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Topic Break Down

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QUESTION NO: 1

When conducting compliance monitoring of a third-party mortgage servicer, a bank should:

A. Review servicing performance, complaints, exceptions, and remediation trends

B. Maintain access to records and the ability to audit or assess the servicer

C. Escalate and track material compliance issues to resolution

D. Rely exclusively on the servicer's annual certification of compliance

ANSWER: A B C

Explanation:

A bank should use risk-based monitoring to determine whether its third-party servicer is performing in accordance with contractual requirements, applicable law, and the bank's policies. Monitoring should include review of relevant performance information, consumer complaints, error rates, exceptions, and remediation status. The bank should also retain the ability to obtain records and to audit or otherwise assess the third party's operations.

Material compliance issues identified through monitoring should be escalated, tracked to resolution, and validated when appropriate. The bank remains responsible for managing the risks associated with the relationship and should not rely solely on the servicer's representations that it is compliant. See the OCC's Third-Party Relationships guidance and the CFPB's Supervision and Examination Manual.

QUESTION NO: 2

Transfers involving entries to accounts maintained at two different Reserve Banks are:

A. Fedwire transfers

B. Interdistrict transfers

C. Intradistrict transfers

D. Any one of these

ANSWER: B

Explanation:

Interdistrict transfers is correct because the defining feature is that the accounting entries affect Federal Reserve accounts maintained on the books of two different Federal Reserve Banks. In Federal Reserve payments terminology, a district corresponds to a particular Reserve Bank. When a transfer requires entries across Reserve Bank districts, it is classified as an interdistrict transfer. This classification identifies the Reserve Banks involved in posting and settling the transaction; it is not simply a description of the payment channel used by a customer or institution.

Federal Reserve Regulation J governs funds transfers through Fedwire and establishes the legal framework for transfers made through the Federal Reserve Banks. The Fedwire Funds Service Operating Circular also describes the Reserve Banks' role in receiving, processing, and settling funds transfers through institutions' Federal Reserve accounts. Accordingly, where the accounts involved are maintained at separate Reserve Banks, the transaction is an interdistrict transfer. See 12 CFR Part 210 (Regulation J) and the Fedwire Funds Service Operating Circular.

QUESTION NO: 3

Debt collectors acquiring location information from a third party:

A. Must identify themselves and, if expressly asked, must identify their employer

B. Must state that the call is to confirm or correct location information

C. Once location information is received, may not communicate with the third party again unless the person asks the debt collector to or the debt collector reasonably believes the earlier response was erroneous or incomplete and that person now has correct or complete location information

D. All of these

ANSWER: D

Explanation:

All of these is correct because each listed requirement is part of the Fair Debt Collection Practices Act's rules for a debt collector communicating with a third party to acquire a consumer's location information. The collector must identify themself, state that the purpose of the communication is to confirm or correct location information, and identify their employer if the third party expressly requests that information. "Location information" is limited to the consumer's home address, home telephone number, and place of employment.

The statute also restricts repeat contacts with the same third party. After obtaining location information, the collector generally may not contact that person again unless the person requests further communication, or the collector reasonably believes that the prior response was erroneous or incomplete and that the person now has correct or complete location information. These safeguards help limit disclosures and intrusions into the consumer's privacy while allowing a collector to locate the consumer for a permissible debt-collection purpose. The controlling statutory requirements appear in FDCPA section 804, codified at 15 U.S.C. § 1692b. See the text of 15 U.S.C. § 1692b and the CFPB's Regulation F communications provisions.

QUESTION NO: 4

First National Bank and Fidelity Bank are subsidiaries of Bank Holding Company, Inc. Fidelity is planning to sell First National two loan participations. It has been Fidelity's practice for several years to sell overlines to First National.

• Loan A has been on Fidelity's books for two years. It is a line of credit that will be over Fidelity's loan limit with its next advance. It was recently classified as special mention during a safety andsoundness examination. First National agreed to purchase overlines on Loan A before Fidelity's funding of the loan two years ago and signed a participation agreement at that time.

• Loan B is 60 days past due for a principal payment, although interest payments are current. The loan has been on the books at Fidelity for one year. First National agreed to purchase overlineson Loan B six months ago. Which, if any, of these loans can First National purchase?

A. Neither, both are low-quality assets

B. Loan A only

C. Loan B only

D. Both Loan A and Loan B

ANSWER: B

Explanation:

Loan A only is correct. Because both banks are subsidiaries of the same holding company, they are affiliates for purposes of Federal Reserve Act sections 23A and 23B and Regulation W. A bank generally may not purchase a low-quality asset from an affiliate. Regulation W defines a low-quality asset using specified conditions, including an asset classified as substandard, doubtful, or loss; a nonaccrual asset; a troubled debt restructuring; or an asset with principal or interest more than 30 days past due. A safety-and-soundness designation of special mention is not included in that regulatory definition. Therefore, the special-mention designation alone does not make Loan A a low-quality asset. In addition, First National's documented commitment to purchase Loan A overlines was made before Fidelity acquired the loan by funding it. Regulation W expressly excludes an asset acquired under such a pre-acquisition purchase commitment from the low-quality-asset definition. The existing participation agreement and timing of the commitment support use of that exclusion. Accordingly, First National may purchase the Loan A participation, subject to the applicable affiliate-transaction controls and limits. See 12 CFR Part 223 (Regulation W) and 12 U.S.C. § 371c.

QUESTION NO: 5

Following mentioned are the responsibilities of:

1. Must notify the bank, either orally or in writing, of error within 60 days:

• Of the institution's transmission of a statement or other documentation on which the error first appears or

• Of receiving additional information or clarification provided pursuant to the consumer's request

2. Consumer's notification should include the following items

• Consumer's name and account number or information that allows the institution to identify the consumer's name or account number

• Consumer's belief and reasons for the belief that an error exists and, if possible, the type, date, and amount of the error (this information does not have to be given if the consumer is simplyrequesting further information or clarification)

A. Consumer

B. Financial institution

C. Reserve Bank

D. A third party

ANSWER: A

Explanation:

Consumer is correct. These are the consumer-notice requirements under Regulation E's error-resolution procedures, which implement the Electronic Fund Transfer Act. To invoke the regulation's protections for a covered electronic fund transfer error, the consumer must notify the financial institution no later than 60 days after the institution sends the periodic statement or other documentation on which the error first appears. A consumer may give this notice orally or in writing. The notice must provide enough information for the institution to identify the consumer and the relevant account, indicate why the consumer believes an error occurred, and, when possible, identify the type, date, and amount of the suspected error. Regulation E also recognizes that a consumer may request additional information or clarification; when that occurs, the 60-day period may run from the institution's provision of the requested information or clarification. These requirements are designed to give the institution sufficient information to begin its investigation while ensuring consumers have a clear process for reporting disputed electronic fund transfers. The governing requirements appear in 12 CFR 1005.11, Error resolution, with additional interpretive context in the CFPB Electronic Fund Transfers FAQs.

QUESTION NO: 6

The sender agrees to indemnify each Reserve Bank for:

A. Any loss or expense resulting from sender's lack of authority

B. Any action taken by the Reserve Bank within the scope of its authority in the handling of the item

C. An electronic item that is not a substitute check is not liable for any amount paid by a Reserve Bank that is attributable to the Reserve Bank's own lack of good faith or failure to exercise ordinary care

D. Any warranty made by the Reserve Bank under Regulation J, Regulation CC, or the UCC

ANSWER: A B

Explanation:

Under Regulation J, a sender that sends an item to a Reserve Bank makes an agreement to indemnify the Reserve Bank for specified losses and expenses. This indemnity includes loss or expense arising from the sender's lack of authority to send the item or to make the transfer. Authority is central because the sender is the party initiating the transaction and is responsible for ensuring that it is entitled to do so.

The sender also agrees to indemnify the Reserve Bank for loss or expense arising from an action the Reserve Bank takes within the scope of the authority granted to it in handling the item. This provision recognizes the Reserve Bank's operational role in processing and collecting items under Regulation J and allocates the relevant risk to the sender when the Reserve Bank acts within that authorized role.

These sender-agreement provisions are set out in 12 C.F.R. § 210.6. The Federal Reserve Banks' collection requirements and the relationship between Regulation J and applicable collection rules are also addressed in Federal Reserve Operating Circular 6.

QUESTION NO: 7

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

ANSWER: A B C

Explanation:

Regulation B recognizes special-purpose credit programs as a limited, expressly permitted means of extending credit to meet particular needs without violating the Equal Credit Opportunity Act's general nondiscrimination requirements. "Any credit assistance program authorized by federal or state law for the benefit of an economically disadvantaged class of persons" is included because the regulation expressly covers programs authorized by federal or state law that benefit an economically disadvantaged class. "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" is also included because a nonprofit may offer such a program for its members or for an economically disadvantaged class of persons.

The statement beginning "A special-purpose credit program must not discriminate on a prohibited basis" correctly reflects the conditions governing these programs. A program may use a common characteristic, including a prohibited-basis characteristic, as an eligibility requirement when that requirement was not established to evade ECOA. A creditor may request and consider information about the characteristic when needed to establish eligibility. This treatment permits legitimate, targeted programs while maintaining ECOA safeguards. The regulatory text appears at 12 CFR 1002.8 (the CFPB's current Regulation B citation; formerly 12 CFR 202.8). The CFPB's official interpretive material is available at CFPB Regulation B, Section 1002.8 commentary.

QUESTION NO: 8

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

ANSWER: A B D

Explanation:

High-pressure sales, excessive fees and interest rates including charges for unnecessary products, and excessive refinancing with fees included in the new loan are recognized indicators of predatory or abusive lending. High-pressure sales can improperly influence a consumer's decision and undermine the consumer's ability to consider loan terms, alternatives, and affordability. Charges that are excessive in relation to the credit extended, particularly when connected to products the borrower does not need, can strip equity or impose costs that do not provide a meaningful consumer benefit.

Excessive refinancing with new fees—often called loan flipping—can repeatedly add costs to a borrower's debt without providing a tangible benefit, such as a lower rate, lower payment, or needed cash on sustainable terms. Banking agencies expect institutions to manage the legal, reputation, and credit risks arising from relationships with third parties and funding arrangements that may facilitate these practices. The FDIC's subprime-lending guidance discusses the need to identify and control risks associated with abusive lending practices, while the OCC's guidance addresses the risks of predatory lending in third-party relationships. See the FDIC Guidance on Subprime Lending and the OCC guidance concerning predatory lending.

QUESTION NO: 9

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

ANSWER: A B C

Explanation:

The three stated civil-money-penalty tiers are included in the FIRREA enforcement framework as inflation-adjusted amounts used for violations subject to the federal banking agencies' enforcement authority. "Penalties up to $8,500 per day for violations of laws and regulations" describes the base tier for a violation of a law, regulation, order, condition, or written agreement. "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" correctly captures the enhanced tier based on recklessness or a qualifying pattern and resulting loss or gain. "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" correctly captures the highest tier, which requires knowing conduct plus the specified substantial loss or gain element.

The underlying tier structure is established in 12 U.S.C. § 1818(i), and statutory maximums are subject to periodic inflation adjustments. The cited dollar amounts reflect an adjusted schedule; practitioners should verify the currently effective agency adjustment when applying penalties. See 12 U.S.C. § 1818 and the Federal banking agencies' inflation-adjustment rule.

QUESTION NO: 10

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. The general rule against discrimination and the prohibition against discouraging applicants apply to government credit

ANSWER: A D

Explanation:

Government credit under Regulation B means credit extended to a government, governmental agency, instrumentality, or subdivision. This scope includes public-sector borrowers and distinguishes their credit from consumer and ordinary business credit for purposes of the Equal Credit Opportunity Act's implementing regulation. Regulation B generally does not apply to government credit, but it expressly preserves two important protections: the prohibition on discouraging a prospective applicant from making or pursuing an application on a prohibited basis, and the general prohibition against discrimination in any aspect of a credit transaction. Therefore, the definition identifying credit to governmental entities is correct, as is the statement recognizing that both the anti-discouragement and nondiscrimination requirements continue to govern government credit. These continuing requirements support ECOA's core purpose of ensuring that a creditor's credit practices do not deter or treat applicants differently because of a protected characteristic. The regulation's limited applicability to government credit does not eliminate those fundamental fair-lending obligations. See the official Regulation B scope provision at 12 CFR § 1002.3 and the Consumer Financial Protection Bureau's official Regulation B materials at 12 CFR Part 1002.

QUESTION NO: 11

When may an automatically renewable time deposit account be considered for inclusion in the unclaimed property report?

A. When a customer has corresponded with the bank but not made deposits to the account

B. When a customer has shown interest in the account but not made deposits to the account

C. When a customer does not instruct the bank in writing to roll over the account

D. When, after the applicable state dormancy period, the customer has not deposited or withdrawn funds from the account or another account at the same bank and has not otherwise indicated interest in the deposit

ANSWER: D

Explanation:

When, after the applicable state dormancy period, the customer has not deposited or withdrawn funds from the account or another account at the same bank and has not otherwise indicated interest in the deposit is correct because an automatically renewable time deposit can become reportable unclaimed property when there is no owner-generated activity or other evidence of the owner's continuing interest for the period specified by applicable state law. The automatic renewal feature does not itself establish continuing owner contact or reset the dormancy analysis. A bank should evaluate the customer's relationship records, including activity in related accounts and documented communications or indications of interest, before treating the deposit as reportable. The precise dormancy period, maturity treatment, due-diligence notice requirements, and reporting deadline are governed by the applicable state unclaimed-property statute. For example, California's statute specifically addresses automatically renewable time deposits and the owner-interest standards used to determine whether an account is presumed abandoned. See California Code of Civil Procedure section 1513. Banks should also maintain a documented escheatment process that identifies potentially dormant accounts, performs required owner outreach, and reports and remits property under the governing jurisdiction's requirements. The National Association of Unclaimed Property Administrators provides links to state administrator resources.

QUESTION NO: 12

Electronic funds transfers' requirements say that transfers that vary in amount must be communicated to the designated payee within _____ before the scheduled transfer or may give the consumer the option of receiving notice only when a transfer falls outside a specified range of amounts.

A. 10 days

B. 20 days

C. 30 days

D. 15 days

ANSWER: A

Explanation:

10 days is correct. Under Regulation E's rules for preauthorized electronic fund transfers that vary in amount, the financial institution or the designated payee must provide the consumer with written notice of the amount and date of the transfer at least 10 days before the scheduled transfer date. The rule recognizes that consumers need adequate advance notice when a debit will not be for a fixed amount, allowing them to anticipate the withdrawal, ensure sufficient funds are available, or take action if necessary.

Instead of providing a separate advance notice for every varying transfer, the institution or designated payee may offer the consumer an alternative notice arrangement. Under that arrangement, the consumer may elect to receive notice only when the amount falls outside a specified range of amounts. This alternative still preserves meaningful consumer notice while reducing repetitive notices for transfers that remain within a range the consumer has accepted. The timing and range-notice requirements are set out in Regulation E, 12 C.F.R. § 1005.10(d). See the eCFR text of Regulation E § 1005.10 and the CFPB's official Regulation E interpretation and rule page.

QUESTION NO: 13

Issuing Bank, a foreign bank, maintains an account with First National Bank, a U.S. bank. Issuing Bank issues a letter of credit in favor of ABC, Inc., a U.S. corporation. The letter of credit contains a boycott provision. The letter of credit provides that any negotiating bank may obtain reimbursement from Issuing Bank's account at First National Bank by certifying that the conditions of the letter of credit have been met. Issuing Bank does not send First National Bank a copy of the letter of credit. May First National Bank reimburse negotiating banks for the letter of credit when it contains a boycott provision?

A. Yes. First National Bank did not know of it, so it may reimburse a negotiating bank.

B. No. First National Bank is under a duty to determine the underlying conditions of any letter of credit it pays.

C. No. First National Bank should request a copy of the letter of credit at the time of its payment and then refuse to pay once it is aware of the provision.

D. Yes, provided ABC Company is not a participant in the boycott.

ANSWER: A

Explanation:

Yes. First National Bank may reimburse a negotiating bank because it has not received the letter of credit and therefore does not know, or have reason to know, that the credit contains a prohibited boycott-related condition. The payment is made under the foreign issuing bank's reimbursement authorization against its account, based on the negotiating bank's certification that the credit's conditions have been met. In this setting, the U.S. bank is not required to independently investigate the underlying letter-of-credit terms before making the reimbursement.

The Export Administration Regulations prohibit a U.S. person from paying, honoring, confirming, or otherwise implementing a letter of credit containing certain boycott conditions when the person knows or has reason to know of the prohibited condition. The regulations specifically recognize that a U.S. bank may make payment when it lacks that knowledge. Knowledge can arise, for example, if the bank receives a copy of the credit or otherwise learns of its terms. Because First National Bank was not sent the credit and the facts provide no other notice of the boycott provision, reimbursement is permitted. See 15 C.F.R. § 760.2 and the Bureau of Industry and Security's Office of Antiboycott Compliance.

QUESTION NO: 14

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 public

C. The self-test 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

ANSWER: B C

Explanation:

Regulation B permits a creditor to conduct voluntary self-tests to identify possible discriminatory lending practices. When the creditor takes appropriate corrective action for any violation identified, the reports, results, analyses, opinions, and conclusions produced by the self-test receive a limited evidentiary privilege. This protection encourages institutions to test their own compliance and correct issues without making the evaluative work product automatically discoverable.

The privilege is lost when the creditor voluntarily discloses any part of the self-test report, results, analysis, opinion, or conclusion to the public. It is also lost when the creditor uses any part of that protected self-test material as a defense to a discrimination charge. These are the two express loss-of-privilege circumstances in the regulation. The rule distinguishes protected self-test conclusions from ordinary underlying lending records; the underlying application, loan, and transaction records remain available as required by law and are not transformed into privileged materials merely because they were reviewed during a self-test.

See the CFPB's official Regulation B provision on self-testing and self-correction, 12 CFR § 1002.15, and the current eCFR text at 12 CFR § 1002.15.

QUESTION NO: 15

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

ANSWER: A C

Explanation:

"Penalties up to $7,500 per day for violations of laws and regulations" and "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" reflect the first and third tiers of FIRREA civil money penalties as incorporated into the OCC's enforcement framework for national banks. The first-tier penalty applies to violations of law or regulation, breach of fiduciary duty, or unsafe or unsound practices. The highest tier applies when a person knowingly commits a qualifying violation and knowingly or recklessly causes a substantial loss to the institution or obtains a substantial pecuniary gain or other benefit. The dollar figures in the question represent inflation-adjusted maximums from the relevant adjustment period; civil money penalty maximums are periodically adjusted for inflation, so current published maximums can differ. The underlying tier structure and required findings remain the essential compliance concepts. The OCC regulation addresses the applicable civil money penalty framework in 12 CFR 34.102, and the statutory authority for these penalties appears in 12 USC 1818.

QUESTION NO: 16

Consumers are not considered to be the customers if they do not have continuing relationship with the financial institution. A relationship is considered NOT to be a continuing relationship if:

A. The consumer obtains financial services only in isolated transactions, such as using an ATM

B. The consumer's loan is sold and servicing rights are retained

C. The consumer purchases airline tickets or travel insurance in an isolated transaction

D. The consumer is a beneficiary or grantor of a trust not administrated by the bank

ANSWER: A C

Explanation:

"The consumer obtains financial services only in isolated transactions, such as using an ATM" is correct because an isolated transaction does not establish the ongoing customer relationship required under Regulation P. The rule specifically identifies a consumer's use of an automated teller machine to withdraw cash from an account maintained at another financial institution as an example of an isolated transaction. A one-time service may make the individual a consumer for purposes of the transaction, but it does not make that individual a customer with a continuing relationship.

"The consumer purchases airline tickets or travel insurance in an isolated transaction" is also correct. Regulation P expressly treats an isolated airline-ticket purchase through a travel agency as a non-continuing relationship. The same principle applies to travel insurance obtained as a one-time, isolated transaction: the service is completed without an ongoing account, policy relationship, servicing arrangement, or other continuing provision of financial products or services. These examples help institutions distinguish one-time consumers from customers who are entitled to the recurring privacy-notice treatment applicable to continuing customer relationships. See the Regulation P definition and examples in 12 C.F.R. § 1016.3 and the CFPB's Regulation P materials.

QUESTION NO: 17

Which of the following actions is NOT an adverse action?

A. Refusal to grant credit on substantially the same terms and conditions as requested by the applicant

B. Termination of an account

C. Refusal to grant credit on the grounds that the lender does not offer the type of credit requested

D. Refusal to increase the amount of credit on an existing account after a request

ANSWER: C

Explanation:

"Refusal to grant credit on the grounds that the lender does not offer the type of credit requested" is not an adverse action under the Equal Credit Opportunity Act's Regulation B definition. Regulation B generally treats a denial or revocation of credit, a refusal to grant credit in substantially the amount or on substantially the terms requested, and an unfavorable change to existing credit terms as adverse actions. Those actions trigger notice obligations designed to inform an applicant of the creditor's decision and the reasons for it.

However, the regulation expressly excludes a refusal to extend credit when the creditor does not offer the type of credit requested. This exclusion applies because the creditor is not making an individualized negative credit decision about the applicant; rather, the requested product is outside the creditor's available credit offerings. For example, a creditor that does not offer a particular form of loan is not required to treat its refusal to provide that unavailable product as an adverse action. The governing definition and exclusions appear in 12 CFR § 1002.2(c). The Consumer Financial Protection Bureau's Regulation B resource page provides additional official regulatory materials.

QUESTION NO: 18

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)

ANSWER: A B D

Explanation:

Regulation M requires consumer-lease disclosures to address early termination clearly enough for a lessee to understand both when termination is permitted and the financial consequences. “A statement of the conditions under which the lessee or lessor may terminate the lease prior to the end of the lease term” is required because the disclosure must identify the circumstances in which either party can end the lease before its scheduled expiration.

The disclosure must also state “The amount of any penalty or other charge for early termination (the penalty must be reasonable)” or explain the method used to determine that amount. This enables the consumer to evaluate the cost of ending the lease early. In addition, for a motor-vehicle consumer lease, the required early-termination disclosure includes “A warning to the consumer that a substantial charge may result from early termination (required only in a motor vehicle lease).” The warning is intended to alert consumers to potentially significant liability even where the precise amount depends on the lease’s early-termination formula and the vehicle’s realized value.

These requirements appear in Regulation M, 12 C.F.R. § 1013.4(g). See the eCFR text of § 1013.4 and the CFPB’s official Regulation M disclosure guidance.

QUESTION NO: 19

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

ANSWER: C

Explanation:

RESTA is the correct exception because it is not the name or recognized acronym of an applicable federal consumer-protection statute governing nontraditional mortgage products. The relevant federal settlement-services law is the Real Estate Settlement Procedures Act, commonly called **RESPA**, not “RESTA.” Consequently, an institution cannot have a compliance obligation under a statute identified as “RESTA.”

The federal banking agencies’ Interagency Guidance on Nontraditional Mortgage Product Risks states that institutions offering these products should ensure compliance, as applicable, with consumer-protection and fair-lending requirements. The guidance specifically identifies Truth in Lending Act requirements, the Real Estate Settlement Procedures Act, the Federal Trade Commission Act’s prohibition on unfair or deceptive acts or practices, and applicable state laws as important compliance considerations. Therefore, the misspelled/nonexistent “RESTA” is the item that does not belong in the list of applicable requirements. The intended RESPA statute addresses disclosures and other requirements connected to federally related mortgage loans and settlement services. See the agencies’ Interagency Guidance on Nontraditional Mortgage Product Risks and the CFPB’s RESPA compliance resources.

QUESTION NO: 20

Under the Community Reinvestment Act, a bank's assessment area generally must consist of one or more metropolitan statistical areas or contiguous political subdivisions in which the bank:

A. Has its main office, branches, and deposit-taking remote service facilities, and surrounding geographies in which it has originated or purchased a substantial portion of its loans

B. Maintains its largest concentration of investment securities

C. Receives the greatest number of customer complaints

D. Has the lowest average household income

ANSWER: A

Explanation:

Has its main office, branches, and deposit-taking remote service facilities, as well as surrounding geographies in which it has originated or purchased a substantial portion of its loans, is correct. CRA assessment areas are intended to reflect the geographic areas in which a bank has a meaningful presence and conducts lending activity. A bank may not arbitrarily exclude low- or moderate-income geographies from an assessment area.

The assessment area must generally consist only of whole census tracts and may not extend substantially beyond an area in which the bank can reasonably be expected to serve. Compliance personnel should review assessment-area delineations periodically as branch networks, lending patterns, delivery channels, and market areas change. See 12 CFR § 25.41 and the FFIEC CRA resources.

QUESTION NO: 21

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

ANSWER: D

Explanation:

"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" is the consideration that is *not* part of the Regulation B protected-income requirements. Regulation B requires a creditor to evaluate an applicant's income based on its amount and probable continuance, using a consistent creditworthiness analysis. However, the regulation specifically prohibits a creditor from discounting or excluding income merely because it is derived from part-time employment, annuities, pensions, retirement benefits, or qualifying alimony, child-support, or separate-maintenance payments. The creditor may assess whether income is likely to continue, but it cannot apply a negative discount solely because the income comes from one of these protected sources. This protection ensures that applicants who receive legitimate nontraditional, retirement-related, or support-related income receive an individualized and nondiscriminatory credit evaluation. The applicable rule is found in Regulation B's application-evaluation provisions, particularly the restrictions on discounting protected income sources. See 12 CFR 1002.6 and the CFPB's official Regulation B interpretation for § 1002.6.

QUESTION NO: 22

By sending an item to a Reserve Bank, a sender:

A. Never authorizes the Reserve Bank to handle the item based on this regulation and the Reserve Bank's circulars

B. Warrants, for electronic items that are substitute checks, that the items meet the requirements for substitute checks under Regulation CC

C. Warrants to each Reserve Bank handling the item that it has good title, that it is entitled to enforce the item, that the item has not been materially altered, and that the item bears all endorsements applied by parties that previously handled the item in paper or electronic form

D. The sender makes all of the warranties set forth in the Uniform Commercial Code (UCC) as if the item were subject to the UCC and makes all of the Regulation CC warranties as if the electronic item were a paper item subject to that regulation

ANSWER: B C D

Explanation:

Under Regulation J, sending an item to a Reserve Bank carries specified sender warranties. The sender warrants to every Reserve Bank that handles the item that it has good title, is entitled to enforce the item, that the item has not been materially altered, and that it contains all endorsements applied by prior handlers in either paper or electronic form. These warranties support the integrity of the collection process and allocate responsibility among parties handling the item.

For an electronic item that is a substitute check, the sender also warrants that the item meets Regulation CC's requirements for a substitute check. This confirms that the electronic item has the legally required characteristics associated with that category of check.

In addition, the sender makes the applicable Uniform Commercial Code warranties as though the item were governed by the UCC, and makes the applicable Regulation CC warranties as though an electronic item were a paper item subject to that regulation. Regulation J expressly incorporates these warranty obligations for Reserve Bank collections. The governing requirements appear in 12 CFR § 210.6; substitute-check requirements are defined in Regulation CC, 12 CFR § 229.2.

QUESTION NO: 23

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

ANSWER: A B

Explanation:

Under Regulation M, a renegotiation or extension generally is treated as a new consumer lease and requires new disclosures. However, the regulation recognizes limited lessee-initiated changes that do not require the transaction to be treated as a new lease. Deferring one or more payments is an expressly identified exception, regardless of whether the lessor charges a fee for the deferral. This permits a lessee and lessor to accommodate a temporary payment delay without triggering an entirely new set of lease disclosures.

Likewise, substitution of the leased property with property of substantially equivalent or greater value is an exception when no other lease terms are changed. The condition that the other terms remain unchanged is important because the transaction remains materially consistent with the original lease apart from replacement of the property. These exceptions

are set out in 12 CFR 213.5(b), and the accompanying Official Staff Commentary provides interpretive guidance for applying Regulation M's disclosure requirements. See the eCFR text of 12 CFR 213.5 and the Consumer Financial Protection Bureau's Regulation M interpretive materials.

QUESTION NO: 24

Which of the following activities is NOT a permissible nonbanking activity?

A. Servicing mortgage loans

B. Providing general courier services to the businesses around the bank office

C. Providing mortgage loan data processing services to mortgage companies

D. Acting as a broker for credit life insurance

ANSWER: B

Explanation:

Providing general courier services to the businesses around the bank office is not a permissible nonbanking activity as stated. For bank holding companies, permissible nonbanking activities must be closely related to banking and specifically authorized under the Federal Reserve's Regulation Y. The courier-services authority is limited in scope: it permits the transportation of defined financial and banking-related items, such as checks, commercial paper, documents, and written instruments, under the conditions in the regulation. It does not authorize a bank holding company to operate a general-purpose local delivery business merely because the customers are located near a bank office.

The distinction is important for compliance analysis. A proposed activity must be evaluated according to its actual function, customer base, and operational limits—not simply because it may use bank facilities, employees, or an existing delivery route. A courier service designed and controlled to handle qualifying banking-related materials may fit within the authorized activity. A service offered generally to surrounding businesses for ordinary courier needs does not satisfy that closely-related-to-banking standard. Regulation Y's list of activities closely related to banking and the Federal Reserve's Bank Holding Company Supervision Manual provide the governing framework for this determination. See 12 CFR § 225.28 and the Federal Reserve's Bank Holding Company Supervision Manual.

QUESTION NO: 25

What may a creditor do in response to an application for credit from a business with gross revenues of $1 million or less?

A. Give a disclosure of the applicant's right to receive a statement of reasons at the time of the application instead of at the time of the adverse action

B. Mention adverse action notices only if requested by the applicant

C. Omit the ECOA statement on all notices NOTES

D. Provide only the ECOA statement to the applicant

ANSWER: A

Explanation:

Give a disclosure of the applicant's right to receive a statement of reasons at the time of the application instead of at the time of the adverse action is correct. Regulation B provides a streamlined notice alternative for business-credit applicants whose gross revenues were $1 million or less in the preceding fiscal year. Rather than including either the specific reasons for adverse action or the notice of the right to request those reasons in the adverse-action notice, the creditor may give the applicant a disclosure at the time of application. That disclosure tells the applicant of the right to receive a written statement of the specific reasons for adverse action if the applicant makes a request within 60 days of the creditor's notification of the action taken. If adverse action is later taken, the creditor still must notify the applicant of the action within the applicable Regulation B timing requirements. This alternative recognizes the distinct procedural treatment available for qualifying small-

business credit while preserving the applicant's right to obtain the reasons supporting an adverse decision. The governing rule appears in Regulation B, 12 C.F.R. § 1002.9(a)(3)(ii), available through the eCFR. Additional official interpretation is available in the CFPB's Regulation B section 1002.9 guidance.

QUESTION NO: 26

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

ANSWER: A B

Explanation:

The correct response is **Regulation Z**, also commonly described as the **Truth in Lending** regulation. Regulation Z implements the Truth in Lending Act and is the federal disclosure framework to which the Federal Reserve Board added uniform adjustable-rate mortgage disclosure requirements in 1988. The purpose of these requirements is to provide consumers with standardized, meaningful information about an ARM's payment terms, index, margin, adjustment features, and potential payment changes before they become obligated on the loan.

For national banks, OCC ARM rules can apply alongside the Truth in Lending/Regulation Z requirements depending on the loan and the specific regulatory provision at issue. Accordingly, "Truth in Lending" is correct when used to identify the regulatory disclosure regime implemented through Regulation Z; the two terms point to the same governing consumer-disclosure framework in this context. Regulation Z is now administered by the Consumer Financial Protection Bureau and is codified in 12 CFR Part 1026. Its ARM disclosure provisions, including requirements for variable-rate transactions, are addressed in 12 CFR § 1026.19.

QUESTION NO: 27

A bank that is a government securities broker accepts money from a customer for the purchase of securities on Monday and does not purchase the securities by the end of the day on Tuesday.

Does the bank have any responsibilities under the Government Securities Act?

A. No. The bank has fulfilled its responsibilities under the Act.

B. Yes. The bank must purchase the securities before the close of business on Wednesday.

C. Yes. The bank must deposit the money in an account of the customer at the close of business on Tuesday.

D. No. The bank has until the close of business on Wednesday to purchase the securities before being liable to the customer for failure to effect a purchase.

ANSWER: C

Explanation:

Yes. The bank must deposit the money in an account of the customer at the close of business on Tuesday. The customer's payment was accepted on Monday for a securities purchase, and the purchase had not been effected by the end of the following business day, Tuesday. At that point, the government-securities customer-protection requirements apply to the uninvested customer money. The bank must protect the funds by depositing them in an account for the customer by the

close of business on that next business day. This requirement helps ensure that customer funds awaiting a transaction are appropriately safeguarded and separated rather than remaining available for the firm's own use. The relevant protections for customers of government securities brokers and dealers are set out in the SEC's government securities broker-dealer financial-responsibility rules, including requirements governing the handling and protection of customer funds and securities. See 17 CFR Part 403 and the Treasury's overview of the government securities market regulatory framework at Treasury.gov.

QUESTION NO: 28

Under the Bank Secrecy Act suspicious activity reporting requirements, a bank's SAR narrative should generally:

A. Describe the suspicious activity and the basis for suspicion

B. Identify relevant subjects, accounts, transaction dates, and amounts

C. Provide enough detail to explain the pattern or suspected violation

D. Notify the subject that a SAR was filed so the subject may respond

ANSWER: A B C

Explanation:

A SAR narrative should provide a clear, concise, and complete description of the suspicious activity and explain why the activity is suspicious. It should identify the subjects and their relationships to the bank and the activity, describe relevant transaction dates and amounts, and provide sufficient detail for law enforcement or regulators to understand the pattern or suspected violation.

The narrative should also identify relevant accounts, locations, instruments, and methods used, as applicable. Banks should avoid conclusory statements unsupported by facts and should ensure that the narrative is consistent with supporting documentation retained by the institution. A SAR should not be disclosed to the subject of the report. See 12 CFR § 21.11 and the FFIEC BSA/AML Examination Manual.

QUESTION NO: 29

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

ANSWER: A B

Explanation:

Reduced documentation in mortgage underwriting is a recognized risk associated with nontraditional mortgage products. The federal banking agencies' Interagency Guidance explains that these products may involve increased risk when underwriting relies on limited verification of a borrower's income, assets, employment, or other repayment-capacity information. This concern is especially important when reduced documentation is combined with other risk features, such as payment-option structures, interest-only payments, high loan-to-value ratios, or simultaneous second-lien financing. Sound risk management therefore requires a bank to establish clear underwriting standards for any reduced-documentation program, identify the circumstances in which more verification is required, and ensure that underwriting evaluates a borrower's ability to repay according to the loan's fully indexed rate and repayment terms rather than an initially discounted payment. Policies should be sufficiently specific to prevent exceptions from becoming routine and should provide stronger documentation requirements as credit risk increases. The identical reduced-documentation statements each accurately describe this underwriting and risk-layering concern. See the agencies' Interagency Guidance on Nontraditional Mortgage Product Risks and the FDIC's Financial Institution Letter on the Guidance.

QUESTION NO: 30

First National Bank is attempting to determine which of the following customers would qualify as exempt persons: • Nationwide Foods, Inc., is a national company with stock listed on the New York Stock Exchange

• National Paper Products, is a wholly owned subsidiary of Nationwide Foods, Inc.

• Products Incorporated, a depositor for three months, is a regional company whose stock is designated a NASDAQ Capital Markets Company and that sells and leases large boats

• Century Enterprises, a local company owning several local restaurants, is a longtime bank customer and frequently makes deposits in excess of $10,000. All of Century's stock is owned by alocal family. Which of these customers would qualify as an exempt person?

A. All except for Nationwide Foods, Inc.

B. All except for National Paper Products

C. All except for Century Enterprises

D. All except for Products Incorporated

ANSWER: D

Explanation:

All except for Products Incorporated is correct. Nationwide Foods, Inc. qualifies because an entity whose common stock is listed on the New York Stock Exchange is an exempt person. National Paper Products also qualifies because it is wholly owned by that listed entity; the exemption extends to a subsidiary that is at least 51 percent owned by a listed entity. Century Enterprises may qualify as an eligible non-listed business because it is an established, non-publicly traded business customer that frequently engages in transactions requiring currency transaction reports, assuming the bank completes the required designation and monitoring procedures. In contrast, the question's description of Products Incorporated places it outside the qualifying listed-entity category used for this exemption and identifies it as a business selling and leasing boats, an activity subject to the regulatory limitations applicable to non-listed-business exemptions. The bank must document the basis for each designation, file a Designation of Exempt Person report when required, and conduct the periodic review required by its Bank Secrecy Act compliance procedures. The applicable exempt-person categories and limitations are set out in 31 CFR 1020.315. FinCEN's BSA guidance resources also support applying the exemption only after the institution has established that the customer fits the applicable regulatory category.

QUESTION NO: 31

State National Bank is a $250 million community bank. It makes a variety of consumer and commercial loans, regularly transmits funds via wire transfers for its customers, and issues commercial and stand-by letters of credit. Which of the following transactions can State National make without checking the OFAC SDN list and without incurring liability?

A. Send a wire transfer via its correspondent bank in New York for a commercial customer.

B. Sell a cashier's check payable to a third party.

C. Cash an on-us check over-the-counter for a noncustomer.

D. None. The bank can be liable for all.

ANSWER: D

Explanation:

None. The bank can be liable for all. is correct because OFAC sanctions compliance applies to all U.S. persons, including banks, and potential exposure is not limited to international wires or to transactions involving established customers. A bank may incur liability if it processes a prohibited transaction or deals in property in which a blocked person has an interest. This can arise when transmitting a wire through a correspondent bank, issuing a cashier's check payable to a third party, or cashing an on-us item for a noncustomer. In each circumstance, names and other payment information can reveal a sanctioned party or a party acting for one.

OFAC administers sanctions programs under which U.S. financial institutions must block property and reject transactions when required. Its enforcement framework is generally one of strict liability: a violation can result in civil liability even if the institution did not know, or have reason to know, that it was engaging in a prohibited transaction. Accordingly, a community bank needs risk-based controls capable of identifying potential sanctions matches across relevant products, payment flows, parties, and transaction stages; it cannot treat any of these transaction types as categorically exempt from OFAC screening or related due diligence. See OFAC's FAQ on strict liability and its Framework for OFAC Compliance Commitments.

QUESTION NO: 32

A bank's complaint-management program should include which of the following controls?

A. Capture complaints received through the bank, third parties, and regulatory channels

B. Analyze complaint trends and root causes

C. Document corrective action and validate remediation where appropriate

D. Exclude oral complaints unless the consumer submits a signed affidavit

ANSWER: A B C

Explanation:

An effective complaint-management program should capture complaints from all relevant sources, including complaints received directly by the bank, through third parties, and through regulatory channels. Complaints should be categorized and analyzed for trends, root causes, potential consumer harm, and possible legal or regulatory violations. Material issues should be escalated to appropriate management and, when necessary, the board or a board committee.

The program should also document investigation results, consumer responses, corrective actions, responsible owners, and validation of remediation. A complaint process that measures only the number of complaints, without evaluating allegations and underlying causes, may fail to identify systemic compliance risks. The CFPB describes complaint handling as an important component of a supervised institution's compliance-management system. See the CFPB's Supervision and Examination Manual.

QUESTION NO: 33

First National Bank receives a notice from the IRS to begin withholding 28 percent of the interest payments on the money market savings account of Myra Wilcox because of payee underreporting. What is the most proper action for First National Bank to take?

A. Send a notice to Ms. Wilcox within 15 days of the receipt of the IRS notice and begin withholding; stop withholding if Ms. Wilcox can prove to the bank that she is not underreporting

B. Begin withholding and send a notice to Ms. Wilcox within 15 days of beginning the withholding; stop withholding only on written notice from the IRS

C. Begin withholding with the first payment after 30 days and send a notice to Ms. Wilcox at least 15 days before the first payment from which funds are to be withheld; stop withholding only on written notice from the IRS

D. Send notice to Ms. Wilcox within 15 days of the receipt of the IRS notice and begin backup withholding with the first payment following 30 days after the notice; stop withholding only on written notice from the IRS

ANSWER: D

Explanation:

Send notice to Ms. Wilcox within 15 days of the receipt of the IRS notice and begin backup withholding with the first payment following 30 days after the notice; stop withholding only on written notice from the IRS is correct. An IRS notice issued because a payee has underreported interest or dividend income directs the payer to impose backup withholding under Internal Revenue Code section 3406. The bank must give the payee the required written notification promptly after receiving the IRS notice. It then begins backup withholding on reportable payments made after the applicable 30-day period following receipt of the notice. This timing gives the payer a defined compliance process while ensuring withholding begins as required by the IRS directive. The depositor's own assertion or documentation to the bank does not authorize the bank to end withholding. Once withholding is required pursuant to an IRS underreporting notice, the bank continues until the IRS sends written authorization or instruction to stop. The stated 28 percent rate reflects the rate applicable when this question was written; the procedural requirements concerning notice, commencement, and termination are the key compliance points. IRS Publication 1281 discusses payer responsibilities for backup withholding notices and timing, and Internal Revenue Code section 3406 establishes the statutory backup-withholding framework. See IRS Publication 1281 and 26 U.S.C. § 3406.

QUESTION NO: 34

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 a 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

ANSWER: D

Explanation:

"A statement of maintenance responsibilities including the counter bank responsible and a description of the responsibility" is the exception because it does not state the Consumer Leasing Act/Regulation M maintenance disclosure requirement accurately. For a consumer lease, the required disclosure is a statement of *whether the lessee is responsible for maintaining or servicing the leased property*, together with a brief description of that responsibility. The regulation does not contemplate a "counter bank" as the responsible party in this disclosure. Maintenance responsibility is relevant to a lease's required disclosures, but the disclosure must identify the lessee's responsibility in the manner prescribed by Regulation M; it cannot substitute an unrelated entity or terminology. The rule helps consumers understand the practical obligations they assume during the lease term, such as required servicing, upkeep, or maintenance. Regulation M permits non-segregated disclosures to appear separately or within the lease agreement, provided that additional information does not mislead or confuse the consumer. See 12 CFR § 1013.3 for the format and placement rule and 12 CFR § 1013.4 for the required consumer-lease disclosures, including maintenance responsibilities.

QUESTION NO: 35

When a financial institution receives a timely notice of error under Regulation E, the institution's error-resolution responsibilities include:

A. Investigating promptly and determining whether an error occurred within 10 business days, unless an applicable extension is used

B. Reporting investigation results to the consumer within three business days after completing the investigation

C. Correcting a confirmed error within one business day after determining that an error occurred

D. Closing the consumer's account before investigating the asserted error

ANSWER: A B C

Explanation:

Regulation E generally requires a financial institution to investigate an asserted error promptly and determine whether an error occurred within 10 business days after receiving notice. The institution must report the results of its investigation to the consumer within three business days after completing the investigation. If the institution determines that an error occurred, it must correct the error within one business day after making that determination.

The institution may take additional time in specified circumstances if it provisionally credits the consumer's account within the required time frame, subject to the regulation's conditions. It may also require written confirmation of an oral error notice if the institution informs the consumer of that requirement and the consumer fails to provide confirmation within 10 business days. See 12 CFR § 1005.11 and the CFPB's Regulation E error-resolution guidance.

QUESTION NO: 36

In Receiver's agreement-12 CFR 210.28 it is clearly mentioned that:

A. Receiving bank authorizes the Reserve Bank to credit the receiving bank's account

B. An off-line bank warrants to the Reserve Bank that it does not act as an intermediary bank or a beneficiary's bank for payment orders received for a beneficiary that is a bank, unless the offline bank notifies the Reserve Bank in writing

C. A Reserve Bank has rights of a creditor to recover an overdraft, including the right of set off

D. Reserve Banks, when acting as beneficiary's bank, payment order that identifies the beneficiary

ANSWER: A B

Explanation:

Under 12 CFR 210.28, a receiving bank that receives a Fedwire payment order agrees to authorize the applicable Federal Reserve Bank to credit the receiving bank's account for the amount of that payment order. This authorization is a core operational element of the Regulation J funds-transfer framework: the Reserve Bank effects settlement through entries in the accounts it maintains for participating institutions. The statement that the receiving bank authorizes the Reserve Bank to credit the receiving bank's account accurately reflects this agreement.

The provision also contains a specific warranty for an off-line bank. An off-line bank warrants that it will not act as an intermediary bank or a beneficiary's bank for payment orders received for a beneficiary that is itself a bank, unless it has notified the Reserve Bank in writing. This supports the Reserve Bank's ability to identify and manage the operational and settlement arrangements applicable to institutions that are not on-line participants. Both statements track express agreements and warranties in the regulation. The authoritative text is available at 12 CFR 210.28 on eCFR. The Federal Reserve's Regulation J overview is also available at Federal Reserve Regulation J information.

QUESTION NO: 37

When returning items to a Reserve Bank, the paying and returning banks:

A. Cannot disclaim the warranties, authorizations, and agreements whether or not the returned check bears an endorsement of the paying bank or returning bank

B. Authorize the Reserve Bank to handle the item in accordance with Regulation J and the operating circulars

C. Warrant that the check bears all endorsements applied by all parties that handled the check in paper or electronic form

D. will not be liable for the failure of a paying bank, collecting bank, or a nonbank payer to pay for an item

ANSWER: A B C

Explanation:

When a paying bank or returning bank sends a returned check to a Federal Reserve Bank, the bank is treated as a sender under the Reserve Banks' collection rules. It therefore makes the applicable warranties, authorizations, and agreements even if it does not place its own endorsement on the returned check. This prevents a bank from avoiding sender obligations simply by returning an item without a physical or electronic endorsement.

The act of sending the item also authorizes the Reserve Bank to handle it under Regulation J and the applicable Reserve Bank operating circulars. Those rules establish the terms governing collection, return, payment, settlement, and the parties' rights and responsibilities. In addition, the sender warrants that the check bears all endorsements applied by parties that handled it in paper or electronic form. This supports the reliability of the item's chain of handling and enables the Reserve Bank and subsequent parties to rely on the item and its associated endorsements during return processing.

These obligations are stated in the Federal Reserve Banks' collection operating circular and operate alongside Regulation J's framework for items handled by Reserve Banks. See Federal Reserve Operating Circular 3 and 12 CFR Part 210 (Regulation J).

QUESTION NO: 38

In evaluating the coverage of a bank's Regulation U compliance for loans to purchase or carry margin stocks, which of the following securities is NOT covered in the regulatory definition of "margin stock"?

A. Any OTC stock

B. A security issued by an investment company that is licensed under the Small Business Administration Act

C. A warrant or right to subscribe to, or purchase, a margin stock

D. An equity security registered, or having unlisted trading privileges, on a national exchange

ANSWER: B

Explanation:

A security issued by an investment company that is licensed under the Small Business Administration Act is not "margin stock" under Regulation U. The Federal Reserve's Regulation U definition generally encompasses specified exchange-traded equity securities, qualifying over-the-counter securities, securities convertible into margin stock, rights or warrants to acquire margin stock, and securities issued by investment companies registered under the Investment Company Act of 1940. However, the regulation expressly excludes securities issued by an investment company that is licensed under the Small Business Administration Act. This exception is important when a bank determines whether a credit is subject to Regulation U's purpose-statement, collateral-value, and maximum loan-value requirements. Compliance staff should identify the issuer's status and confirm whether it holds the relevant Small Business Administration license rather than relying solely on a security's general investment-company characteristics. The controlling definition appears in 12 CFR 221.2, which states that qualifying investment-company securities are margin stock except for those issued by a company licensed under the Small Business Administration Act. See the eCFR text of 12 CFR 221.2 and the Federal Reserve's Regulation U overview.

QUESTION NO: 39

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

ANSWER: A B D

Explanation:

Compliance professionals mitigate regulatory risk by maintaining awareness of proposed regulatory changes, analyzing final requirements, and prioritizing the resulting compliance response. "Track regulatory proposals" is essential because proposals can signal forthcoming obligations and allow the institution to begin impact analysis, identify affected products or processes, and prepare stakeholders before a rule becomes final. "Implementing final regulatory rules" is also a core compliance responsibility once a final requirement is applicable: interpretation must be translated into operational changes, controls, policies, procedures, training, monitoring, and governance as appropriate. "Ranking solutions as high, moderate and low risk" supports a risk-based approach by helping management focus resources and escalation on the most significant exposure and on remediation options that best address the regulatory requirement. These activities connect regulatory intelligence and interpretation to practical risk mitigation and implementation. The Federal Reserve describes the importance of risk-focused compliance management and oversight in its Compliance Risk Management resources. The CFPB's Compliance Resources likewise provides regulatory materials institutions use to identify and implement applicable requirements.

QUESTION NO: 40

A bank municipal securities dealer has 30 employees in its municipal securities operation. How many municipal securities principals must it have?

A. At least one

B. At least three

C. No more than five

D. At least two

ANSWER: B

Explanation:

At least three is correct. MSRB Rule G-3 establishes minimum municipal securities principal staffing according to the number of associated persons engaged in a dealer's municipal securities activities. For an operation with 21 through 30 associated persons, the dealer must designate at least three qualified municipal securities principals. Therefore, an operation with 30 employees falls at the top of that staffing tier and requires three principals.

A municipal securities principal is a person who has satisfied the applicable qualification requirements and is responsible for supervisory functions within the municipal securities business. The numerical requirement helps ensure that supervisory coverage grows with the size of the operation, so supervisory duties are assigned to appropriately qualified individuals rather than concentrated in an insufficiently staffed principal structure. In applying the rule, the bank should ensure that the counted personnel are associated persons engaged in municipal securities activities and that each designated principal maintains the required registration and qualification status. The governing principal-coverage requirements appear in MSRB Rule G-3. Federal banking-agency regulations also require bank municipal securities dealers to meet applicable MSRB qualification and supervisory standards; see 12 CFR Part 368.

QUESTION NO: 41

For HMDA purposes, the term “dwelling” does NOT include which of the following?

A. Timeshares

B. Single family dwellings

C. Individual condominiums

D. Mobile homes not attached to real property

E. Recreational vehicles

ANSWER: E

Explanation:

For HMDA purposes, “Recreational vehicles” is correct because Regulation C defines a dwelling as a residential structure, whether or not it is attached to real property, but specifically excludes a recreational vehicle and a houseboat. This distinction focuses on the nature of the property rather than whether it is permanently affixed to land. The Official Interpretations to Regulation C expressly state that the term dwelling includes an individual condominium unit, a cooperative housing unit, and a mobile or other manufactured home. Thus, a mobile home can qualify even when it is not attached to real property. The CFPB’s HMDA materials also treat timeshare properties as dwellings when they are residential structures, so the ownership arrangement does not itself remove the property from HMDA coverage. Correctly identifying whether collateral is a dwelling is important because it is a foundational element in determining whether a transaction is a covered loan or application under HMDA and Regulation C. See the CFPB’s regulatory definition at 12 CFR 1003.2(f) and the accompanying Official Interpretations to section 1003.2(f).

QUESTION NO: 42

There is no error in an error in EFT when there is situation as:

A. The reversal of a direct deposit made in error is not considered an unauthorized EFT if the deposit was made to the wrong customer’s account, a duplicate was made to the customer’s account, or a credit was made in the wrong amount

B. A request for duplicate copies of statements

C. The failure to receive a receipt from an electronic terminal when the transaction amount is $25 or more

D. A request for information for tax or recordkeeping purposes

ANSWER: A B D

Explanation:

Under Regulation E, certain events are specifically excluded from the definition of an “error” for purposes of a financial institution’s error-resolution duties. The reversal of a direct deposit made in error is not an unauthorized EFT when the deposit went to the wrong consumer’s account, was duplicated, or was made in an incorrect amount. This recognizes that the institution is correcting an erroneous credit rather than initiating an unauthorized transfer.

A request for duplicate copies of statements is also excluded because it is a documentation request, not an allegation that an electronic fund transfer was unauthorized, incorrect, or improperly processed. Similarly, a request for information for tax or recordkeeping purposes does not constitute a Regulation E error notice. These exclusions allow consumers to obtain records without triggering the formal investigation and resolution process that applies to asserted EFT errors. Regulation E’s error definition and exclusions appear in 12 CFR § 1005.11. The Consumer Financial Protection Bureau’s official commentary to § 1005.11 further addresses what qualifies as an error notice and what information requests are excluded.

QUESTION NO: 43

For a covered closed-end mortgage loan subject to the TRID rule, the Loan Estimate must generally include:

A. Loan amount and interest rate

B. Projected payments and estimated cash to close

C. Estimated loan costs and other costs

D. The final settlement charges after consummation

ANSWER: A B C

Explanation:

The Loan Estimate is designed to provide a consumer with good-faith estimates of key credit terms and closing costs early in the mortgage process. Required content includes the loan amount, interest rate, projected payments, estimated cash to close, and a detailed estimate of loan costs and other costs. These disclosures permit consumers to understand the cost of the transaction and compare mortgage offers.

The Loan Estimate is not a substitute for the Closing Disclosure, which generally must be received by the consumer no later than three business days before consummation. The creditor or mortgage broker must generally deliver or place the Loan Estimate in the mail no later than the third business day after receiving the consumer's application and not later than the seventh business day before consummation. See 12 CFR § 1026.37 and 12 CFR § 1026.19.

QUESTION NO: 44

First National Bank does not have the TINs of several borrowers with mortgage loans. What should the bank do to fulfill the mortgage interest reporting regulations?

A. Mail a one-time request for TINs by certified mail to each borrower who has failed to provide one

B. Post a notice in its mortgage lending lobby that TINs are required for mortgage loans

C. Mail a separate request for TINs annually to borrowers who have failed to provide one

D. Include a request for TINs in the annual mailing of the payment coupon book

ANSWER: D

Explanation:

Include a request for TINs in the annual mailing of the payment coupon book is correct because mortgage-interest reporting rules require a payor to make reasonable, documented solicitations for a borrower's taxpayer identification number when it is missing. A written request placed in a routine annual borrower mailing, such as a payment coupon book, is an effective annual solicitation method. It gives the borrower a clear opportunity to provide the missing TIN while allowing the bank to demonstrate that it took the required steps to obtain information needed for Form 1098 reporting.

The solicitation should be conspicuous and should clearly request the borrower's TIN. The bank should retain records showing when and how the request was sent, as those records support its compliance efforts if the TIN remains unavailable when the mortgage interest information return is filed. The IRS instructions for Form 1098 describe the reporting framework for mortgage-interest recipients, and the Treasury regulations governing information-reporting penalties address solicitation efforts and reasonable-cause standards for missing TINs. See the IRS Instructions for Form 1098 and 26 CFR § 301.6724-1.