FBLA Banking and Financial Systems Practice Test (Sample)

Study Guide

BY EXAMZIFY

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Questions

1. **You must pay off your credit card account in full at the end of every month. True or False?**
   - A. True
   - B. False
   - C. It depends on the credit card
   - D. Only if you want to avoid interest

2. **Which type of bond accrues interest semiannually and is exempt from state and local taxes?**
   - A. Series E Bond
   - B. Series EE Bond
   - C. Series HH Bond
   - D. Series I Bond

3. **What type of mortgage is repaid when the borrower dies?**
   - A. Conventional mortgage
   - B. Adjustable-rate mortgage
   - C. Reverse mortgage
   - D. Fixed-rate mortgage

4. **What clause in a mortgage loan agreement allows borrowers to pay off their loan without penalty?**
   - A. Prepayment clause
   - B. Default clause
   - C. Amortization schedule
   - D. Adjustment clause

5. **What banking practice involves keeping a certain percentage of deposits while lending out the rest?**
   - A. Reserve banking
   - B. Fractional reserve banking
   - C. Full reserve banking
   - D. Investment banking

6. What type of insurance is necessary for protecting oneself from liabilities resulting from injuries caused to others?

A. Life insurance

B. Bodily injury liability insurance

C. Property damage liability insurance

D. Personal injury protection

7. Personal loans require that a specific purpose be stated. True or False?

A. True

B. False

C. Only for secured loans

D. Only for loans over a certain amount

8. For which type of account is it mandatory to begin withdrawals at age 59 ½?

A. SEP-IRA

B. Traditional IRA

C. Roth IRA

D. SIMPLE IRA

9. Which act requires financial service companies to provide a written privacy policy to customers?

A. Gramm-Leach-Bliley Act

B. National Banking Act

C. Dodd-Frank Act

D. Sarbanes-Oxley Act

10. Which card is issued by a bank and allows clients to withdraw cash or pay for goods, immediately transferring money from their account?

A. Credit card

B. Debit card

C. ATM card

D. Store card

Answers

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

Explanations

1. You must pay off your credit card account in full at the end of every month. True or False?

A. True

B. False

C. It depends on the credit card

D. Only if you want to avoid interest

The statement "You must pay off your credit card account in full at the end of every month" is not universally true, which is why the correct answer is that it is false. While paying off your credit card in full is a good practice to avoid interest charges and maintain a healthy credit score, it is not a requirement imposed by credit card companies. Many people choose to make only the minimum payment or pay a portion of their balance, which may result in the accrual of interest on the remaining balance. This approach can lead to long-term debt if the balance is not managed properly. Some cardholders may also have payment plans or promotional offers that allow for lower payments over time without immediately requiring full payment. In essence, while it is highly advisable to pay off the balance fully each month to avoid interest and debt accumulation, it is ultimately a choice made by the cardholder rather than a mandatory condition set by the credit card issuer.

2. Which type of bond accrues interest semiannually and is exempt from state and local taxes?

A. Series E Bond

B. Series EE Bond

C. Series HH Bond

D. Series I Bond

The correct choice is the Series EE Bond. Series EE Bonds are U.S. savings bonds that earn interest at a fixed rate and are designed for individual investors. They accrue interest semiannually, meaning interest is added to the principal every six months, which can enhance the total return on the investment over time. One of the key benefits of Series EE Bonds is their exemption from state and local taxes. This makes them an attractive investment option for individuals looking to save for education or long-term financial goals because it can effectively increase their after-tax returns compared to other taxable investments. Additionally, interest from EE Bonds may be federally tax-exempt if used for qualified educational expenses, further increasing their appeal to investors. In contrast, Series E Bonds, which were issued before 1980, and Series I Bonds, which offer inflation protection but have different tax implications, do not fit the criteria described. Series HH Bonds, which were issued specifically for cashing redeemable bonds, also do not meet these specifics regarding tax exemptions and semiannual interest accrual.

3. What type of mortgage is repaid when the borrower dies?

A. Conventional mortgage

B. Adjustable-rate mortgage

C. Reverse mortgage

D. Fixed-rate mortgage

A reverse mortgage is specifically designed for older homeowners who wish to convert part of their home equity into cash while still living in the home. This type of mortgage does not require any repayment as long as the borrower lives in the home. However, when the borrower dies, the loan then becomes due. The estate must either repay the loan through the sale of the home or by other means. In contrast, conventional, adjustable-rate, and fixed-rate mortgages typically require ongoing payments from the borrower during their lifetime. If the borrower were to pass away, these loans would generally need to be paid off by the estate, which could involve selling the property to recover the owed amounts. Thus, a reverse mortgage uniquely provides for repayment only upon the death of the borrower, making it the correct answer.

4. What clause in a mortgage loan agreement allows borrowers to pay off their loan without penalty?

A. Prepayment clause

B. Default clause

C. Amortization schedule

D. Adjustment clause

The correct answer is the prepayment clause. This clause specifically allows borrowers to pay off their mortgage loan before the scheduled maturity date without incurring any penalties. It provides flexibility to the borrower, enabling them to reduce their debt more quickly than originally planned, potentially saving on interest costs. Understanding the significance of this clause is crucial, as many lenders include prepayment penalties to protect their financial interests. The absence of such penalties in a prepayment clause encourages borrowers to manage their finances in a way that may include paying off their loans early, which can be particularly beneficial during times of low-interest rates or improved financial circumstances. This aspect of mortgage agreements holds importance for borrowers looking to optimize their financial commitments. The other options relate to different aspects of mortgage agreements. For instance, the default clause outlines the consequences if a borrower fails to meet their repayment obligations, while the amortization schedule provides a detailed timeline and breakdown of loan payments over the term. The adjustment clause pertains to adjustable-rate mortgages where interest rates can change after a specified period. Each of these serves a different purpose and does not address the borrower's ability to pay off the loan without penalty, which is the essence of the prepayment clause.

5. **What banking practice involves keeping a certain percentage of deposits while lending out the rest?**

   A. Reserve banking

   B. Fractional reserve banking

   C. Full reserve banking

   D. Investment banking

Fractional reserve banking is a system where banks are required to keep a fraction of deposits on hand as reserves while lending out the remaining amount. This practice enables banks to create money through lending, as the money that is lent out can be deposited again and reused for further lending, leading to an increase in the overall money supply within the economy. In this system, the reserve requirement is set by regulatory authorities and is typically a small percentage of total deposits, allowing banks to use the majority of deposits to generate interest income through loans. This mechanism is vital for providing liquidity and facilitating economic growth. It distinctively contrasts with full reserve banking, where banks are required to keep all deposited funds in reserve, not allowing for lending practices that can stimulate economic activity. Similarly, reserve banking generally implies holding a reserve but does not specifically address the practice of lending out the remainder of the deposits. Investment banking involves activities primarily focused on underwriting and facilitating mergers and acquisitions, not on traditional deposit and lending functions. Hence, fractional reserve banking is the correct answer, as it directly describes the balance between holding reserves while extending credit.

6. **What type of insurance is necessary for protecting oneself from liabilities resulting from injuries caused to others?**

   A. Life insurance

   B. Bodily injury liability insurance

   C. Property damage liability insurance

   D. Personal injury protection

Bodily injury liability insurance is specifically designed to protect individuals from the financial ramifications of causing physical harm to others. This type of insurance covers costs such as medical expenses, legal fees, and damages awarded in lawsuits that arise when someone is injured due to the policyholder's actions. Having this coverage ensures that individuals are financially protected in the event they are held responsible for an accident, making it essential for anyone who drives a vehicle or operates a business where injuries could occur. While other options cover different aspects of insurance, they do not directly address the liability for injuries caused to others. Life insurance is intended to provide a financial benefit to beneficiaries upon the insured's death, while property damage liability insurance focuses on damages related to another person's property. Personal injury protection, on the other hand, typically covers medical expenses for the policyholder and their passengers, regardless of fault, and does not specifically address liability towards others' injuries. Therefore, the correct choice of bodily injury liability insurance directly correlates to protecting oneself from liabilities related to injuries inflicted on others.

7. Personal loans require that a specific purpose be stated. True or False?

A. True

B. False

C. Only for secured loans

D. Only for loans over a certain amount

Personal loans typically do require that borrowers state a specific purpose for the loan. This requirement helps lenders assess the risk associated with the loan and ensures that the funds are being used in a way that aligns with the lender's policies. By understanding the intended use of the loan—whether it's for a major purchase, debt consolidation, or a medical emergency—lenders can better evaluate the applicant's financial situation and repayment ability. In some cases, particularly with secured loans, the purpose might be more flexible, as these are often tied to an asset (like a car or home). However, most general personal loans will require a stated purpose to help both the borrower and lender manage expectations and obligations related to the loan. Hence, stating a specific purpose adds clarity to the loan agreement and supports responsible lending practices.

8. For which type of account is it mandatory to begin withdrawals at age 59 ½?

A. SEP-IRA

B. Traditional IRA

C. Roth IRA

D. SIMPLE IRA

The requirement to begin withdrawals at age 59 ½ applies to Traditional IRAs because they are designed to encourage long-term retirement savings. The Internal Revenue Service (IRS) imposes rules regarding when you can withdraw funds without incurring penalties. For Traditional IRAs, account holders are generally expected to start taking distributions no later than age 72, but they can begin penalty-free withdrawals at age 59 ½. This age limit is crucial because it distinguishes Traditional IRAs from other types of retirement accounts that may have different regulations regarding withdrawals. For example, Roth IRAs allow contributions to grow tax-free, and qualified withdrawals can be made tax-free whenever the account holder chooses, provided certain conditions are met. However, contributions to Roth IRAs are made with after-tax dollars, and there is no mandatory withdrawal age for the original owner. This flexibility sets them apart from Traditional IRAs. A SIMPLE IRA, which is another retirement account, also allows for penalty-free withdrawals at age 59 ½, but the penalties are different for early withdrawals compared to a Traditional IRA. A SEP-IRA works similarly to a Traditional IRA, but it isn't mandatory to begin withdrawals at a specific age until later unless the account owner desires to withdraw early. Therefore,

9. Which act requires financial service companies to provide a written privacy policy to customers?

- A. Gramm-Leach-Bliley Act
- B. National Banking Act
- C. Dodd-Frank Act
- D. Sarbanes-Oxley Act

The Gramm-Leach-Bliley Act is the legislation that mandates financial institutions to provide a written privacy policy to their customers. This act was enacted to ensure that consumers' personal financial information is protected and that they are informed about how their data will be used and shared. Under the provisions of the Gramm-Leach-Bliley Act, financial institutions must clearly disclose their privacy policies at the beginning of the customer relationship and annually thereafter. This requirement aims to promote transparency and give consumers a better understanding of the company's data practices, fostering trust in financial service providers. In contrast, the National Banking Act primarily focuses on the regulation of national banks and their operations, while the Dodd-Frank Act deals with the overall reform of financial markets and consumer protection, and the Sarbanes-Oxley Act emphasizes corporate governance and financial disclosures rather than privacy policies.

10. Which card is issued by a bank and allows clients to withdraw cash or pay for goods, immediately transferring money from their account?

- A. Credit card
- B. Debit card
- C. ATM card
- D. Store card

A debit card is a financial tool issued by a bank that enables clients to access their funds directly from their checking or savings account. When a user makes a purchase or withdraws cash using a debit card, the money is immediately deducted from their account. This immediate transfer is a key characteristic of debit cards, differentiating them from credit cards, which allow consumers to borrow funds up to a certain limit for purchases. In contrast, an ATM card is designed solely for accessing cash from an automated teller machine and may not facilitate direct purchases at retail locations. A store card is typically tied to a specific retailer and often offers rewards or promotional discounts, but it functions more like a credit line than a direct withdrawal from a bank account. Therefore, the nature of how funds are accessed and transferred with a debit card makes it the correct answer in this context.