

BANKING PRACTICE EXAM (SAMPLE)

STUDY GUIDE



SAMPLE STUDY GUIDE WITH LIMITED QUESTIONS

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THE FULL VERSION STUDY GUIDE

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Introduction

Preparing for a certification exam can feel overwhelming, but with the right tools, it becomes an opportunity to build confidence, sharpen your skills, and move one step closer to your goals. At Examzify, we believe that effective exam preparation isn't just about memorization, it's about understanding the material, identifying knowledge gaps, and building the test-taking strategies that lead to success.

This guide was designed to help you do exactly that.

Whether you're preparing for a licensing exam, professional certification, or entry-level qualification, this book offers structured practice to reinforce key concepts. You'll find a wide range of multiple-choice questions, each followed by clear explanations to help you understand not just the right answer, but why it's correct.

The content in this guide is based on real-world exam objectives and aligned with the types of questions and topics commonly found on official tests. It's ideal for learners who want to:

- Practice answering questions under realistic conditions,
- Improve accuracy and speed,
- Review explanations to strengthen weak areas, and
- Approach the exam with greater confidence.

We recommend using this book not as a stand-alone study tool, but alongside other resources like flashcards, textbooks, or hands-on training. For best results, we recommend working through each question, reflecting on the explanation provided, and revisiting the topics that challenge you most.

Remember: successful test preparation isn't about getting every question right the first time, it's about learning from your mistakes and improving over time. Stay focused, trust the process, and know that every page you turn brings you closer to success.

Let's begin.

How to Use This Guide

This guide is designed to help you study more effectively and approach your exam with confidence. Whether you're reviewing for the first time or doing a final refresh, here's how to get the most out of your Examzify study guide:

1. Start with a Diagnostic Review

Skim through the questions to get a sense of what you know and what you need to focus on. Your goal is to identify knowledge gaps early.

2. Study in Short, Focused Sessions

Break your study time into manageable blocks (e.g. 30 – 45 minutes). Review a handful of questions, reflect on the explanations.

3. Learn from the Explanations

After answering a question, always read the explanation, even if you got it right. It reinforces key points, corrects misunderstandings, and teaches subtle distinctions between similar answers.

4. Track Your Progress

Use bookmarks or notes (if reading digitally) to mark difficult questions. Revisit these regularly and track improvements over time.

5. Simulate the Real Exam

Once you're comfortable, try taking a full set of questions without pausing. Set a timer and simulate test-day conditions to build confidence and time management skills.

6. Repeat and Review

Don't just study once, repetition builds retention. Re-attempt questions after a few days and revisit explanations to reinforce learning. Pair this guide with other Examzify tools like flashcards, and digital practice tests to strengthen your preparation across formats.

There's no single right way to study, but consistent, thoughtful effort always wins. Use this guide flexibly, adapt the tips above to fit your pace and learning style. You've got this!

Questions

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- 1. Under FASB 157, Level 2 assets valuation are based on?**
 - A. Observable market prices for the identical instrument
 - B. Observable market prices for similar assets or liabilities
 - C. Management's best judgment of value
 - D. Unobservable inputs
- 2. What is the primary federal regulator of state banks not members of the Fed?**
 - A. FDIC.
 - B. Office of the Comptroller of the Currency.
 - C. Office of Thrift Supervision.
 - D. National Credit Union Administration.
- 3. What are unsecured liabilities that arise from the exchange of immediately available funds called?**
 - A. Federal funds purchased
 - B. Repurchase agreements
 - C. Federal funds sold
 - D. Pledged securities
- 4. What established the Public Company Oversight Board to regulate public accounting firms?**
 - A. Riegle-Neal Interstate Banking and Branching Efficiency Act
 - B. Competitive Equality Banking Act
 - C. Financial Institutions Reform, Recovery and Enforcement Act
 - D. Sarbanes-Oxley Act
- 5. Typically, "call loans" are:**
 - A. Residential mortgages
 - B. Farm loans
 - C. Payable on demand
 - D. Automobile loans

- 6. What area do commercial banks primarily specialize in?**
- A. Mortgages
 - B. Mutual loans
 - C. Short-term business credit
 - D. Savings accounts
- 7. Which account type is the least sensitive to interest rate changes?**
- A. Demand deposits
 - B. Repurchase agreements
 - C. Federal funds purchased
 - D. Jumbo CDs
- 8. Which agency has the authority to oversee the banking practices of a financial holding company?**
- A. Office of the Comptroller of the Currency
 - B. Federal Deposit Insurance Corporation
 - C. Federal Reserve
 - D. Consumer Financial Protection Bureau
- 9. What is the main benefit of securitization?**
- A. Increased liquidity in financial markets.
 - B. Lower interest rates on loans.
 - C. Higher returns on deposits.
 - D. More stringent lending standards.
- 10. What financial structure does a mutual savings bank resemble?**
- A. Commercial bank
 - B. Thrift institution
 - C. Investment bank
 - D. Private equity firm

Answers

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1. B
2. A
3. A
4. D
5. C
6. C
7. A
8. C
9. A
10. B

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Explanations

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1. Under FASB 157, Level 2 assets valuation are based on?

- A. Observable market prices for the identical instrument
- B. Observable market prices for similar assets or liabilities**
- C. Management's best judgment of value
- D. Unobservable inputs

The valuation of Level 2 assets under FASB 157 is determined using observable market prices for similar assets or liabilities. This level of the fair value hierarchy indicates that while the prices are not for identical instruments, they are instead derived from comparable transactions or market data. This approach relies on relevant market information that can provide insights into how similar assets would be valued, thus offering a more accurate reflection of fair value than relying solely on management's assumptions or unobservable data. It ensures that the valuation process considers actual market dynamics, enhancing reliability and reducing subjectivity in setting fair values.

2. What is the primary federal regulator of state banks not members of the Fed?

- A. FDIC.**
- B. Office of the Comptroller of the Currency.
- C. Office of Thrift Supervision.
- D. National Credit Union Administration.

The primary federal regulator of state banks that are not members of the Federal Reserve System is the Federal Deposit Insurance Corporation (FDIC). The FDIC's role includes ensuring the safety and soundness of state-chartered banks that are not part of the Federal Reserve system. It provides deposit insurance to protect depositors and conducts regular examinations and monitoring of these banks to promote stability in the financial system. State banks that are not members of the Federal Reserve are regulated by the state in which they operate, but they also fall under the oversight of the FDIC to ensure they adhere to federal banking regulations, particularly concerning deposit insurance and risk management. This dual regulatory structure ensures a robust framework for the supervision of state banks while safeguarding the interests of depositors. In contrast, the Office of the Comptroller of the Currency focuses on national banks and federal savings associations rather than state banks. The Office of Thrift Supervision was responsible for federal thrift institutions until it was dissolved, with its functions transferred to the OCC and the FDIC. The National Credit Union Administration solely regulates federal credit unions and does not extend its oversight to commercial banking.

3. What are unsecured liabilities that arise from the exchange of immediately available funds called?

- A. Federal funds purchased
- B. Repurchase agreements
- C. Federal funds sold
- D. Pledged securities

Unsecured liabilities that arise from the exchange of immediately available funds are known as federal funds purchased. This term refers to the practice where banking institutions lend or borrow reserve balances at the Federal Reserve from one another, typically for a very short duration, often overnight. Since these transactions are typically not backed by any collateral, they are considered unsecured liabilities, which means the lender does not have any specific claim on the borrower's assets. Federal funds purchased allow banks to manage their reserve requirements effectively and ensure liquidity in their operations. The funds that are exchanged in this context are called "federal funds" because they involve the reserve balances held at the Federal Reserve, which can be transferred between banks. In contrast, repurchase agreements involve the sale of securities with an agreement to repurchase them at a later date, meaning there is collateral involved. Federal funds sold refers to the same concept as federal funds purchased but from the perspective of the lending bank, while pledged securities refer to assets that have been promised as collateral for a loan, further highlighting that the option of pledged securities represents secured liabilities rather than unsecured ones.

4. What established the Public Company Oversight Board to regulate public accounting firms?

- A. Riegle-Neal Interstate Banking and Branching Efficiency Act
- B. Competitive Equality Banking Act
- C. Financial Institutions Reform, Recovery and Enforcement Act
- D. Sarbanes-Oxley Act

The Sarbanes-Oxley Act is significant in the realm of corporate governance and financial regulation as it established the Public Company Accounting Oversight Board (PCAOB). This board was created in response to major corporate scandals in the early 2000s, such as those involving Enron and WorldCom, which revealed severe deficiencies in corporate governance and financial reporting. The PCAOB's primary role is to oversee the audits of public companies to protect the interests of investors by promoting informative, accurate, and independent audit reports. By introducing stricter regulations and standards for auditing firms, the Sarbanes-Oxley Act sought to increase the credibility of financial statements and restore public confidence in the integrity of the capital markets. This was a crucial step toward enhancing transparency and accountability in the financial reporting landscape. The other options listed, while significant in their own right, do not pertain specifically to the establishment of the PCAOB or its regulatory role. Instead, they address different aspects of banking and financial institution regulations, without direct linkage to public accounting oversight.

5. Typically, "call loans" are:

- A. Residential mortgages
- B. Farm loans
- C. Payable on demand**
- D. Automobile loans

Call loans are typically characterized as payable on demand, which means that the lender can require repayment at any time. This feature makes call loans distinct from other types of loans that have fixed repayment schedules or terms. The nature of call loans allows them to be short-term financing solutions, often used in financial industries or for investment purposes, where the lender needs the flexibility to request repayment suddenly based on market conditions or changes in the borrower's financial situation. In contrast, residential mortgages, farm loans, and automobile loans typically involve structured repayment plans over a set period, making them less flexible in terms of repayment timing. This is a key distinction that highlights why call loans are often utilized in specific financing scenarios where quick repayment might be necessary.

6. What area do commercial banks primarily specialize in?

- A. Mortgages
- B. Mutual loans
- C. Short-term business credit**
- D. Savings accounts

Commercial banks primarily specialize in short-term business credit as their primary function revolves around providing financial services that facilitate business operations. These banks lend money to businesses for immediate operational needs, such as inventory purchases, payroll, and other short-term financial obligations. This type of credit is essential for keeping businesses running smoothly and allows them to seize opportunities for growth. While commercial banks may offer mortgages, savings accounts, and other loan products, their core business focuses on meeting the short-term credit needs of businesses. This specialization allows them to effectively manage risk and provide tailored financial products that support commercial growth and stability in various industries. Additionally, commercial banks play a significant role in the overall economy by providing businesses with the necessary funding to thrive and expand.

7. Which account type is the least sensitive to interest rate changes?

- A. Demand deposits**
- B. Repurchase agreements
- C. Federal funds purchased
- D. Jumbo CDs

Demand deposits are considered the least sensitive to interest rate changes primarily because they are designed for immediate access and do not typically accrue interest in the same way that other account types do. This means that the interest rate fluctuations have minimal impact on the overall function and appeal of demand deposits. Customers use these accounts for transactions rather than investment purposes, and they are essentially a safe place to keep funds without concern for earning interest. In contrast, other account types, such as jumbo CDs, are specifically structured to take advantage of interest rates. They lock funds for a set period in exchange for higher interest returns, making them more reactive to rate changes. Similarly, repurchase agreements and federal funds purchased are transactions influenced by current market rates, hence more sensitive to interest rate movements. This context highlights that demand deposits serve a different purpose - offering liquidity and stability rather than maximizing interest earning potential.

8. Which agency has the authority to oversee the banking practices of a financial holding company?

- A. Office of the Comptroller of the Currency
- B. Federal Deposit Insurance Corporation
- C. Federal Reserve**
- D. Consumer Financial Protection Bureau

The Federal Reserve is the agency responsible for overseeing the banking practices of financial holding companies. This authority derives from the Gramm-Leach-Bliley Act, which allowed for the establishment of financial holding companies and entrusted the Federal Reserve with the regulation of these entities. As the central bank of the United States, the Federal Reserve not only supervises bank holding companies but also ensures the stability of the financial system. It evaluates practices related to risk management, capital adequacy, and compliance with regulations, which are crucial for maintaining the health of these complex financial organizations. In contrast, the other agencies mentioned have distinct roles: the Office of the Comptroller of the Currency primarily oversees national banks and federal savings associations, while the Federal Deposit Insurance Corporation focuses on deposit insurance and the safety and soundness of banks. The Consumer Financial Protection Bureau is tasked with protecting consumers in financial markets, but it does not have supervisory authority over financial holding companies specifically.

9. What is the main benefit of securitization?

- A. Increased liquidity in financial markets.**
- B. Lower interest rates on loans.
- C. Higher returns on deposits.
- D. More stringent lending standards.

The main benefit of securitization lies in its ability to increase liquidity in financial markets. Securitization is the process of converting illiquid assets, such as mortgages, auto loans, or credit card debt, into marketable securities that can be sold to investors. This transformation allows lenders to free up capital, as they can sell these securities rather than holding the loans on their balance sheets. By creating a broader market for these securities, securitization enhances liquidity because it allows for the easier buying and selling of financial assets. Increased liquidity helps facilitate better pricing and less volatility in the financial markets, which, in turn, can contribute to more efficient allocation of resources across the economy. While lower interest rates on loans and higher returns on deposits may result indirectly from a more liquid market and improved risk management, they are not the primary benefits of securitization itself. More stringent lending standards could be a consequence of tighter regulations but do not directly stem from the process of securitization. Thus, the ability to enhance liquidity is at the core of why securitization is a valuable financial tool.

10. What financial structure does a mutual savings bank resemble?

- A. Commercial bank
- B. Thrift institution**
- C. Investment bank
- D. Private equity firm

A mutual savings bank primarily resembles a thrift institution because both are focused on accepting deposits and making loans, particularly to individuals and families for purposes like home buying. Thrift institutions, which include savings and loan associations and credit unions, are designed to promote savings among their members and provide them with mortgage and consumer loans. Mutual savings banks specifically operate as depositor-owned entities, where the profits are typically returned to the account holders in the form of higher interest rates on savings or lower rates on loans. This member-focused approach aligns with the mission of thrift institutions, which prioritize the interests of their customers over profit maximization in the same way. In contrast, commercial banks cater to a wider range of financial services, including business loans and investment activities, while investment banks primarily focus on capital markets, mergers, and acquisitions rather than direct deposit and loan services. Private equity firms, on the other hand, invest in private companies and are typically not in the business of taking deposits or making loans in the traditional sense. Therefore, the financial structure of a mutual savings bank is best aligned with that of a thrift institution.

Next Steps

Congratulations on reaching the final section of this guide. You've taken a meaningful step toward passing your certification exam and advancing your career.

As you continue preparing, remember that consistent practice, review, and self-reflection are key to success. Make time to revisit difficult topics, simulate exam conditions, and track your progress along the way.

If you need help, have suggestions, or want to share feedback, we'd love to hear from you. Reach out to our team at hello@examzify.com.

Or visit your dedicated course page for more study tools and resources:

<https://bankingpracticeexam.examzify.com>

We wish you the very best on your exam journey. You've got this!

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