

**Credit**

**Question 1** Which of the following is considered to be open-end credit?

Answer A A mortgage.

Answer B A car loan.

Answer C Department store charge cards.

Answer D Installment loans.

## Question 1

Correct Answer

C

Reason

Open-end credit is a revolving line of credit that is offered by banks and other lenders to consumers. There is a limit set on the line of credit and the funds, products or services are accessed using a credit or debit card, check, store charge card or cash advance.

Consumers pay interest on the outstanding balance. A car loan is made for a specified amount and a specific length of time and is therefore considered closed-end credit. A mortgage loan is also considered a form of closed-end credit since the house serves as collateral for the loan which is made at a specified interest rate for a specified time period.

**Question 2**      What is meant by an uncollateralized loan?

Answer A      A loan not backed by a co-signer who agrees to cover the amount of the loan.

Answer B      A personal loan without assets to cover the loan amount.

Answer C      A home equity loan.

Answer D      A loan taken on a life insurance policy.

## Question 2

Correct Answer

B

Reason

?Collateral? is a tangible asset that is used to secure a loan. In the case of a mortgage, the actual house or apartment serves as the collateral for that loan. The same is true of a car loan. If the person who takes the loan, defaults on that loan, the bank or other lending agency has the right to keep the collateral. Therefore, an ?uncollateralized loan? is one that does not have an asset to support the loan.

**Question 3**      When a person declares bankruptcy that fact will appear on the person's credit report

Answer A      for a 3 year period.

Answer B      for a 10 year period.

Answer C      until the person repays all debts owed.

Answer D      until the person is able to receive a new credit card.

### **Question 3**

Correct Answer

**B**

Reason

Most of the adverse information on a credit report appears for 7 years. After a declared bankruptcy, the limit is 10 years.

**Question 4** To qualify for a Federal Housing Administration (FHA) loan, a person must generally

Answer A have at least a high school diploma.

Answer B have one-quarter of the cost of the home for a down-payment.

Answer C fulfill income guidelines.

Answer D provide two individuals to co-sign the loan.



## Question 4

Correct Answer

Reason

C

The Federal Housing Administration (FHA) insures lenders who make mortgage loans that are riskier than regular bank loans because FHA loans are made to individuals who usually would not qualify for regular low-cost mortgages from banks (usually first-time home buyers with lower income and a weaker credit score). The objective of this federal agency is to encourage home ownership while helping to protect the lenders at the same time.

**Question 5**

When a person brings an item to a pawnshop to obtain cash, the transaction is considered

Answer A a collateralized loan.

Answer B a custodial payment.

Answer C an unsecured loan.

Answer D a sales agreement.

## Question 5

Correct Answer

A

Reason

Since pawnshops make loans based on determining the value of collateral (a tangible object such as jewelry, cameras, musical instruments) they receive, the loan is considered a collateralized loan.

**Question 6**

A person has three credit cards with very large outstanding balances and is unable to make payments on any of them. Which action should the person take?

Answer A    Notify a credit reporting agency in order to avoid a late fee.

Answer B    File for bankruptcy in order to maintain ones current credit score.

Answer C    Notify the credit card companies in order to negotiate a new payment plan.

Answer D    Contact the Internal Revenue Service in order to avoid paying income tax this year.

## Question 6

Correct Answer

C

Reason

When experiencing financial difficulties, the first action to take is to notify creditors, in this case the three credit card companies. Quite often the company will assist in negotiating new terms.

**Question 7**      Predatory lending practices do not include which of the following:

Answer A      A creditor knocking on your door and agreeing to refinance your mortgage without looking at your credit history

Answer B      An individual agreeing to a high cost loan with excessive fees

Answer C      A lender who expects a loan to be refinanced when you are unable to make payments

Answer D      A loan that you can afford with an interest rate that is the same as the interest rate being charged by at least three other financial institutions

## Question 7

Correct Answer

Reason

D

Predatory lending uses abusive practices in any type of credit but the lenders primarily target applicants for home mortgages, home equity, and home refinancing loans. This practice tends to occur in low-income neighborhoods, particularly those with a large number of elderly or minority homeowners who have a poor credit history, or need cash quickly. These lenders use deceptive advertising and high pressure salespeople and give repayment terms that the borrower cannot afford.

**Question 8**

A savings account earns the greatest amount of money when the interest on the account is compounded

Answer A    yearly.

Answer B    quarterly.

Answer C    monthly.

Answer D    daily.



## Question 8

Correct Answer

D

Reason

The most interest is earned on an account when there is daily compounding. If you have \$100 in the bank at a 05% rate of interest and the interest is compounded yearly, you will have \$105 at the end of the year. If the interest is compounded daily, the \$100 earns 1/365th of the interest on day one; however, day two the interest is compounded not on the \$100 but on \$100 plus the interest earned the first day (it may only be slightly more than a penny but it adds up). Obviously, the greatest benefit of daily compounding is realized by those with larger amounts of money on deposit.

## Question 9

If you have been denied credit, a job, a license, an insurance policy, or a loan based on your credit report. You are entitled to receive a free copy of that credit report within how many days of denial?

Answer A 30

Answer B 60

Answer C 90

Answer D There is no time limit

## Question 9

Correct Answer

B

Reason

You must write or call requesting a free credit report from the credit bureau that supplied the report that was the basis of denial within 60 days of the denial. At other times, you can be charged a reasonable fee (usually \$8) to buy a credit report. If you want your credit

**Question 10** Collateral is:

**Answer A** Something of value that secures a loan to protect the lender

**Answer B** Something that explains your net worth

**Answer C** A form of credit

**Answer D** Required for all loans

**Question 10** Redlining is characterized by a lender who denies a loan:

Answer A Based on the customer's ability to repay

Answer B Because of a customer's age

Answer C To customers applying for a loan over a certain dollar amount

Answer D To customers living in certain geographic areas

## Question 10

Correct Answer

D

Reason

Redlining is a form of discrimination in granting loans, insurance coverage, or other financial benefits. Lenders or insurers, who practice redlining, "draw a red line" around a troubled area of a city and vow not to lend or insure property in that neighborhood because of poor economic conditions and high default rates. Congress has enacted legislation such as the Community Reinvestment Act, which forces banks to lend to under-privileged areas, to combat redlining.

## Question 7

A company offers direct deposit of employees' earnings. The company will still provide each employee with a statement that lists the employee's

Answer A gross pay only.

Answer B net pay only.

Answer C gross pay and the amount and type of deductions only.

Answer D gross pay, the amount and type of deductions and net pay.

## Question 7

Correct Answer

Reason

D

Employees who take advantage of a direct-deposit program for depositing their pay checks still receive a complete payroll statement at the end of each pay period. These statements indicate gross and net pay, deductions for items such as taxes and company retirement savings plans as well as earnings to date. Health insurance as well as payroll taxes are also shown on the statement.



**Question 8** How can you protect yourself against credit card fraud?

**Answer A** Do not give personal information when applying for a credit card.

**Answer B** Be extremely careful about disclosing account information to unsolicited callers.

**Answer C** Avoid using your credit card in department stores

**Answer D** Call the credit card company to put them on alert when you are concerned

## Question 8

Correct Answer

B

Reason

Preventive measures are always the best safeguard. Potential credit issuers need to know some personal information in order to learn about your credit history and determine your credit-worthiness. Information is power; keep yours secure, and give it out only when you make the call.

**Question 9**      Victims of predatory lending practices are typically:

Answer A      Consumers who are financially literate

Answer B      Consumers who have a good credit history

Answer C      The elderly and people with a poor credit history

Answer D      Borrowers in wealthy communities

## Question 9

Correct Answer

Reason

C

Predatory lending uses abusive practices in any type of credit but the lenders primarily target applicants for home mortgages, home equity, and home refinancing loans. This practice tends to occur in low-income neighborhoods, particularly those with a large number of elderly or minority homeowners who have a poor credit history, or need cash quickly. These lenders use deceptive advertising and high pressure salespeople and give repayment terms that the borrower cannot afford.

**Question 10**

Maxine has an auto loan that she has to pay. She will make monthly payments over five years. She has a(an):

Answer A Unsecured loan

Answer B Non-installment loan

Answer C Balloon payment loan

Answer D Installment loan

## Question 10

Correct Answer

D

Reason

An installment loan is one that you pay back in monthly payments for one or more years. John's loan is a ten-year loan. If a loan is paid back in one payment, it is called a non-installment loan.

**Question 7** Claire got a new credit card from American Bank and wants to cancel her USA credit card. The best method is to dispose of her USA credit card is to:

**Answer A** Put it in the garbage; the credit company will know she's closing the account when she doesn't use her card

**Answer B** Cut up the card and put parts in different garbage bags

**Answer C** Cut up the card, put parts in different garbage bags, and instruct the credit card company in writing or by phone to close the account

**Answer D** It doesn't matter how she disposes of the credit card if she instructs the credit card company to close the account

## Question 7

Correct Answer

C

Reason

People trying to use other people's credit accounts often go through the garbage to find credit cards and credit account statements, called "dumpster diving." They then use the credit card or account number to buy items using the victim's credit account.



**Question 9**

When you mail your credit card payment on the due date, your payment will be considered:

Answer A Late, and the company will assess you a late fee

Answer B On time as long as the postmark is on or before the due date

Answer C Late, but the company will not assess a fee

Answer D On time, because you paid it within the five-day grace period.

## Question 9

Correct Answer

A

Reason

A credit card payment is considered to have been made on the date the payment is posted to the account, not when it is mailed. Since it takes several days for the payment to reach the creditor and go through the posting process, your payment would not be posted to your account "by" the due date and thus would be a late payment.

## Question 10

Ms. Jackson contacted a mortgage company about refinancing her mortgage. The mortgage company gave her a home loan with unusually high costs and without regard to her ability to repay. This practice is called:

- Answer A Redlining
- Answer B Low-income lending
- Answer C Predatory lending
- Answer D Consumer lending

## Question 10

Correct Answer

C

Reason

Predatory lending uses abusive practices in any type of credit but the lenders primarily target applicants for home mortgages, home equity, and home refinancing loans. This practice tends to occur in low-income neighborhoods, particularly those with a large number of elderly or minority homeowners.

**Question 7** You can continue to charge purchases on your credit card when:

**Answer A** The amount you owe on this credit card is above your credit limit.

**Answer B** Your payments are always received by the due date.

**Answer C** The amount you owe on the card is below your credit limit.

**Answer D** You can afford the monthly repayments.

## Question 7

Correct Answer

C

Reason

When the credit card account balance is greater than the credit limit, the consumer cannot charge anymore on the card because that would be more credit than he was approved.

**Question 8** Which of the following lenders charge the highest interest rate?

Answer A Bank

Answer B Credit union

Answer C Pawn shop

Answer D Finance company

## Question 8

Correct Answer

C

Reason

Pawnshops accept items that have a market value as collateral on cash loans given to customers. If the customer does not pay back the loan principal and interest in a specified period, the pawnshop has the contractual right to sell the item. Because pawnshops do not evaluate the debtor's credit-worthiness, they charge extremely high interest rates usually to debtors with bad credit records who could not get a cash loan at traditional financial institutions.



**Question 9**      One example of a long-term retirement goal is to

Answer A      end the use of credit cards.

Answer B      close savings accounts.

Answer C      deposit at least \$100,000 in a retirement account.

Answer D      invest in high risk securities.

## Question 9

Correct Answer

C

Reason

Long-term goals are considered those that one needs to plan for as something that is more than five years away. Planning for retirement is considered a long-term goal. One way to accomplish this goal is to start saving money in a retirement account; either through work or through a personal investment program such as an IRA (or both). Money designated for retirement should not be invested in high-risk securities.

**Question 10**

Judi and Phil had a joint VISA credit card while they were married. They are now divorced. Who is responsible for the balanced owed on the VISA card?

Answer A Both Judi and Phil

Answer B Phil since he is has a full time job

Answer C Neither Phil nor Judi because they are now divorced

Answer D The credit card company

## Question 10

Correct Answer

A

Reason

The creditor can collect from Judi or Phil. They are both legally responsible for paying off the joint account.

**Question 7**     A credit card finance charge is:

Answer A     The sales tax

Answer B     The cost of the items purchased

Answer C     The dollar amount it costs to use credit

Answer D     A service fee

## Question 7

Correct Answer

C

Reason

The finance charge is the cost of credit in dollars. It is calculated on a credit card's unpaid balance. A finance charge, the cost of having the debt a longer time, is added to the outstanding credit card balance.

**Question 8**

Josh is shopping for a car loan. A friend told him to compare the actual cost of the loan for one year expressed as a percentage from three banks. He needs to ask for the:

- Answer A Finance charge percentage
- Answer B Annual percentage rate (APR)
- Answer C Credit insurance percentage
- Answer D Finance percentage

## Question 8

Correct Answer

B

Reason

The true cost of credit expressed as a percentage is the Annual Percentage Rate (APR), while the finance charge is the cost of credit expressed in dollars and is used in calculating the APR.



### **Question 9**

Dawn graduated from high school and wants to get a credit card. How can Dawn establish credit-worthiness?

- Answer A** Getting a charge account with a low credit limit and paying the bills when possible
- Answer B** Opening a checking account, making regular deposits, and avoiding penalties for insufficient funds
- Answer C** Getting a small loan with a cosigner and have the co-signer repay
- Answer D** Borrowing money from friends and relatives

## Question 9

Correct Answer

B

Reason

To establish credit-worthiness, Dawn must have credit and use it responsibly. Creditors will only give new debtors small amounts of credit because creditors cannot tell whether the applicant is likely to use the credit responsibly. Having a checking account in good standing helps you to establish a record of being responsible.

**Question 10** Consumers who file for bankruptcy are still responsible for:

Answer A Mortgage loans

Answer B Credit card balances

Answer C Tax claims and student loans

Answer D Car loans

## Question 10

Correct Answer

C

Reason

Types of debts that are not discharged by a bankruptcy include some tax claims, alimony, child support, most student loans, claims for punitive damages for malicious or reckless acts such as driving under the influence (DUI), and state and federal income taxes.

**Question 7** Which factor would most likely lead to an increase the interest rate on a person's credit card?

Answer A Number of purchases.

Answer B Late payments.

Answer C Total amount charged.

Answer D Number of cash advances.

## Question 7

Correct Answer

B

Reason

Before setting interest rates, credit card companies look at the individual's capacity to repay outstanding obligations. If the capacity is limited then the person is likely to make late payments.

**Question 8**

Stephanie has several open department store credit charge cards that she has not used in two years. There are no credit balances on any of the accounts. The effect these charge cards may have on her application for a loan or mortgage is:

- Answer A They are open accounts that she could use, will be considered in any application for credit, and could make it difficult for her to get a loan or mortgage.
- Answer B They are sometimes closed by the department store so it they have no effect on her credit report.
- Answer C They are open accounts but they will not adversely affect her credit report because she has not used them for so long.
- Answer D They are department store credit cards that are not included on a credit report.

## Question 8

Correct Answer

Reason

A

Stephanie's credit card accounts are still open because she has not directed the creditor to close the accounts. Stephanie could use these open accounts, and they will be considered in any application for credit. If the maximum credit on the unused accounts together with the maximum credit on her active accounts add up to more than she is likely to be able to pay, it could be difficult for her to get a loan or mortgage. She should close unused credit cards. Some creditors automatically close a credit account if it has not been used for a specific period of time, usually a three-year minimum.



### **Question 9**

Jane opened her credit card bill and was surprised by the amount she owed. She cannot pay the full amount of the bill this month. The lowest dollar amount Jane is required to pay by the credit card company is the:

Answer A Monthly fee payment

Answer B Principal payment

Answer C Minimum payment

Answer D Interest payment

## Question 9

Correct Answer

C

Reason

The minimum payment is a percentage of the unpaid balance and is set by the credit card company. The minimum payment must be paid each month to avoid negative information from being sent to the credit bureau.

**Question 10**      What is a credit score?

**Answer A**      A number used to determine how much credit to extend to a person.

**Answer B**      A measure used to indicate a person's gross wealth.

**Answer C**      A reward system that is based on the number of credit cards a person has.

**Answer D**      A formula based solely on a person's earnings.

## Question 10

Correct Answer

A

Reason

A credit score is a method used by credit grantors to determine the amount of credit to grant an applicant. A higher, good, score is achieved by paying bills on time, paying total balances on charge or credit cards, making loan payments on time, and, not having outstanding debt beyond one's ability to pay.

**Question 7**      **Consumer Credit Counseling Services (CCCS) offer:**

**Answer A**      **Retirement plans**

**Answer B**      **Debt repayment plans**

**Answer C**      **Stocks and bonds**

**Answer D**      **Insurance policies**

## Question 7

Correct Answer

B

Reason

There are hundreds of local Consumer Credit Counseling Services (CCCS) across the country that counsel people about how to get out of debt and manage their money. They also work out debt repayment plans with a consumer's creditors in which the consumer gives CCCS part of each paycheck to pay creditors.

**Question 10** Redlining is characterized by a lender who denies a loan:

Answer A Based on the customer's ability to repay

Answer B Because of a customer's age

Answer C To customers applying for a loan over a certain dollar amount

Answer D To customers living in certain geographic areas

## Question 10

Correct Answer

D

Reason

Redlining is a form of discrimination in granting loans, insurance coverage, or other financial benefits. Lenders or insurers, who practice redlining, "draw a red line" around a troubled area of a city and vow not to lend or insure property in that neighborhood because of poor economic conditions and high default rates. Congress has enacted legislation such as the Community Reinvestment Act, which forces banks to lend to under-privileged areas, to combat redlining.



**Question 8** When a borrower fails to repay a loan and there is a co-signer on the loan, the most likely result will be

Answer A The co-signer will be held responsible for the repayment of the entire loan plus fees or penalties.

Answer B Only the co-signer's credit report will show that there has been a default on the loan.

Answer C The co-signer will be held responsible for one-half the repayment of the loan.

Answer D The co-signer has the opportunity to renegotiate the loan.

## Question 8

Correct Answer

A

Reason

If the borrower does not pay the debt, the co-signer has the obligation to pay it.

**Question 10** To improve an UNFAVORABLE credit rating, a person should

Answer A pay bills on time.

Answer B apply for more credit.

Answer C increase the number of payroll deductions.

Answer D open a checking account.

## Question 10

Correct Answer

Reason

A

To have a good credit rating is a valuable asset. To obtain a good credit rating a person should limit borrowing (charging) to the person's capacity to repay the amount borrowed (monthly balances). Paying bills on time shows this principle in action.