

Explanation

Explanation/Reference:

QUESTION 14

Which one of the following is out of the FIRREA penalties included in the enforcement section of Adjusted Mortgage Regulation (12 CFR 34)?

- A. Penalties up to \$7,500 per day for violations of laws and regulations
- B. Penalties up to \$47,500 per day if violations or unsafe or unsound practices are engaged in recklessly or are part of a pattern of misconduct that causes more than a minimal loss to the bank or any pecuniary gain to the parties involved
- C. Penalties up to \$1,375,000 per day against persons who knowingly commit a violation and knowingly or recklessly cause a substantial loss to the bank or a substantial benefit to the party
- D. Penalties up to \$6,500 per day for violations of laws and regulations

Correct Answer: AC

Section: (none)

Explanation

Explanation/Reference:

QUESTION 15

In Requirements section of Adjusted Mortgage Regulation (12 CFR 34), for loans subject to both the OCC ARM regulation and to Regulation Z, 12 CFR 226.19(b)—that is, loans made to an individual, for personal purposes, secured by the borrower's principal dwelling, and having a term longer than one year- the index to which the interest rate is tied must be:

- A. Specified in loan documents
- B. Readily available to and verifiable by the browser
- C. Multiple values of a chosen measure or a moving average of the chosen measure calculated over a specified period
- D. A and B only

Correct Answer: D

Section: (none)

Explanation

Explanation/Reference:

QUESTION 16

Subprime borrowers are those with weakened credit histories or reduced repayment capacity. Loans to these borrowers historically have had a higher delinquency rate. Many lenders have expanded their lending programs and added subprime products as a method of meeting their _____ by providing greater credit access to lower-income consumers.

- A. Community Reinvestment Act (CRA) responsibilities
- B. Fraudulent marketing tactics
- C. FTC Act
- D. Predatory Lending

Correct Answer: A
Section: (none)
Explanation

Explanation/Reference:

QUESTION 17

The banking agencies issued two guidances to caution depository institutions about risks involved in funding non-depository lenders that engage in predatory lending. Predatory and abusive practices include:

- A. High-pressure sales
- B. Excessive fees and interest rate including fees for unnecessary products
- C. Balloon payments that may never cause foreclosures
- D. Excessive refinancing with fees included in the new loan

Correct Answer: AB
Section: (none)
Explanation

Explanation/Reference:

QUESTION 18

Under Interagency Guidance on Subprime Lending (1999) lending policy must:

- A. Be appropriate to the size and complexity of the operation
- B. Address the types of products offers and those not authorized
- C. Require credit file documentation
- D. All of these

Correct Answer: D
Section: (none)

Explanation**Explanation/Reference:****QUESTION 19**

The purpose of guidelines for National Banks to Guard against Predatory and Abusive Lending Practices- AL-2003-2 includes all of the following EXCEPT:

- A. Provide examples to national banks of practices that may be abusive
- B. Advise banks on how they should avoid abusive practices
- C. Banks should consider appropriate discount rates, credit loss rates, and prepayment rates when valuing these assets
- D. Show how some abusive lending can involve unfair or deceptive practices and therefore violate the Federal Trade Commission Act

Correct Answer: C

Section: (none)

Explanation**Explanation/Reference:****QUESTION 20**

Which of the following usually comes under the heading of abusive lending?

- A. Abusive lending usually is defined by a variety of lending practices
- B. It is the excessive and hidden fees in the amount financed
- C. A fundamental characteristic is aggressive marketing of credit to prospective borrowers who cannot repay it on the terms offered
- D. Typically, such loans are underwritten on the liquidation value of the collateral rather than the creditworthiness of the borrower

Correct Answer: ACD

Section: (none)

Explanation**Explanation/Reference:****QUESTION 21**

_____ is frequent refinancing that do not benefit the borrower. This practice can result in borrower injury from the fees imposed and from the fact that it decreases home equity and increases the consumer's debt burden, thus increasing the chance of foreclosure.

- A. Loan flipping
- B. Loan refinancing
- C. Securitization
- D. Subprime loans

Correct Answer: A
Section: (none)
Explanation

Explanation/Reference:

QUESTION 22

Guidelines for National Banks to Guard against Predatory and Abusive Lending Practices-AL-2003-2 says that refusing to purchase the following types of loans can reduce the possibility of purchasing abusive mortgage loans EXCEPT:

- A. Loans in which the lender has not adequately determined the borrower's ability to repay the debt
- B. Loans subject to the Home Ownership and Equity Protection Act (HOEPA)
- C. Loans with points and fees in excess of 5 percent of the loan amount, except in cases where the higher amount was to prevent the loan from being unprofitable
- D. Loans in which a prepaid multiple-premium credit insurance policy was included in the amount financed

Correct Answer: D
Section: (none)
Explanation

Explanation/Reference:

QUESTION 23

Predatory lending practices can adversely affect:

- A. A bank's CRA rating
- B. Equity stripping
- C. Loan quality control reviews
- D. Truth in Lending Act

Correct Answer: A
Section: (none)

Explanation**Explanation/Reference:****QUESTION 24**

The purpose of advisory letter in Avoiding Predatory and Abusive Lending Practices in Brokered and Purchased Loans- AL-2003-3 is to:

- A. Adopt sound credit underwriting policies
- B. Alert national banks to the risks they take if they make loans through brokers or purchase loans that contain or reflect abusive or predatory terms or practices
- C. Adopt policies that address the circumstances under which the bank would make loans that have features associated with abusive lending practices
- D. Make loans secured by the consumer's home but with high, up-front fees that are financed and secured by the home

Correct Answer: B

Section: (none)

Explanation**Explanation/Reference:****QUESTION 25**

Examples of unfair practices mentioned in guidelines against Predatory and Abusive Lending includes loan flipping and loan equity stripping. It is said that:

- A. Loan flipping may be unfair because it increases the chances of foreclosure by decreasing home equity and increasing debt burden
- B. Equity stripping is the practice of making loans secured by the consumer's home but with high, up-front fees that are financed and secured by the home
- C. Loan flipping is the practice of making loans secured by the consumer's home but with high, up-front fees that are financed and secured by the home
- D. Equity stripping may be unfair because it increases the chances of foreclosure by decreasing home equity and increasing debt burden

Correct Answer: AB

Section: (none)

Explanation**Explanation/Reference:****QUESTION 26**

Which of the following are recommended practices in Avoiding Predatory and Abusive Lending Practices in Brokered and Purchased Loans—AL-2003-3?

- A. Have written agreements with third-party brokers that specifically and clearly address the rights and responsibilities of each party. Written agreements should

- 1.Ensure that no inappropriate compensation exists
 - 2.Provide for indemnification to the bank
 - 3.Enable banks to exit the arrangement through a termination procedure
 - 4.Provide for the bank's and the OCC's ability to access all records of the third party and to audit the third party's operations
- B. Verify that brokers and originators have established policies to ensure that loans will comply with all applicable laws
- C. Establish an effective management information system to monitor the performance of third-party brokers and originators
- D. All of the above

Correct Answer: D

Section: (none)

Explanation

Explanation/Reference:

QUESTION 27

Below mentioned list shows the significant risks of _____.

Borrowers with cash-flow difficulties Borrowers with no lower-cost credit alternatives Minimal analysis of borrower's ability to repay the loan Minimal review of borrower's credit history Credit is usually unsecured

- A. Payday lending
- B. Loan flipping
- C. Equity stripping
- D. None of these



Correct Answer: A

Section: (none)

Explanation

Explanation/Reference:

QUESTION 28

Banks must maintain an _____adequate to absorb estimated credit losses from payday loans. Banks should evaluate the collectability of accrued fees and finance charges on payday loans and ensure that this income is appropriately measured.

- A. TILA
- B. FCRA
- C. ALLL

D. A and B both

Correct Answer: C

Section: (none)

Explanation

Explanation/Reference:

QUESTION 29

Safety and soundness concerns in FDIC Payday Lending Guidance clearly mention that there should be adequate capital as Minimum capital requirements are not enough to offset the risks of payday loans. Banks should hold capital against its subprime portfolio in amounts:

- A. That are 1 1/2 to 5 times greater than normal
- B. That are 1 1/2 to 3 times greater than normal
- C. That are 1 1/2 to 3 times lower than normal
- D. That should be between 2-5 in comparison to normal

Correct Answer: B

Section: (none)

Explanation

Explanation/Reference:



QUESTION 30

Compliance issues related to payday lending are all of the following EXCEPT:

- A. Payday lending may adversely affect a bank's CRA rating. Any illegal or questionable practices will negatively affect a bank's CRA performance. A payday lending program may be inconsistent with helping to meet the community's credit needs
- B. The bank (or its third-party partner) must properly disclose all finance charges and fees to payday lending customers. Advertisements of the program are also subject to Truth-in-Lending requirements
- C. Adverse action disclosures must be provided to applicants of payday loans that are denied if a consumer report (including check tracking services) was used in the credit decision
- D. The bank may be subject to the FOC's unfair or deceptive practices rules.

Correct Answer: D

Section: (none)

Explanation

Explanation/Reference:**QUESTION 31**

Which of the following comes under the heading of nontraditional mortgage product risks?

- A. Reduced documentation adds risk to a mortgage loan. Institutions may rely on reduced documentation in the credit underwriting process. Income and credit verification may not be obtained. Use of reduced documentation should be subject to clear policies that require more documentation when the credit risk rises
- B. Reduced documentation adds risk to a mortgage loan. Institutions may rely on reduced documentation in the credit underwriting process. Income and credit verification may not be obtained. Use of reduced documentation should be subject to clear policies that require more documentation when the credit risk rises
- C. Perform due diligence before entering into third-party relationships, including a review of the third party's General competence
 - Business practices and operations
 - Reputation
 - Financial capacity
 - Internal controls
 - Record of compliance with laws
- D. Amounts credited as recovery on a loan must not exceed all principal, finance charges, and fees previously charged off. Amounts that exceed these must be credited as income

Correct Answer: AB

Section: (none)

Explanation

**Explanation/Reference:****QUESTION 32**

In Guidance on Nontraditional Mortgage Product Risks, if the institution has a concentration in a nontraditional mortgage portfolio, the institution should:

- A. Have well-developed monitoring systems and risk management practices
- B. Monitor by originator and key borrower and portfolio characteristics
- C. Not understand the risk of payment shock and negative amortization
- D. A and B

Correct Answer: D

Section: (none)

Explanation

Explanation/Reference:

QUESTION 33

If the institution offers both full and reduced documentation loans and there is a pricing premium attached to the reduced documentation loan, the consumer should:

- A. Be alerted to this fact
- B. Not be alerted to this fact
- C. Provide consumers with a clear statement of the options available
- D. Not lead consumers with payment option ARMs to choose a non-amortizing or negatively amortizing payment

Correct Answer: A

Section: (none)

Explanation

Explanation/Reference:

QUESTION 34

Institutions that offer nontraditional mortgage products should make sure they comply with the following, as applicable, EXCEPT:

- A. Truth in Lending Act
- B. FTC Act (i.e., Unfair and Deceptive Acts and Practices)
- C. RESTA
- D. State laws prohibiting deceptive trade practices

Correct Answer: C

Section: (none)

Explanation

Explanation/Reference:

QUESTION 35

Underwriting standards in Subprime Mortgage Lending include:

- A. The borrower's debt-to-income ratio should include the borrower's total yearly housing-related payments as a percentage of gross monthly income
- B. Institutions should have a clear policy governing the use of risk-layering features, such as reduced documentation loans or simultaneous second lien mortgages
- C. Stated income and reduced documentation loans to subprime borrowers should be made only if there are clear, documented mitigating factors

D. Mitigating factors should be present when risk layering features are combined in order to support the underwriting decision and the borrower's repayment capacity

Correct Answer: A

Section: (none)

Explanation

Explanation/Reference:

QUESTION 36

Below mentioned is the necessary information that should be included in the _____. Risk of payment shock—potential payment increases; how the new payment will be calculated when the introductory rate expires Ramifications of prepayment penalties-how they will be calculated, when they will be imposed Ramifications of balloon payments Ramifications of the lack of escrowing for taxes and insurance—who is responsible for paying taxes and insurance and the fact that their costs may be substantial Cost of reduced documentation loans—whether there is a pricing premium required

- A. Consumer protection principles
- B. Underwriting standards
- C. Workout arrangements
- D. None of these



Correct Answer: A

Section: (none)

Explanation

Explanation/Reference:

QUESTION 37

Supervisory review should also be the part of Subprime Mortgage Lending. It should review:

- A. Regulatory agencies will continue to focus on risk management review and consumer compliance processes
- B. Hiring and Training of personnel
- C. Agencies will continue to take action against institutions that violate consumer protection laws or fair lending laws or that engages in unfair or deceptive acts or practices or in unsafe or unsound lending practices
- D. Applicability of prepayment penalties

Correct Answer: AC

Section: (none)

Explanation**Explanation/Reference:****QUESTION 38**

The act limited balloon payments in consumer leases and enabled consumers to compare lease terms with credit terms where appropriate. The act was implemented by Regulation M (Consumer Leasing). It requires disclosures to consumers before consummation of the lease agreement. This act is:

- A. Consumer leasing act
- B. Risk disclosure act
- C. ALLL
- D. None of these

Correct Answer: A

Section: (none)

Explanation**Explanation/Reference:****QUESTION 39**

Content of segregated disclosures in Consumer Leasing Act include all of the following EXCEPT:

- A. Amount due at lease signing or delivery, itemized by type and amount, including:
 - Refundable security deposit
 - Advance monthly or other periodic payment
 - Capitalized cost reduction
 - An itemization of how the amount due will be paid, by type and amount (only required in a motor vehicle lease), using the model form
- B. Number, amount, and due date of payments scheduled and the total amount of periodic payments
- C. In an open-end lease, the descriptive statement "You will owe an additional amount if the actual value of the vehicle is less than the residual value"
- D. If there are multiple items of property, the property description may be separate

Correct Answer: D

Section: (none)

Explanation**Explanation/Reference:**

QUESTION 40

In a motor vehicle lease, a mathematical progression showing how the periodic payment is derived, containing the following information:

- A. Gross capitalized cost (including the agreed-on value of the vehicle)
- B. Rent charge (the difference between the total of base payment over the lease term minus the depreciation and any amortized amounts)
- C. Itemization of other charges that are part of the periodic payment
- D. All of the above

Correct Answer: D

Section: (none)

Explanation

Explanation/Reference:

QUESTION 41

Which one of the following should be included in an early termination notice in case of the termination from consumer leasing agreement?

- A. A warning to the consumer that a substantial charge may result from early termination (required only in a motor vehicle lease)
- B. A statement of the conditions under which the lessee or lessor may terminate the lease prior to the end of the lease term
- C. The purchase option at the end of the lease term
- D. The amount of any penalty or other charge for early termination (the penalty must be reasonable)

Correct Answer: ABD

Section: (none)

Explanation

Explanation/Reference:

QUESTION 42

In Consumer Leasing Act Content of non-segregated disclosures may be made separately or as part of another document (such as the lease agreement); however, other information cannot be stated, used, or placed so as to mislead or confuse the consumer. Other disclosures include all of the following EXCEPT:

- A. A statement of the conditions under which the lessee or lessor may terminate the lease before the end of the lease term, along with the amount (or description of the method of how the amount is determined) of any penalty or other charge for early termination
- B. Whether the lessee has the option to purchase the leased property during the lease term and, if applicable, the purchase price (or method for determining it) and when the lessee may exercise it
- C. The lessee's right to an independent appraisal of the property if the lessee's liability at the end of the lease is based on the realized value of the leased property,

and that the appraisal will be binding on all parties

D. A statement of maintenance responsibilities including the counter bank responsible and a description of the responsibility

Correct Answer: D

Section: (none)

Explanation

Explanation/Reference:

QUESTION 43

Under Renegotiations, extensions, and assumptions-12 CFR 213.5; any lease that is renegotiated or extended by longer than six months is considered to be a new lease, subject to new disclosure requirements, except when:

- A. One or more payments are deferred, whether or not there is a charge for the deferral
- B. Lease property is substituted with property of substantially equivalent or greater value, if no other lease terms are changed
- C. In a multiple-item lease, property is added, deleted, or substituted provided the average periodic payment does not change by more than 35 percent
- D. There is an agreement resulting from a pre-order

Correct Answer: AB

Section: (none)

Explanation

Explanation/Reference:



QUESTION 44

In Advertising-12 CFR 213.7, if a percentage rate is used in an advertisement, it cannot be more prominent than any other disclosure, EXCEPT:

- A. For the warning regarding the limitation of the rate as a measurement of cost
- B. For beginning at least 3 days before and ending at least 10 days after the broadcast
- C. For required disclosures in advertisements
- D. For an advertisement accessed in electronic form

Correct Answer: A

Section: (none)

Explanation

Explanation/Reference:

QUESTION 45

Under Consumer Leasing Act Enforcement-15 USC 1667d section FIRREA penalties include:

- A. Penalties up to \$8,500 per day for violations of laws and regulations
- B. Penalties up to \$37,500 per day if violations or unsafe or unsound practices are engaged in recklessly or are part of a pattern of misconduct that causes more than a minimal loss to the bank or any pecuniary gain to the parties involved
- C. Penalties up to \$1,375,000 per day against persons who knowingly commit a violation and knowingly or recklessly cause a substantial loss to the bank or a substantial benefit to the party
- D. Penalties up to \$9,500 per day for violations of laws and regulations

Correct Answer: AB

Section: (none)

Explanation

Explanation/Reference:

QUESTION 46

_____ requires that a statement of purpose be obtained from borrowers whose loans are to be greater than \$100,000 and that will be secured by margin stock. Loans made for the purpose of purchasing margin stock are subject to additional limitations

- A. Regulation U
- B. Regulation V
- C. Regulation Z
- D. Regulation X

Correct Answer: A

Section: (none)

Explanation

Explanation/Reference:

QUESTION 47

An exempted borrower is a member of a national securities exchange or a registered broker or dealer who:

- A. Maintains at least 1,000 active accounts annually for persons other than brokers, dealers, and persons associated with brokers and dealers

- B. Earns at least \$10 million in gross revenues on an annual basis from transactions with persons other than brokers, dealers, and persons associated with brokers and dealers, or
- C. Earns at least 10 percent of its gross revenues on an annual basis from transactions with persons other than brokers, dealers, and persons associated with brokers and dealers
- D. None of these

Correct Answer: ABC

Section: (none)

Explanation

Explanation/Reference:

QUESTION 48

Banks may extend and maintain purpose credit without complying with Regulation U if the credit is extended:

- A. To a bank auditor
- B. To a qualified employee stock ownership plan running previously but not now
- C. To any customer, other than a broker or dealer, to temporarily finance the purchase or sale of securities for prompt delivery, if the credit is to be repaid in the ordinary course of business on the completion of the transaction
- D. To enable a customer to meet emergency expenses not reasonably foreseen and if the bank obtains a good faith statement from the customer. Emergency expenses are ones related to unforeseen death or disability, not a chance to make a profit.

Correct Answer: CD

Section: (none)

Explanation

Explanation/Reference:

QUESTION 49

Margin stock includes:

- A. Equity securities registered or having delisted trading privileges on a national securities exchange:
- B. Over-the-counter (OTC) securities that do not qualify for trading in the National Market System
- C. Warrants or rights to subscribe to or purchase a common stock
- D. Securities issued by an investment company registered under the Investment Company Act, except for: A company licensed under the Small Business Investment Company Act
A company that has at least 95 percent of its assets continuously invested in exempted securities; or A company that issues face-amount certificates; or A

company that is considered a money market fund under the SEC Rules

Correct Answer: D

Section: (none)

Explanation

Explanation/Reference:

QUESTION 50

Purpose credit is credit for all of the following EXCEPT:

- A. Immediate purpose of purchasing or carrying margin stock
- B. Incidental purpose of purchasing or carrying margin stock
- C. Ultimate purpose of purchasing or carrying margin stock
- D. Accidental purpose of purchasing or carrying margin stock

Correct Answer: D

Section: (none)

Explanation

Explanation/Reference:



QUESTION 51

Under collateral requirements-12CFR 221 .7, maximum loan value of margin stock is:

- A. Currently 50 percent of the current market value
- B. Currently 70 percent of the current market value
- C. Subject to change by the Federal Reserve
- D. Subject to change by the Equity Reserve

Correct Answer: AC

Section: (none)

Explanation

Explanation/Reference:

QUESTION 52

What is actually a Single credit rule-12 CFR 221.3(d)?

- A. All purpose credit extended to a customer will be considered to be a single credit for purposes of Regulation U
- B. The value of all collateral securing all-purpose loans will be aggregated to determine if it is sufficient
- C. If unsecured purpose credit is extended before secured purpose credit, the loans need only be combined for purposes of applying the withdrawal and substitution rules
- D. All of the above

Correct Answer: D

Section: (none)

Explanation

Explanation/Reference:

QUESTION 53

Which one of the following types of credit may be extended in Requirements case-12 CFR 221.3, 221.7:

- A. Temporary advances in payment against delivery transactions
- B. Capital contribution leases
- C. Credit to clearing banking authorities
- D. Underwriter loans



Correct Answer: AD

Section: (none)

Explanation

Explanation/Reference:

QUESTION 54

OCC advisory on credit card practice-AL-2004-10 in credit card practices covers:

- A. Finance and credit management practices that may be unfair or deceptive and expose a bank to compliance and reputation risk
- B. Marketing and account management practices that may be unfair or deceptive and expose a bank to compliance and reputation risk
- C. Marketing and account management practices
- D. Marketing and account management practices that may be fair and can't expose a bank to compliance and reputation risk

Correct Answer: B

Section: (none)

Explanation

Explanation/Reference:

QUESTION 55

Practice/s addressed in the guidance of OCC advisory on credit card practices-AL-2004- 10 is/are:

- A. "Up-to" marketing
- B. Promotional rate marketing
- C. Repricing of accounts and other changes in credit terms
- D. Lending to insiders

Correct Answer: ABC

Section: (none)

Explanation

Explanation/Reference:



QUESTION 56

Regulation O both restricts lending to insiders and requires that certain loans to insiders be disclosed. Each banking agency has adopted the provisions of Regulation O for administrative enforcement purposes. These were not found to be useful in preventing insider lending abuse. Regulation O governs which of the following areas major areas:

- A. Lending to insiders
- B. Disclosures of loans made to insiders
- C. Both of these
- D. None of these

Correct Answer: C

Section: (none)

Explanation

Explanation/Reference:

QUESTION 57

Unless excluded by a board resolution or the bylaws, the following officers will be considered to be executive officers EXCEPT:

- A. Chairman of the board
- B. President
- C. Each vice-president and above (for example, senior vice-president, executive vice-president, and so on)
- D. Brokerage house's vice president

Correct Answer: D

Section: (none)

Explanation

Explanation/Reference:

QUESTION 58

_____ is any company of which the bank is a subsidiary or any other subsidiary of the same company of which the bank is a subsidiary.

- A. Brokerage House
- B. Treasury
- C. FDIC
- D. Affiliates



Correct Answer: D

Section: (none)

Explanation

Explanation/Reference:

QUESTION 59

It is an extension of credit will be deemed to be made to an insider if the proceeds are transferred to the insider or used for the insider's benefit. This rule does not apply if the credit is made on substantially the same terms and conditions as those made to a noninsider and if the proceeds are used in a bona fide transaction involving the acquisition of property, goods, or services from the insider. What is it?

- A. Tangible economic benefit rule 12 CFR 215.3(f)
- B. Extension of credit-12 CFR 215.3
- C. Lending restrictions
- D. Intangible economic-benefit rule

Correct Answer: A

Section: (none)

Explanation

Explanation/Reference:

QUESTION 60

Lending restrictions under requirements 12 CFR 215; 12 CFR 337, 12 CFR 349 are all of the following EXCEPT:

- A. Banks may not lend to executive officers, directors, principal shareholders, or any of their related interests unless the credit is made on substantially the same terms and following credit underwriting standards that are not less stringent than those on loans to persons who are not insiders; however, if the bank has a benefit program widely available to its employees, it may lend to insiders on the same terms and conditions as it lends to its other employees, pursuant to its employee benefit program
- B. Banks may not lend to any executive officer, director, or principal shareholder, and to any of their related interests, amounts that exceed the higher of \$25,000 or 5 percent of the bank's capital and unimpaired surplus (up to a maximum of \$500,000) in the aggregate unless The credit is approved in advance by the board of directors The interested party has abstained from voting
- C. Prior approval is not needed for each draw against a line of credit provided the line of credit was approved within the preceding 14 months, based on the then-current financial statement
- D. None of these

Correct Answer: D

Section: (none)

Explanation

Explanation/Reference:

QUESTION 61

The maximum amount of credit that a bank may extend to all of its insiders is known as the and is equal to 100 percent of its unimpaired capital and surplus.

- A. Aggregate lending limit
- B. Loan filliping
- C. Equity stripping
- D. Tangible economic benefit

Correct Answer: A

Section: (none)

Explanation**Explanation/Reference:****QUESTION 62**

On a written request from a member of the public, the bank must disclose the names of each of its executive officers and principal shareholders to whom the bank had aggregate credit outstanding at the end of the latest quarter that equaled or exceeded:

- A. 10 percent of the bank's capital, and unimpaired surplus or \$500,000, whichever is less; no disclosure is required if the aggregate credit was \$30,000 or less. Disclosure of individual loan amounts is not required
- B. 5 percent of the bank's capital, and unimpaired surplus or \$500,000, whichever is less; no disclosure is required if the aggregate credit was \$25,000 or less. Disclosure of individual loan amounts is not required
- C. 6 percent of the bank's capital, and unimpaired surplus or \$100,000, whichever is less; no disclosure is required if the aggregate credit was \$25,000 or less. Disclosure of individual loan amounts is not required
- D. 5 percent of the bank's capital, and unimpaired surplus or \$100,000, whichever is less; no disclosure is required if the aggregate credit was \$35,000 or less. Disclosure of individual loan amounts is not required

Correct Answer: B**Section:** (none)**Explanation****Explanation/Reference:****QUESTION 63**

Record keeping requirements-12 CFR 215.8 elaborates that:

- A. Each bank must establish a recordkeeping system to keep records necessary for compliance with Regulation O
- B. Banks may use any alternative recordkeeping method for insiders of affiliates if the bank's regulatory agency determines the bank's method is at least as effective as that required by Regulation O
- C. All recordkeeping systems must include either an annual survey of insiders to identify related interests, or a requirement as part of each extension of credit that the borrower indicates whether he or she is an insider. Provide for the maintenance of records of all credit to insiders, including the amounts and terms
- D. All of these

Correct Answer: D**Section:** (none)**Explanation****Explanation/Reference:**

QUESTION 64

Debt Cancellation Contracts and Debt Suspension Agreements coverage includes:

- A. National banks that issue debt cancellation contracts and debt suspension agreements with borrowers in connection with loans for personal, family, or household purposes
- B. A national bank may not engage in any practice, including advertising, which would cause a reasonable person to be misled with respect to DSAs and DCCs
- C. A bank must provide the long-form disclosures in writing before the customer completes the purchase of a contract. If the solicitation occurs in person, the long-form disclosures must be provided at that time
- D. A bank must make the short-form disclosures orally at the time the bank first solicits the contract

Correct Answer: A

Section: (none)

Explanation

Explanation/Reference:

QUESTION 65

This is a loan term or an arrangement that modifies a loan term under which a bank agrees to cancel all or part of a customer's loan obligation on the occurrence of a specified event. It may be included as a part of the loan documents, or it may be a separate agreement. What is it?

- A. Debt suspension agreement (DSA)
- B. Anti-dying
- C. Debt cancellation contract (DCC)
- D. ALLL

Correct Answer: C

Section: (none)

Explanation

Explanation/Reference:

QUESTION 66

Short-form disclosures are required in advertisements and promotional materials unless the advertisements and promotional materials are of:

- A. A general nature describing or listing the products or services offered by the bank

- B. A specific nature describing or listing the products or services offered by the bank
- C. A general nature describing or special services offered by the bank
- D. A general nature describing competitive advantage of the bank

Correct Answer: A

Section: (none)

Explanation

Explanation/Reference:

QUESTION 67

This is a loan term or an arrangement that modifies a loan term under which a bank agrees to suspend all or part of a customer's loan obligation on the occurrence of a specified event. It May be a part of the loan itself or a separate agreement. Does not include a loan payment deferral arrangement where the borrower or the bank can unilaterally defer a payment. What is it?

- A. Debt suspension agreement (DSA)
- B. Anti-dying
- C. Debt cancellation contract (DCC)
- D. ALLL

Correct Answer: A

Section: (none)

Explanation

Explanation/Reference:

QUESTION 68

Under content of disclosures long term disclosures may include the following, as applicable EXCLUDING:

- A. Notification that the product is optional
- B. Explanation of debt-suspension agreement
- C. Lump-sum payment of fee with no refund
- D. Refund of fee paid in lump sum

Correct Answer: D

Section: (none)

Explanation

Explanation/Reference:**QUESTION 69**

Banks must establish and maintain effective risk management and control processes over its DCCs and DSAs, including:

- A. Appropriate recognition and financial reporting of income, expenses, assets, and liabilities
- B. Appropriate treatment of losses associated with these products
- C. Assessment of the adequacy of its internal controls and risk mitigation activities
- D. Before entering into a contract, the bank must obtain the customer's written affirmative election to enter into the contract and written acknowledgement of the receipt of the disclosures

Correct Answer: ABC

Section: (none)

Explanation

Explanation/Reference:**QUESTION 70**

The Equal Credit Opportunity Act (ECOA) was enacted in 1974 to prevent discrimination in credit transactions. In 1975 the act was amended. Which of the following prohibited base/s are now included in it?

- A. National origin
- B. Exercise of rights under the Consumer Credit Protection Act
- C. Receipt of public assistance income
- D. All of these

Correct Answer: D

Section: (none)

Explanation

Explanation/Reference:**QUESTION 71**

Securities credit covers credit subject to Section 7 of the Securities Exchange Act of 1934 or credit by a broker or dealer subject to regulation under the act. The following requirements of Regulation B do not apply EXCEPT:

- A. Restrictions regarding information about a spouse or former spouse, marital status, or sex of the applicant
- B. It is not payable by agreement in more than four installments
- C. Provisions relating to furnishing credit information
- D. Records retention requirements

Correct Answer: B

Section: (none)

Explanation

Explanation/Reference:

QUESTION 72

Government credit

- A. It is credit extended to governments or government agencies, instrumentalities, or subdivisions
- B. It has no finance charge
- C. It has Records retention requirements
- D. Only the general rule against discrimination applies to government credit

Correct Answer: AD

Section: (none)

Explanation

Explanation/Reference:

QUESTION 73

An oral or written request for credit made in accordance with the creditor's procedures for the type of credit requested. Information entered into and retained by a computer system qualifies as a written application. It is called:

- A. Credit Application
- B. Credit completed application
- C. Initial credit approach
- D. None of these

Correct Answer: A

Section: (none)

Explanation**Explanation/Reference:****QUESTION 74**

Definition of completed application—12 CFR 202.2(f) is:

- A. An application for which the bank has received all the information it regularly considers in evaluation, including credit reports, verifications, and so forth
- B. The creditor must be reasonably diligent in collecting information to complete the application (for example, ordering credit bureau reports)
- C. An inquiry becomes an application when the creditor evaluates information and decides to grant or decline the credit
- D. Requests for written preapprovals to be issued by the lender are considered applications

Correct Answer: AB

Section: (none)

Explanation**Explanation/Reference:****QUESTION 75**

Requirements—12 CFR 202.2,202.4, 202.5,202.6, and 202.13 say that a creditor may not request information about an application's race, color, religion, national origin, or gender except as specifically permitted by or another statute such as the Home Mortgage Disclosure Act.

- A. Regulation B
- B. Regulation U
- C. Regulation Z
- D. Regulation A

Correct Answer: A

Section: (none)

Explanation**Explanation/Reference:****QUESTION 76**

_____ is defined as every aspect of an applicant's dealing with a creditor, beginning with information gathering and continuing through to the servicing and collection of the loan.

- A. Credit terms
- B. Credit rating
- C. Credit transaction
- D. Credit application

Correct Answer: C

Section: (none)

Explanation

Explanation/Reference:

QUESTION 77

In Processing and evaluating applications—12 CFR 202.6, protected income part is also under discussion. Which of the following considerations is NOT its part?

- A. Public assistance income may not consider whether an applicant's income is from a public assistance source
- B. Public assistance income may consider as it relates to another pertinent element of creditworthiness
- C. May consider length of time public assistance income will be received, whether the applicant will continue to qualify for the income, and whether the income can be garnished
- D. Can discount or refuse to consider the following:
 - Part-time income
 - Annuities
 - Pensions
 - Retirement benefits
 - Alimony, child support, and separate maintenance payments to the extent they are likely to be consistently made

Correct Answer: D

Section: (none)

Explanation

Explanation/Reference:

QUESTION 78

Credit scoring systems:

- A. Evaluate an applicant's creditworthiness mechanically, based on key attributes of the applicant and aspects of the transaction, and determine, alone or in conjunction with an evaluation of additional information about the applicant, whether an applicant is deemed creditworthy

- B. Are evaluated by regulatory agencies to determine whether they are empirically derived and statistically sound and to examine:
The bank's policies on the use of the credit scoring system
Training of bank employees on the use of the system
The number of high-side and low-side overrides of the system
- C. Both of these
- D. None of these

Correct Answer: C

Section: (none)

Explanation

Explanation/Reference:

QUESTION 79

Federal regulations define special-purpose credit-12 CFR 202.8 to include:

- A. Any credit assistance program authorized by federal or state law for the benefit of an economically disadvantaged class of persons
- B. Any credit assistance program offered by a not-for-profit organization for the benefit of its members or for the benefit of an economically disadvantaged class of person
- C. A special-purpose credit program must not discriminate on a prohibited basis; however, it can require its participants to share a particular characteristic (such as race or sex) provided the requirement was not established to evade the requirements of the ECOA. If the participants must share a common characteristic, the bank may collect information on that characteristic to determine eligibility
- D. If the program includes financial need as a criterion, the creditor can never request and consider information regarding the applicant

Correct Answer: ABC

Section: (none)

Explanation

Explanation/Reference:

QUESTION 80

These are the definitions of _____: The refusal to grant credit in substantially the amount or on substantially the terms requested in an application (and the applicant uses or expressly accepts the credit offered) A termination of the account or an unfavorable change in the terms of an account, unless the change affects substantially all of the lender's accounts of that type A refusal to increase the amount of credit available to an applicant who has made an application for an increase

- A. Adverse action-12 CFR 202.2(c)
- B. Special-purpose credit-12 CFR 202.8

- C. Refusals-12 CFR 202.8
- D. security agreements-12 CFR 202.2(c)

Correct Answer: A

Section: (none)

Explanation

Explanation/Reference:

QUESTION 81

FDIC guidance lists three requirements to ensure compliance with spousal signature rules include all of the following EXCEPT:

- A. Review and revise policies
Eliminate policies or procedures that are inconsistent with the requirements
Expand loan policies and procedures to provide loan staff with specific guidance on state law(s) regarding requiring signatures Cover the laws of all states where the creditor institution does business Create checklists to address situations when spousal signatures can be required
- B. Provide training to consumer and commercial loan staff
- C. Implement monitoring and auditing programs to check for spousal signature violations
- D. Must allow an applicant to designate a birth-given first name and a birth-given, surname, spouse's surname, or combination

Correct Answer: D

Section: (none)

Explanation

Explanation/Reference:

QUESTION 82

Content of notification to credit consumers must contain:

- A. Statement of the action taken
- B. Name and address of creditor
- C. Statement of the specific reasons for the adverse action or a disclosure of the applicant's right to receive the specific reasons within 30 days of a request. The request for specific reasons must be made within 60 days of the receipt of the adverse action notice.
- D. Statement of the specific reasons for the adverse action or a disclosure of the applicant's right to receive the specific reasons within 15 days of a request. The request for specific reasons must be made within 30 days of the receipt of the adverse action notice.

Correct Answer: ABC

Section: (none)

Explanation

Explanation/Reference:

QUESTION 83

A bank may engage in voluntary self-testing and self-correction of its compliance with Regulation B. If the bank takes any appropriate corrective action, the reports, results, analysis, opinions, and conclusions of the self-test will be protected by a privilege. The privilege will be lost if

- A. Loan and application files or other records related to a credit transaction and information derived from such files and records, even if it has been reorganized and summarized for analysis
- B. The information is voluntarily disclosed to the government
- C. The public or is used in any manner as a defense to a discrimination charge
- D. credit information is furnished in response to inquiries concerning an account reflecting the participation of consumer

Correct Answer: BC

Section: (none)

Explanation

Explanation/Reference:



QUESTION 84

Creditors must retain for 25 months after the date that an offer of credit is made (12 months for business applicants with gross revenues of \$1 million or less) the following items EXCEPT:

- A. The text of any prescreened solicitation
- B. All other written information concerning the applicant
- C. The list of criteria used to select recipients
- D. Any record of complaints regarding the solicitation

Correct Answer: B

Section: (none)

Explanation

Explanation/Reference:

QUESTION 85

According to FDIC Guidance on Spousal Signature Provisions, if the creditor requires the spouse's signature on an instrument that imposes personal liability, the creditor's belief should be:

- A. Supported by a thorough review of pertinent statutes, decisional law, or an opinion of the state's attorney general
- B. Supported by a thorough review of pertinent statutes
- C. Supported by decisional law
- D. Supported by an opinion of the state's attorney general

Correct Answer: A

Section: (none)

Explanation

Explanation/Reference:

QUESTION 86

A consumer reporting agency may furnish a consumer report

- A. If not authorized in writing by the consumer
- B. In response to a court order having jurisdiction or a subpoena issued by a federal grand jury or review or collection of an account of the consumer
- C. In connection with a credit or insurance transaction
- D. For employment purposes Before procuring a consumer report, an employer Must disclose to the individual in writing that a consumer report may be obtained Must obtain written authorization from the individual before procuring the report

Correct Answer: BCD

Section: (none)

Explanation

Explanation/Reference:

QUESTION 87

Legislation was recently enacted to reform consumer real estate protection laws, and the bank will now have to change the way it documents, discloses, and advertises real estate loans, an integral product line at your bank. What should the compliance professional do FIRST to implement the new law within the bank?

- A. Read the law and write a new real estate compliance policy
- B. Form a task force of the business unit managers whose departments will be affected by the law to collectively form an action plan
- C. Talk to the bank president about the need for more resources in compliance

D. Sign up all bank personnel affected by the changes for a seminar on the new law

Correct Answer: B

Section: (none)

Explanation

Explanation/Reference:

QUESTION 88

A bank's president would like to begin offering a new home equity line of credit product within two weeks. In all cases the borrower's principal dwelling will secure the loan. The president has already launched a planned advertising campaign for the bank's major service markets. What should the compliance professional do FIRST?

- A. Hire an attorney to write the appropriate legal documents and disclosures
- B. Write a memo to the president explaining why the compliance professional should have been in on the process at an earlier date
- C. Begin training sessions for the lending and loan operations staff on the compliance issues involved
- D. Perform a risk assessment to determine the bank's level of risk in offering this new product

Correct Answer: D

Section: (none)

Explanation

Explanation/Reference:



QUESTION 89

A bank has a large mortgage department as well as a high HMDA error rate. An expensive software program could automate the process, but the business unit manager does not want to purchase the software because of its expense. Though it is not as efficient, the manager prefers to make some improvements to the manual process, add some more robust monitoring procedures, and opt not to purchase the software. What should the compliance professional do?

- A. Elevate the issue to a higher authority to force the mortgage department unit to purchase the software
- B. Nothing; the compliance professional's job is done with the completed research
- C. Document the fact that the level of risk present with manual systems is acceptable to the mortgage department business unit
- D. Write a memo to the president of the bank that explains the risk assessment for this area

Correct Answer: C

Section: (none)

Explanation

Explanation/Reference:**QUESTION 90**

The federal banking agencies have proposed an amendment to Regulation Z that would require a new early disclosure statement for loans secured by the borrower's principal dwelling. After reading the proposed change, what should the compliance professional do FIRST?

- A. Establish a task force to study the proposed rule.
- B. Contact the bank's platform software vendor to determine whether it will be ready for the change NOTES
- C. Prepare a summary document that outlines the effects the proposed rule would have on the bank's operations
- D. Train bank staff on the new rule

Correct Answer: C**Section: (none)****Explanation****Explanation/Reference:****QUESTION 91**

During a recent compliance examination, regulatory examiners found that the bank was not conducting flood hazard area determinations before closing on construction loans. The compliance professional has reviewed the files and agreed with the examiners' finding. What should be done FIRST?

- A. Review the bank's flood policies and procedures to determine where the compliance failure occurred
- B. Conduct a risk assessment of the flood determination requirement on construction loans
- C. Prepare an analysis for bank management explaining the requirement
- D. Review all construction loan files to determine the extent of the problem

Correct Answer: A**Section: (none)****Explanation****Explanation/Reference:****QUESTION 92**

During a recent compliance examination, regulators cited the bank for violations of various marketing regulations. How should the compliance professional FIRST respond?

- A. Contact the bank's marketing manager to discuss the finding
- B. Develop a policy requiring that all marketing materials be reviewed and approved by compliance before being published
- C. Set up a training class for the marketing department
- D. Review the marketing materials and applicable regulations to verify the finding.

Correct Answer: D

Section: (none)

Explanation

Explanation/Reference:

QUESTION 93

When developing a training plan for commercial lenders, which of the following regulations is least important to include?

- A. Equal Credit Opportunity, FRS Regulation B
- B. Home Mortgage Disclosure, FRS Regulation C
- C. Loans to Executive Officers, Directors, and Principal Shareholders of Member Banks, FRS Regulation O
- D. Truth in Lending Act, FRS Regulation Z

Correct Answer: D

Section: (none)

Explanation

Explanation/Reference:

QUESTION 94

A compliance professional is a member of the task force studying how the bank can reduce customer complaints about holding deposits. One proposed solution involves purchasing an expensive system that will reduce the number of holds placed by evaluating the customer's history and relationship with the bank. Which of the following roles is MOST important for the compliance professional on the task force?

- A. Developing training for tellers who will use the new system
- B. Setting parameters for what the system should review to determine the strength of the customer relationship
- C. Validating the system to ensure it complies with regulatory restrictions
- D. Conducting a cost-benefit analysis to determine if the system is the best solution

Correct Answer: C

Section: (none)

Explanation**Explanation/Reference:****QUESTION 95**

Of the following loans made by a national bank, which loan is NOT covered by the OCC ARM regulation?

- A. A loan to purchase a single-family dwelling to be used as a residence, secured by the dwelling with an adjustable interest rate
- B. A loan made to purchase a mobile home to be used as rental property, secured by the home with a variable interest rate
- C. A loan made to purchase an eight-unit apartment complex, secured by the building, made payable on demand with a variable rate of interest
- D. A loan made to purchase a duplex, secured by the dwelling, amortized over 15 years with a 5-year maturity, at a variable rate of interest

Correct Answer: C

Section: (none)

Explanation**Explanation/Reference:****QUESTION 96**

First National Bank is a member of a multibank holding company. The bank makes ARM loans and occasionally purchases ARM loans from its affiliate national and state banks as well as from nonaffiliated banks. Which of the following practices is NOT acceptable under the OCC ARM regulation?

- A. The bank purchases loans from its state affiliate banks where the index on the loan is tied to First National's prime rate.
- B. The bank makes loans to purchase single-family dwellings with interest rates that may be adjusted from time to time.
- C. The bank links the interest rate indices on its own ARM loans to them national prime rate as published in The Wall Street Journal.
- D. The bank requires its national bank affiliates to use the national prime rate as published in The Wall Street Journal as the index for any of the ARM loans it purchases.

Correct Answer: A

Section: (none)

Explanation**Explanation/Reference:****QUESTION 97**

On which of the following adjustable-rate loans must the bank use an index beyond its control?

- A. A loan to purchase a home to refurnish and resell for a profit
- B. A loan to purchase a vacation home
- C. A loan to purchase a duplex where the borrower will live in one of the units
- D. A loan to purchase a home to be used as rental property

Correct Answer: C

Section: (none)

Explanation

Explanation/Reference:

QUESTION 98

ABC National Bank regularly purchases mortgage loans from ACME Mortgage Company, a local mortgage broker. ACME places a mandatory arbitration clause in each of its mortgage documents. ACME believes this clause is necessary because of state laws governing arbitration. Is this clause a problem for ABC National?

- A. No, unless other predatory or abusive lending practices are evident in the loans sold by ACME.
- B. Yes, the clause is a sign of an abusive lender, and the bank should not purchase the loans.
- C. Yes, the bank should make ACME strike the clause from future loans.
- D. No, this is a common practice and the bank can ignore it.

Correct Answer: A

Section: (none)

Explanation

Explanation/Reference:

QUESTION 99

The OCC recommends all but one of the following actions to help prevent a national bank's purchasing or acquiring predatory or abusive loans. Which practice is NOT recommended?

- A. Establish policies on the bank's relationship with third-party brokers and originators
- B. Review loan documentation
- C. Audit the third-party broker
- D. Require the broker to establish a reserve account for legal contingencies

Correct Answer: D

Section: (none)

Explanation

Explanation/Reference:

QUESTION 100

Second State Bank offers a mortgage product that involves simultaneous second lien loans. These include a first lien for up to 90 percent of the purchase price and a second loan for the down payment, secured by a second lien on the property. The bank would like to be in full compliance with the Interagency Guidance on Nontraditional Mortgage Product Risks. Which of the following should Second State Bank incorporate into its loan program?

- A. Risk management procedures to measure the risk of all simultaneous second lien loans and report results to management
- B. A 100 percent loan loss reserve on all simultaneous second lien loans
- C. A product combining simultaneous second lien loans with negative amortization features made to nonowner occupied borrowers
- D. A prepayment penalty on all simultaneous second lien loans

Correct Answer: A

Section: (none)

Explanation

Explanation/Reference:



QUESTION 101

According to the 2007 interagency statement on subprime mortgage lending, what should an institution offering mortgage loans to subprime borrowers provide before submission of an application?

- A. Information on local residential real property values
- B. Payment shock information
- C. Truth in Lending disclosures
- D. Initial escrow statements

Correct Answer: B

Section: (none)

Explanation

Explanation/Reference: