Loans, Credit Scores, and Consumer Credit Practice Test (Sample)

Study Guide

BY EXAMZIFY

Everything you need from our exam experts!

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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

1. **Which term is the total amount borrowed originally, before any repayments or interest?**

   A. Interest rate

   B. Principal

   C. Loan term

   D. Collateral

2. **Which term describes something of value that may be owned by a borrower?**

   A. Debt

   B. Interest rate

   C. Co-signer

   D. Asset

3. **Which of the following is a penalty charged when you do not pay the minimum due by the due date?**

   A. Annual fee

   B. Interest rate

   C. Overlimit fee

   D. Late fee

4. **Which third-party company negotiates with financial institutions on a borrower's behalf to try to remove negative marks from the borrower's credit history?**

   A. Credit check

   B. Debit card

   C. Credit report

   D. Credit-repair service

5. **Which term describes combining several loans into one to simplify repayment?**

   A. Bankruptcy

   B. Debt consolidation

   C. Deferrment

   D. Delinquent

6. What term describes taking out a new loan to pay off an existing loan because the new loan offers better terms?

A. Loan refinancing

B. Debt cycle

C. Delinquent

D. Responsible borrowing

7. Which term refers to the total amount borrowed from a credit account that has not yet been paid back, including interest?

A. Credit

B. Installment credit

C. Unpaid account balance

D. Credit limit

8. Which of the following is an example of installment credit?

A. Mortgage

B. Credit card

C. Line of credit

D. Unpaid balance

9. What term refers to the number in the range 300-850 used by lenders to evaluate whether a person can be trusted to pay back money they borrow?

A. Credit score

B. Credit history

C. Credit bureau

D. Credit report

10. Which term refers to penalties, a lower credit score, and potential legal action resulting from not repaying a loan?

A. Bankruptcy

B. Delinquent

C. Deferrment

D. Consequences of default

Answers

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

Explanations

1. **Which term is the total amount borrowed originally, before any repayments or interest?**

   A. Interest rate

   B. Principal

   C. Loan term

   D. Collateral

The amount originally borrowed is called the principal. It's the base used to calculate interest, and it's the sum you must repay (in addition to interest) over the life of the loan. The loan term is how long you have to repay, collateral is anything pledged to secure the loan, and the interest rate is the cost of borrowing expressed as a percentage. For example, if you borrow 5,000, that 5,000 is the principal; with interest, your total payments will exceed that amount, and each payment first covers interest and then reduces the principal. The remaining balance on the loan is the outstanding principal, not the total amount paid.

2. **Which term describes something of value that may be owned by a borrower?**

   A. Debt

   B. Interest rate

   C. Co-signer

   D. Asset

Assets are items of value you own that you can use to repay a loan. They include things like cash, a car, a home, or investments, and they help lenders assess your financial position and, in some cases, serve as collateral. The word described in the question is asset because it points to something of value you own. Debt is what you owe, not what you own; the interest rate is the cost of borrowing money; and a co-signer is someone who promises to pay if you don't.

3. **Which of the following is a penalty charged when you do not pay the minimum due by the due date?**

   A. Annual fee

   B. Interest rate

   C. Overlimit fee

   D. Late fee

Missing the due date triggers a late payment fee. This penalty is designed to deter late payments and is separate from any interest charges that may apply to carried balances. The late fee is not the annual fee (which is charged regardless of payment timing), not the interest rate (the cost of borrowing), and not an overlimit fee (which applies if you exceed your credit limit). So the penalty when you don't pay the minimum due on time is a late fee.

4. **Which third-party company negotiates with financial institutions on a borrower's behalf to try to remove negative marks from the borrower's credit history?**

   A. Credit check

   B. Debit card

   C. Credit report

   D. Credit-repair service

A credit-repair service is a third-party company that negotiates with lenders on a borrower's behalf to address negative items on their credit history. They review your credit reports, identify items that may be inaccurate or negotiable, and contact creditors or collection agencies to challenge those items, request removal, or reach settlements. They might try pay-for-delete arrangements or ask for account updates, but removal isn't guaranteed, especially for accurate information. The key idea is that this type of service acts as an intermediary to try to improve the report by addressing questionable marks, rather than being the borrower's own actions or simply possessing the report or payment tools. In contrast, a credit check is the process of pulling your credit history, a debit card is a payment instrument, and a credit report is the document that contains your credit history.

5. **Which term describes combining several loans into one to simplify repayment?**

   A. Bankruptcy

   B. Debt consolidation

   C. Deferrment

   D. Delinquent

Debt consolidation is when you combine multiple loans into one loan so you only have to make a single payment each month. This simplifies repayment by giving you one due date, one interest rate, and one monthly amount to manage. It's often done with a consolidation loan or by transferring balances to one account. The main benefit is easier budgeting and potentially a lower monthly payment if you extend the repayment term, though total interest could rise if the loan lasts longer. It's not the same as bankruptcy, which is a legal process to discharge or reorganize debts; it doesn't mean you're deferring payments for a period (deferral) or that you're already behind (delinquent).

6. What term describes taking out a new loan to pay off an existing loan because the new loan offers better terms?

A. Loan refinancing

B. Debt cycle

C. Delinquent

D. Responsible borrowing

Refinancing involves taking out a new loan to pay off an existing one when the new loan offers better terms. By replacing the old debt with a new loan, you're aiming for advantages like a lower interest rate, a different repayment period, or a switch from a variable to a fixed rate. The practical goal is to reduce monthly payments, lower total interest, or improve payment predictability. It's common for mortgages but can apply to auto or student loans as well. When deciding to refinance, consider the trade-offs: you may pay closing costs, and extending the term can lower payments but increase total interest, while shortening the term can raise monthly payments but save interest overall. This is different from simply delaying payments (delinquency), or from the broader ideas of debt cycles or responsible borrowing, because refinancing is specifically about replacing existing debt with new terms to improve the overall loan situation.

7. Which term refers to the total amount borrowed from a credit account that has not yet been paid back, including interest?

A. Credit

B. Installment credit

C. Unpaid account balance

D. Credit limit

The amount still owed on a credit account, including interest, is the unpaid account balance. This figure represents everything you borrowed that you haven't paid back yet, plus the interest (and any fees) that has accumulated. It's what you would owe if you stopped making payments right now. It's different from the credit limit, which is the maximum you're allowed to borrow, and from the concept of installment credit, which is just a type of loan. Using an example: if you charged a thousand dollars and have paid back some but not all, with interest added, the remaining amount you owe is the unpaid account balance. In many cases this is also referred to as the outstanding balance, but the key idea is the total you still owe.

8. Which of the following is an example of installment credit?

A. Mortgage

B. Credit card

C. Line of credit

D. Unpaid balance

Installment credit means you borrow a lump sum and repay it in fixed, scheduled payments over a set period, with interest included in each payment. A mortgage fits this pattern perfectly because you take out a loan for the home and repay it in regular, often level, monthly payments over many years until the loan is fully paid. By contrast, a credit card provides revolving access to a credit limit you can borrow against, repay, and borrow again without a fixed end date. A line of credit is also revolving, offering ongoing borrowing with flexible repayment. An unpaid balance is simply the amount owed at a moment in time and isn't itself a specific loan type with a fixed term and scheduled payments. So a mortgage is the example of installment credit.

9. What term refers to the number in the range 300-850 used by lenders to evaluate whether a person can be trusted to pay back money they borrow?

A. Credit score

B. Credit history

C. Credit bureau

D. Credit report

Lenders rely on a numeric measure of creditworthiness to quickly assess risk. The term described is credit score—a single number in the 300–850 range that reflects how likely you are to repay a loan. This score is computed from your credit history data, including on-time payments, amounts owed, length of credit history, new credit activity, and the mix of credit you have. A higher score indicates lower risk, which can lead to better interest rates and loan terms. Related concepts include your credit history (the actual record of your borrowing and payments), a credit bureau (the organization that collects and maintains your credit data), and a credit report (the document that shows your accounts and history). The important point is that the numeric measure lenders use to gauge trustworthiness is the credit score.

10. Which term refers to penalties, a lower credit score, and potential legal action resulting from not repaying a loan?

A. Bankruptcy

B. Delinquent

C. Deferrment

D. Consequences of default

When you don’t repay a loan, the outcomes that follow are the consequences of default. This phrase covers the penalties you can incur—like late fees and higher interest—along with the impact on your credit score and the possibility of legal action to recover the debt. Lenders may also pursue collections or even lawsuits, which can lead to wage garnishment or liens in some cases. Because it describes the full range of results from failing to repay, it’s the most complete label for what happens after a loan goes into default. The other options don’t fit as well. Bankruptcy is a specific legal process to relieve debts, not the single, universal result of default. Delinquent describes being late on payments, not all the downstream consequences. Deferral is simply delaying payments, not the fallout that comes after default.

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://loanscreditscoresconsumercredit.examzify.com

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