

# CUCE Consumer Lending Regulations Practice Exam (Sample)

## Study Guide



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## **Questions**

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- 1. Which of the following is a provision of the Fair Debt Collection Practices Act (FDCPA)?**
  - A. Allowing unlimited communication with the debtor**
  - B. Sending misleading notices to the debtor**
  - C. Limiting communications with the member and others**
  - D. Encouraging aggressive collection techniques**
- 2. What is "Loan Flipping" in the context of predatory lending?**
  - A. The practice of selling a property multiple times within a short period**
  - B. The practice of refinancing a borrower repeatedly with little or no benefit to them, often incurring high fees**
  - C. The act of borrowing more than a property is worth**
  - D. The strategy of retiring debt through multiple loan types**
- 3. Which of the following actions is prohibited by a credit union while handling a billing error claim from a member under Reg Z?**
  - A. Collecting the amount of the disputed charge**
  - B. Acknowledging receipt of the claim**
  - C. Investigating the claim**
  - D. Providing information on dispute resolution**
- 4. What is required of the credit union when billing disputes are resolved?**
  - A. Report any resolutions to credit reporting agencies**
  - B. Notify the member within 5 business days**
  - C. Change the member's credit limit**
  - D. Close the member's account if necessary**
- 5. What is a primary role of the National Credit Union Administration (NCUA)?**
  - A. To insure deposits in federal credit unions**
  - B. To regulate mortgage lending**
  - C. To oversee consumer credit reports**
  - D. To provide guidance on fair lending**

- 6. What must a credit union disclose to a co-signer before their obligation on a loan?**
- A. The interest rate and payment schedule**
  - B. The nature and extent of their potential liability**
  - C. The credit score impact of becoming a co-signer**
  - D. The benefits of co-signing for the borrower**
- 7. What is a common feature of the Schumer box?**
- A. It includes the minimum credit score required**
  - B. It shows various fees and penalties associated with a credit card**
  - C. It provides a breakdown of member account history**
  - D. It lists every transaction made on the account**
- 8. In consumer lending, what does "debt-to-income ratio" (DTI) assess?**
- A. The proportion of debt to credit available**
  - B. The percentage of a borrower's gross income that goes toward paying debts**
  - C. The total loan payments relative to disposable income**
  - D. The comparison of unsecured to secured debt**
- 9. What does evidence of disparate treatment refer to in lending?**
- A. Uniform practice causing discrimination**
  - B. Different treatment based on protected factors**
  - C. Documentation supporting fair lending**
  - D. Client feedback on loan practices**
- 10. How many days before closing must the Loan Estimate be provided under RESPA?**
- A. One business day**
  - B. Two business days**
  - C. Three business days**
  - D. Four business days**

## **Answers**

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

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## **Explanations**

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**1. Which of the following is a provision of the Fair Debt Collection Practices Act (FDCPA)?**

- A. Allowing unlimited communication with the debtor**
- B. Sending misleading notices to the debtor**
- C. Limiting communications with the member and others**
- D. Encouraging aggressive collection techniques**

The Fair Debt Collection Practices Act (FDCPA) contains several important provisions designed to protect consumers from abusive debt collection practices. A key feature of the FDCPA is the limitation on the frequency and manner of communication between debt collectors and consumers. By allowing limitations on communications with the debtor and third parties, the FDCPA aims to prevent harassment and ensure that consumers are treated fairly during the debt collection process. The Act prohibits debt collectors from engaging in tactics such as calling at unreasonable hours, using threatening language, or contacting individuals at their places of employment without permission. This framework is put in place to protect consumers' rights and maintain their dignity while also ensuring that collectors can still perform their essential functions within ethical boundaries. The other options reflect practices contrary to the principles established by the FDCPA, such as unlimited communication, misleading notices, and aggressive collection techniques, which are not permitted under this regulation.

**2. What is "Loan Flipping" in the context of predatory lending?**

- A. The practice of selling a property multiple times within a short period**
- B. The practice of refinancing a borrower repeatedly with little or no benefit to them, often incurring high fees**
- C. The act of borrowing more than a property is worth**
- D. The strategy of retiring debt through multiple loan types**

In the context of predatory lending, "Loan Flipping" refers to the practice of refinancing a borrower repeatedly with little or no benefit to them, often incurring high fees. This method is exploitative, as it targets borrowers who may be in vulnerable financial situations and encourages them to refinance their loans frequently. Each refinance can involve significant costs, such as closing costs and origination fees, which may outweigh any potential benefits, such as lower interest rates. This cycle can lead to an increased debt burden for the borrower, trapping them in a harmful financial situation. The other choices represent different lending concepts that do not specifically address the core issues involved in loan flipping. Selling a property multiple times rapidly does not encapsulate the refinancing aspect. Borrowing more than a property is worth relates to a different form of financial misconduct known as "under-equity borrowing." Retiring debt through multiple loan types does not involve the cycle of refinancing that characterizes loan flipping. The defining feature of loan flipping is the repeated cycle of refinancing without substantial benefits to the borrower, distinguishing it from other lending practices.

**3. Which of the following actions is prohibited by a credit union while handling a billing error claim from a member under Reg Z?**

**A. Collecting the amount of the disputed charge**

**B. Acknowledging receipt of the claim**

**C. Investigating the claim**

**D. Providing information on dispute resolution**

In the context of Regulation Z, which implements the Truth in Lending Act (TILA), the handling of billing error claims is governed by specific protocols to protect consumers. When a member formally disputes a charge on their account, it is critical for the credit union to comply with the regulatory requirements. Collecting the amount of the disputed charge during the investigation of a billing error claim is prohibited. This is because Regulation Z establishes that, once a dispute is raised, the creditor must acknowledge the claim and refrain from collecting the disputed amount until the investigation is completed. This rule ensures that consumers are not pressured to pay charges that they believe are erroneous while the credit union is still in the process of determining the validity of the claim. By allowing members to dispute charges without immediate financial repercussion, Regulation Z fosters a fair and transparent environment that protects consumers during billing disputes. Other actions such as acknowledging receipt of the claim, investigating the claim, and providing information on dispute resolution are all compliant with Regulation Z and serve to maintain a communicative and supportive relationship between the credit union and its members during the dispute process.

**4. What is required of the credit union when billing disputes are resolved?**

**A. Report any resolutions to credit reporting agencies**

**B. Notify the member within 5 business days**

**C. Change the member's credit limit**

**D. Close the member's account if necessary**

When resolving billing disputes, it is essential for credit unions to report any resolutions to credit reporting agencies. This practice is rooted in the Fair Credit Reporting Act (FCRA), which emphasizes the accuracy and integrity of information provided to credit reporting agencies. When a dispute is resolved, especially if it results in a correction of information previously reported, timely reporting ensures that the consumer's credit report is reflective of their true financial obligations and creditworthiness. Inaccurate reporting can negatively impact a member's credit standing, and by communicating the outcomes of the disputes to credit reporting agencies, the credit union helps to maintain the reliability of the credit reporting system. This action also provides assurance to the member that their financial record accurately represents their situation, reinforcing trust between the member and the credit union. Timely notifications to members about the resolution or particulars such as changing limits or closing accounts may be relevant in specific contexts but are not universally mandated as a requirement when resolving billing disputes, making them less central to the core regulatory obligations in this scenario.

**5. What is a primary role of the National Credit Union Administration (NCUA)?**

- A. To insure deposits in federal credit unions**
- B. To regulate mortgage lending**
- C. To oversee consumer credit reports**
- D. To provide guidance on fair lending**

The primary role of the National Credit Union Administration (NCUA) is to insure deposits in federal credit unions. This function is essential because it helps maintain public confidence in the credit union system by protecting depositors' funds, thereby promoting stability and safety within the financial system. The NCUA operates the National Credit Union Share Insurance Fund (NCUSIF), which insures member deposits up to \$250,000, similar to the role the FDIC plays for banks. While the NCUA does engage in enforcement of regulations that relate to fair lending practices and oversight of credit unions' financial health, its primary mission centers on deposit insurance. Other options, like regulating mortgage lending or managing consumer credit reports, fall outside the NCUA's responsibilities and are typically handled by other regulatory agencies, such as the Consumer Financial Protection Bureau (CFPB) or the Federal Reserve. The NCUA's focus on deposit insurance is crucial for protecting consumers and fostering a secure environment for financial transactions within credit unions.

**6. What must a credit union disclose to a co-signer before their obligation on a loan?**

- A. The interest rate and payment schedule**
- B. The nature and extent of their potential liability**
- C. The credit score impact of becoming a co-signer**
- D. The benefits of co-signing for the borrower**

A credit union must disclose to a co-signer the nature and extent of their potential liability because this information is critical for informed consent. Co-signing a loan means that the co-signer is agreeing to take on the financial responsibility for the debt if the primary borrower fails to make the required payments. This potential liability can significantly impact the co-signer's financial situation, including affecting their credit and financial stability. Therefore, it is essential that the credit union provides a clear understanding of these risks and obligations to the co-signer before they agree to sign. The other options, while potentially informative, do not address the primary concern of liability as effectively. For instance, while disclosing the interest rate and payment schedule is important for borrowers, it is not as crucial for a co-signer who needs to understand their potential risk. The credit score impact and benefits of co-signing may also be relevant, but they do not encompass the full extent of the obligations and risks associated with becoming a co-signer. Hence, the correct focus is on clarifying the nature and extent of the liability.

**7. What is a common feature of the Schumer box?**

- A. It includes the minimum credit score required
- B. It shows various fees and penalties associated with a credit card**
- C. It provides a breakdown of member account history
- D. It lists every transaction made on the account

The Schumer box is a standardized table that lenders are required to include in credit card agreements and advertisements. Its primary purpose is to provide consumers with transparent information regarding the terms and conditions of credit card offers. One of its key features is that it outlines the various fees and penalties associated with the credit card, such as annual fees, foreign transaction fees, late payment penalties, and over-the-limit fees. This enables consumers to compare different credit card options easily and make informed decisions based on the true cost of credit. The other options do not accurately describe features of the Schumer box. For instance, it does not contain information about the minimum credit score required; rather, that information would be found in a separate part of the application process. It also does not provide a breakdown of member account history or a list of transactions made on the account, as those details are typically found in account statements or online banking portals. By focusing on the fees and penalties, the Schumer box helps promote transparency and accountability among credit card issuers.

**8. In consumer lending, what does "debt-to-income ratio" (DTI) assess?**

- A. The proportion of debt to credit available
- B. The percentage of a borrower's gross income that goes toward paying debts**
- C. The total loan payments relative to disposable income
- D. The comparison of unsecured to secured debt

The debt-to-income ratio (DTI) is a critical metric used in consumer lending as it assesses the percentage of a borrower's gross income that is allocated to servicing debt obligations. This ratio is vital for lenders to determine a borrower's ability to manage monthly payments and overall debt load in relation to their income. A lower DTI indicates that a borrower has a manageable level of debt in comparison to their income, which suggests a greater likelihood of meeting loan repayment obligations reliably. In practice, most lenders prefer borrowers with a DTI below a certain threshold, often around 36%, as this reflects a healthier financial profile. Understanding DTI helps both lenders in evaluating risk and borrowers in recognizing their own financial limits when considering new loans. Other options do not accurately capture the essence of what DTI measures. While some may relate to aspects of financial health, they do not focus specifically on the relationship between gross income and debt payments, which is the defining element of the debt-to-income ratio.

**9. What does evidence of disparate treatment refer to in lending?**

- A. Uniform practice causing discrimination**
- B. Different treatment based on protected factors**
- C. Documentation supporting fair lending**
- D. Client feedback on loan practices**

Evidence of disparate treatment in lending specifically refers to the different treatment of individuals based on protected characteristics such as race, color, religion, sex, national origin, age, or disability. This concept is crucial in understanding fair lending practices because it highlights how certain borrowers may face unfavorable terms or conditions simply due to these protected factors. In lending, disparate treatment may manifest as one borrower receiving more rigorous scrutiny or less favorable loan terms compared to another borrower with similar financial profiles but differing in a protected characteristic. This type of evidence is essential for identifying potential discriminatory practices that violate fair lending laws, as it underscores the need for equitable treatment across all applicants regardless of their backgrounds. The other options do not align with the specific definition of disparate treatment. Uniform practices causing discrimination refers more to disparate impact, which involves policies that unintentionally result in discrimination. Documentation supporting fair lending does not directly address the concept of treatment disparities based on personal characteristics. Client feedback on loan practices might provide insights into customer experiences, but it does not fundamentally encapsulate the legal and ethical implications of disparate treatment in lending practices.

**10. How many days before closing must the Loan Estimate be provided under RESPA?**

- A. One business day**
- B. Two business days**
- C. Three business days**
- D. Four business days**

Under the Real Estate Settlement Procedures Act (RESPA), lenders are required to provide borrowers with a Loan Estimate (LE) within three business days after receiving a loan application. This three-day requirement ensures that borrowers have ample time to review the terms of the loan and understand the estimated costs before closing on the mortgage. This regulation is crucial because it promotes transparency and allows borrowers to make informed decisions about their loan options. The three-day window effectively serves to provide borrowers not only with necessary information but also to compare different loan offers if they choose to seek alternatives. This helps to prevent any surprises on the settlement day and enhances consumer protection in the lending process.