

Independent Living Credit Practice Test (Sample)

Study Guide



Everything you need from our exam experts!

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SAMPLE

Questions

- 1. Is your credit report accessible to anyone, regardless of the reason?**
 - A. True**
 - B. False**
 - C. Only to potential lenders**
 - D. Only to authorized entities**
- 2. What is the primary consideration when assessing capacity?**
 - A. Your personal assets**
 - B. Your job stability and income**
 - C. Your credit score**
 - D. Your savings account balance**
- 3. Which of the following is NOT a type of credit?**
 - A. Revolving credit**
 - B. Single-payment credit**
 - C. Equity credit**
 - D. Installment credit**
- 4. Which act addresses abuse by debt collectors?**
 - A. Fair Credit Reporting Act**
 - B. Fair Debt Collection Practices Act**
 - C. Equal Opportunity Act**
 - D. Truth in Lending Act**
- 5. In the 3 C's of credit, which corresponds to the question: "Do you have a savings account?"**
 - A. Character**
 - B. Capital**
 - C. Capacity**
 - D. Credit history**

- 6. What is a legal reason for a creditor to deny credit?**
- A. Low income**
 - B. Job stability**
 - C. Past bankruptcies**
 - D. All of the above**
- 7. What is the term used for the ability to buy now and pay later?**
- A. Debit**
 - B. Credit**
 - C. Loan**
 - D. Mortgage**
- 8. True or false? Impulse buying is a disadvantage of using credit.**
- A. True**
 - B. False**
- 9. What is the primary reason for avoiding cash advances on credit cards?**
- A. They have lower interest rates**
 - B. They are often subject to higher fees and interest rates**
 - C. They allow for higher credit limits**
 - D. They are always interest-free**
- 10. What should you do if you are billed for merchandise you did not buy?**
- A. Ignore the bill**
 - B. Report it to the Fair Credit Billing Act**
 - C. Contact your bank immediately**
 - D. File for bankruptcy**

Answers

SAMPLE

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

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Explanations

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1. Is your credit report accessible to anyone, regardless of the reason?

A. True

B. False

C. Only to potential lenders

D. Only to authorized entities

The statement is false because your credit report is not accessible to anyone who wants to see it for any reason. Access to credit reports is limited and regulated by law to protect consumers' privacy. Only authorized entities, such as lenders, landlords, employers, or insurance companies, can request access to your credit report, and typically only for specific purposes such as evaluating your creditworthiness, rental applications, or employment screenings. To obtain access to your credit report, these entities must have a permissible purpose as defined under the Fair Credit Reporting Act (FCRA). This ensures that your credit information remains confidential and is only shared under appropriate circumstances, safeguarding you from unauthorized access and potential misuse of your personal financial information.

2. What is the primary consideration when assessing capacity?

A. Your personal assets

B. Your job stability and income

C. Your credit score

D. Your savings account balance

The primary consideration when assessing capacity relates to job stability and income, as these factors determine an individual's ability to manage financial obligations and maintain independence effectively. When evaluating someone's capacity, understanding their employment situation and the consistency of their income is crucial. This information helps in determining whether they have sufficient means to make informed financial decisions, fulfill payment commitments, and possibly plan for future expenses or investments. Job stability indicates ongoing financial security, while income levels reflect the ability to support oneself and meet regular expenses. A stable income stream helps ensure that individuals can navigate their financial responsibilities confidently, which is essential for promoting independent living. Other considerations, while important in their own right, do not directly address an individual's ongoing ability to handle financial matters and sustain their independence.

3. Which of the following is NOT a type of credit?

- A. Revolving credit
- B. Single-payment credit
- C. Equity credit**
- D. Installment credit

Equity credit, which is often associated with home equity loans or lines of credit, is not typically classified under the standard types of credit. The major types of credit include revolving credit, installment credit, and single-payment credit, each of which has distinct characteristics and uses. Revolving credit allows consumers to borrow up to a certain limit and repay it as they wish, such as with credit cards, while installment credit involves borrowing a fixed amount of money that is paid back in regular, scheduled payments, like with auto loans or mortgages. Single-payment credit requires the borrower to repay the borrowed amount in full after a short period, often seen in situations like payday loans. In contrast, equity credit refers specifically to borrowing against the equity of an asset, typically a home, which is a more specialized kind of financial product rather than a general type of credit consumer can access easily. This distinction highlights why equity credit does not belong in the main categories of credit.

4. Which act addresses abuse by debt collectors?

- A. Fair Credit Reporting Act
- B. Fair Debt Collection Practices Act**
- C. Equal Opportunity Act
- D. Truth in Lending Act

The Fair Debt Collection Practices Act is the legislation specifically designed to protect consumers from abusive practices by debt collectors. This act outlines the appropriate conduct for debt collection, including prohibiting harassment, false statements, and other deceptive practices. It also establishes provisions for consumers to report violations and seek remedies. The other acts mentioned, while important in their own right, focus on different aspects of consumer protection. The Fair Credit Reporting Act deals with the accuracy and privacy of information in credit reporting. The Equal Opportunity Act focuses on preventing discrimination in various areas, including credit. The Truth in Lending Act aims to promote informed use of credit by requiring disclosures about terms and costs associated with borrowing. Thus, the Fair Debt Collection Practices Act is uniquely suited to address issues specifically related to debt collection practices.

5. In the 3 C's of credit, which corresponds to the question: "Do you have a savings account?"

- A. Character**
- B. Capital**
- C. Capacity**
- D. Credit history**

The correct answer is capital. In the context of the 3 C's of credit, capital refers to the financial assets or resources that a borrower possesses, which demonstrate their ability to repay a loan. When considering whether someone has a savings account, it indicates the capital assets they have available. Savings accounts represent money that can be drawn upon in times of need, making it a significant factor in assessing an individual's financial health and stability. The other aspects of the 3 C's—character and capacity—focus on different elements of creditworthiness. Character involves the borrower's reliability and integrity, typically evaluated through credit history and personal references, while capacity assesses the borrower's ability to repay a loan based on their income and existing debts. However, a savings account directly relates to capital, showing tangible proof of financial responsibility and potential for repayment.

6. What is a legal reason for a creditor to deny credit?

- A. Low income**
- B. Job stability**
- C. Past bankruptcies**
- D. All of the above**

A creditor can deny credit for several legal reasons, and among those, past bankruptcies stand out as a significant factor. When a person has filed for bankruptcy in the past, it indicates to creditors that they may have difficulty managing their debts and fulfilling their financial obligations. Thus, this history can lead to a denial of credit applications, as creditors assess the risk involved in lending to individuals with a previous bankruptcy record. While low income and job stability also play a crucial role in a creditor's decision-making process, they may not solely constitute legal grounds for denial in every situation. A lender evaluates an applicant's overall financial picture, which includes income, stability of employment, credit history, and existing debt obligations. In summary, while each of these factors can indeed influence a creditor's decision, a past bankruptcy is a definitive legal reason that can directly lead to the denial of credit. Therefore, the choice suggesting that all of these factors result in legal ground for denial holds true, illustrating the complexity of credit approval processes.

7. What is the term used for the ability to buy now and pay later?

A. Debit

B. Credit

C. Loan

D. Mortgage

The term that refers to the ability to buy now and pay later is credit. Credit allows consumers to make purchases and defer payments to a later date, often enabling them to acquire goods or services immediately without having the full payment upfront. This system is based on the trust that the consumer will pay back the borrowed amount, usually over time, with possible interest added. In contrast, a debit involves using funds that are already available in a checking account, meaning payment is immediate. A loan implies a specific sum borrowed for a particular purpose, typically requiring repayment according to terms set by the lender. A mortgage is a specific type of loan used to purchase real estate, secured by the property itself and involving a long-term repayment schedule. Credit, therefore, is distinct in that it encompasses various forms of borrowing with flexible repayment terms, allowing for immediate purchasing power that aligns with the answer provided.

8. True or false? Impulse buying is a disadvantage of using credit.

A. True

B. False

Impulse buying refers to the tendency of consumers to make unplanned purchases, often driven by emotions or immediate desires rather than thoughtful decision-making. When using credit, individuals may find it easier to make these spur-of-the-moment purchases since they are not using cash and may not immediately feel the impact of spending. This can lead to accumulating debt and financial strain if impulse buying becomes a habit. The advantage of cash transactions is that they typically require more deliberation, as individuals physically see the money leaving their hands. In contrast, credit allows for a perceived disconnect between spending and financial repercussions, making it more tempting to buy items that were not originally needed or planned for. Thus, identifying impulse buying as a disadvantage of using credit accurately highlights a key behavioral risk associated with credit use.

9. What is the primary reason for avoiding cash advances on credit cards?

- A. They have lower interest rates**
- B. They are often subject to higher fees and interest rates**
- C. They allow for higher credit limits**
- D. They are always interest-free**

The primary reason for avoiding cash advances on credit cards is that they are often subject to higher fees and interest rates. When you take a cash advance, the credit card issuer typically charges a cash advance fee, which can be a percentage of the amount withdrawn or a fixed amount, whichever is higher. Additionally, the interest rates on cash advances are usually higher than those for standard purchases, and interest begins to accrue immediately without the benefit of a grace period. This combination of higher fees and immediate interest accumulation can lead to a significant increase in the overall cost of borrowing, making cash advances a less favorable option compared to regular credit card transactions.

10. What should you do if you are billed for merchandise you did not buy?

- A. Ignore the bill**
- B. Report it to the Fair Credit Billing Act**
- C. Contact your bank immediately**
- D. File for bankruptcy**

The Fair Credit Billing Act is designed to protect consumers from unfair billing practices and to provide a process for disputing incorrect charges. If you receive a bill for merchandise you did not purchase, reporting it under the Fair Credit Billing Act is the appropriate course of action. This act allows consumers to formally dispute the charges and requires creditors to investigate the issue. By reporting the discrepancy, you not only take a step towards resolving the erroneous charge but also ensure that your rights as a consumer are protected. This process is essential for maintaining accurate credit reports and preventing potential harm to your credit score from unjust charges. In contrast, ignoring the bill does not address the issue and may lead to further complications, such as late fees or damage to your credit score. Contacting your bank might be part of resolving the issue, but it's important to follow the structured dispute process outlined by the Fair Credit Billing Act for formal recourse. Filing for bankruptcy is an extreme measure that is not warranted in the case of a billing error and should only be considered under significant financial distress.