

Truth in Lending (Regulation Z) General Practice Test (Sample)

Study Guide



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SAMPLE

Questions

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- 1. What type of APR increase does HOEPA specify for loans secured by personal property under \$50,000?**
 - A. 5 percentage points**
 - B. 6.5 percentage points**
 - C. 8.5 percentage points**
 - D. 10 percentage points**
- 2. How many days after the transfer of a mortgage loan must a notice be provided to the borrower?**
 - A. 3 days**
 - B. 5 days**
 - C. 21 days**
 - D. 30 days**
- 3. Can homeowner's insurance premiums be excluded from the finance charge if the consumer chooses the insurer?**
 - A. True**
 - B. False**
 - C. It depends on the lender**
 - D. Only if the loan is secured**
- 4. True or False: Loans used to purchase or improve rental property are considered business-purpose and are exempt from Regulation Z.**
 - A. True**
 - B. False**
 - C. Only if they are owner-occupied**
 - D. Only if the property contains fewer than three units**
- 5. What is deducted from the principal amount in order to determine the amount financed?**
 - A. Insurance premiums financed by the lender**
 - B. Prepaid finance charges**
 - C. Transaction charges**
 - D. Life insurance premiums**

- 6. Which of the following is NOT a characteristic of a Qualified Mortgage?**
- A. Negative amortization**
 - B. Above 43% DTI**
 - C. Fixed monthly payments**
 - D. Secured by a primary residence**
- 7. Which can be considered a "bona fide emergency" under Reg Z?**
- A. Home repairs due to a storm**
 - B. Purchasing a new car**
 - C. Travel expenses**
 - D. Credit card debt repayment**
- 8. If Mike signs for a loan on April 11 and receives his Reg Z materials on April 12, when does the rescission period end?**
- A. Thursday, April 13**
 - B. Friday, April 14**
 - C. Saturday, April 15**
 - D. Monday, April 17**
- 9. How many days must borrowers be given to decide whether to accept the terms of an education loan after approval?**
- A. 30 days**
 - B. 15 days**
 - C. 5 days**
 - D. 3 days**
- 10. True or False: To be considered a QM, a first-lien loan's APR cannot exceed the APOR by a certain percentage determined by the loan size.**
- A. True**
 - B. False**
 - C. Only for loans above a certain threshold**
 - D. It depends on the lender**

Answers

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

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Explanations

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1. What type of APR increase does HOEPA specify for loans secured by personal property under \$50,000?

- A. 5 percentage points**
- B. 6.5 percentage points**
- C. 8.5 percentage points**
- D. 10 percentage points**

The correct answer is that HOEPA specifies an APR increase of 8.5 percentage points for loans secured by personal property under \$50,000. This regulation, part of the Home Ownership and Equity Protection Act (HOEPA), is designed to protect borrowers from predatory lending practices. Specifically, it triggers certain disclosures and protections for high-cost loans. The threshold of 8.5 percentage points is significant as it indicates a higher risk associated with these types of loans, prompting additional regulations to ensure the borrower's understanding of the loan terms and to prevent abusive lending practices. Understanding this threshold is crucial for both lenders and borrowers. It serves as a regulatory benchmark to differentiate between standard loans and those considered high-cost, thereby qualifying for various consumer protections under the law. Familiarizing oneself with this aspect of HOEPA is essential for compliance in lending practices and for ensuring that borrowers' rights are preserved.

2. How many days after the transfer of a mortgage loan must a notice be provided to the borrower?

- A. 3 days**
- B. 5 days**
- C. 21 days**
- D. 30 days**

The correct answer is that a notice must be provided to the borrower within 30 days after the transfer of a mortgage loan. This requirement is essential for maintaining transparency and ensuring that borrowers are informed about their loan's new servicer or holder. Regulation Z, which implements the Truth in Lending Act, mandates that the borrower receives timely notification so they can direct their payments appropriately and know who to contact regarding their mortgage. The 30-day timeframe allows borrowers to adjust to the change in servicer and seek any necessary clarification about their loan terms or payment processes. This provision helps enhance borrower rights and protections throughout the loan lifecycle. By adhering to this regulation, lenders and loan servicers fulfill their obligation to keep borrowers informed, promoting a clearer understanding of their financial responsibilities.

3. Can homeowner's insurance premiums be excluded from the finance charge if the consumer chooses the insurer?

A. True

B. False

C. It depends on the lender

D. Only if the loan is secured

Homeowner's insurance premiums cannot be excluded from the finance charge under Regulation Z if the consumer has the option to select the insurer. According to Truth in Lending Act guidelines, any costs that a borrower is required to pay as a condition of obtaining credit are considered part of the finance charge unless certain exceptions apply. In this case, if the borrower is allowed to select their own insurer, the lender is not mandating a specific cost, and thus, the premiums for insurance would be treated as an integral part of the total costs associated with obtaining the loan. Therefore, since the borrower can shop for insurance and is not limited to a particular provider, the premiums cannot be excluded, thus making the statement that they can be excluded false.

4. True or False: Loans used to purchase or improve rental property are considered business-purpose and are exempt from Regulation Z.

A. True

B. False

C. Only if they are owner-occupied

D. Only if the property contains fewer than three units

Loans used to purchase or improve rental property are indeed considered to be for business purposes. Regulation Z, which implements the Truth in Lending Act, primarily applies to consumer credit rather than business or commercial credit. When a loan is taken out for the purpose of acquiring or improving a property that is utilized for rental income or other business activities, it falls outside the regulatory scope of consumer protection laws outlined in Regulation Z. The classification as a business-purpose loan provides the rationale for the exemption from Regulation Z's disclosure requirements and other protections afforded to consumer transactions. As such, it reinforces the notion that the borrower is using the funds for profit-generating activities rather than personal use. Considering this understanding of business-purpose loans, the assertion that loans for rental property are exempt from Regulation Z holds true.

5. What is deducted from the principal amount in order to determine the amount financed?

- A. Insurance premiums financed by the lender**
- B. Prepaid finance charges**
- C. Transaction charges**
- D. Life insurance premiums**

The amount financed is calculated by taking the principal amount of the loan and deducting certain costs that are not part of the loan itself. Prepaid finance charges are specific costs that borrowers pay upfront in connection with the loan, such as certain fees and charges that, while related to the transaction, do not directly relate to the principal amount borrowed. By deducting prepaid finance charges from the principal, the amount financed reflects the actual amount the borrower will receive and utilize, which is critical for understanding the true cost of borrowing and for providing an accurate calculation of the annual percentage rate (APR) under Regulation Z. This ensures that borrowers have a clear understanding of what they are financing and helps maintain transparency in lending practices. Other choices, such as insurance premiums financed by the lender or life insurance premiums, do not form part of the costs deducted to arrive at the amount financed. Rather, these may be additional costs associated with taking out a loan but are not treated as prepaid finance charges in this context. Transaction charges also may relate to the overall loan costs but are not specifically deducted as part of the calculation for the amount financed.

6. Which of the following is NOT a characteristic of a Qualified Mortgage?

- A. Negative amortization**
- B. Above 43% DTI**
- C. Fixed monthly payments**
- D. Secured by a primary residence**

A Qualified Mortgage (QM) is a category of home loan that meets certain criteria established by the Consumer Financial Protection Bureau (CFPB) to ensure borrowers have a reasonable ability to repay their loans. Negative amortization, where the loan balance increases instead of decreases because payments are insufficient to cover interest, is explicitly disallowed in the QM standard. This characteristic is important as it protects borrowers from the risk of growing debt, which could lead to financial hardship and potential foreclosure. Additionally, QMs are designed to maintain standards that promote sustainable lending. They generally require that the debt-to-income (DTI) ratio does not exceed 43%, and they typically feature fixed monthly payments. They also must be for a loan that is secured by a primary residence, ensuring that the loans are linked to a stable asset. By understanding these characteristics, it's clear that the correct identification of negative amortization as a non-qualifying feature aligns with the regulation's intent to promote responsible lending practices.

7. Which can be considered a "bona fide emergency" under Reg Z?

- A. Home repairs due to a storm**
- B. Purchasing a new car**
- C. Travel expenses**
- D. Credit card debt repayment**

Under Regulation Z, a "bona fide emergency" typically refers to unexpected expenses that require immediate attention and cannot be postponed. Home repairs due to a storm fit this definition because such repairs are often urgent, relating to safety and functionality. For instance, a damaged roof or flooding can lead to further structural damage if not addressed quickly, affecting the habitability of a home. In contrast, purchasing a new car, travel expenses, and credit card debt repayment do not usually qualify as emergencies. While they may involve significant financial considerations, they are generally planned or non-urgent expenditures, allowing for time to budget and strategize for payment. Thus, home repairs after a storm stand out as the clear example of a situation requiring swift action to prevent further harm, justifying its classification as a bona fide emergency under Regulation Z.

8. If Mike signs for a loan on April 11 and receives his Reg Z materials on April 12, when does the rescission period end?

- A. Thursday, April 13**
- B. Friday, April 14**
- C. Saturday, April 15**
- D. Monday, April 17**

To determine the end of the rescission period, it's important to understand the timing involved in the Truth in Lending Act (Regulation Z). Traditionally, when a consumer enters into a loan agreement for certain types of dwelling-secured loans, they are afforded a three-day right to rescind, or cancel, the agreement. This rescission period generally lasts three business days from the date the borrower receives the required disclosure materials. In this case, Mike signed for his loan on April 11, so that date does not count towards the rescission period. He received his Regulation Z materials the following day, April 12, which marks the start of the rescission period. The three-day period includes the full duration from April 12. It's essential to note how the days are counted. The three-day rescission period would therefore include April 12, 13, and 14, with the last day of the rescission period ending at midnight on Friday, April 14. It's also important to recognize that the count does not include weekends or federal holidays when calculating the end of the rescission period. Therefore, the correct response is that the rescission period ends on Friday, April 14, which allows Mike to consider his options until the

9. How many days must borrowers be given to decide whether to accept the terms of an education loan after approval?

A. 30 days

B. 15 days

C. 5 days

D. 3 days

The correct answer is 30 days because, under the Truth in Lending Act (TILA) and its implementing Regulation Z, borrowers are generally required to be given a reasonable period of time to review the terms of the loan after it has been approved. Specifically, the regulation stipulates that borrowers must be provided a minimum of 30 days to consider the loan terms before making a final decision. This requirement is in place to ensure that borrowers have adequate time to understand the financial commitment they are entering into and to compare the terms of this loan with other options they may have. It promotes informed decision-making and helps borrowers avoid making impulsive choices that could be detrimental to their financial health. Other time frames, such as 15, 5, or 3 days, do not meet the minimum standards set forth in TILA for education loans, which is why they are not the correct choices.

10. True or False: To be considered a QM, a first-lien loan's APR cannot exceed the APOR by a certain percentage determined by the loan size.

A. True

B. False

C. Only for loans above a certain threshold

D. It depends on the lender

To be designated as a Qualified Mortgage (QM), a first-lien loan must indeed adhere to specific criteria regarding its Annual Percentage Rate (APR) in relation to the Average Prime Offer Rate (APOR). This connection is crucial because one of the key attributes of a QM is that it helps to ensure borrowers are provided with loans that are more sustainable and less likely to lead to default. The regulation stipulates that for a loan to qualify as a QM, its APR must not exceed the APOR by a set percentage, which varies depending on the size of the loan. This means that as the loan amount increases, the allowable threshold for the APR above the APOR also adjusts. This measure is put in place to mitigate the risk of consumers taking on loans that they are not able to manage financially, thus promoting responsible lending practices. Therefore, the assertion that for a first-lien loan to be considered a QM, its APR cannot exceed the APOR by a certain percentage based on loan size is true, validating the selection of that response.