

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

Study Guide



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. What does the written Notice of the Right to Cancel explain?**
 - A. The security interest on the home**
 - B. The consumer's right to cancel the transaction**
 - C. The steps the consumer must take to cancel**
 - D. All of the above**
- 2. 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**
- 3. How many copies of the Notice of Right to Cancel must a borrower receive?**
 - A. One**
 - B. Two**
 - C. Three**
 - D. Four**
- 4. What is the maximum duration of the right of rescission period?**
 - A. Two days**
 - B. Three days**
 - C. Five days**
 - D. Seven days**
- 5. Which of the following is exempt from some parts of the ATR rule?**
 - A. Reverse mortgage**
 - B. Standard loans**
 - C. Fixed-rate mortgages**
 - D. Conventional loans**

- 6. How many days does a lender have to provide the servicing transfer notice?**
- A. 3 days**
 - B. 15 days**
 - C. 30 days**
 - D. 45 days**
- 7. When Megan Johnson withdraws from her HELOC for college tuition, does Reg Z require any additional disclosures?**
- A. Yes**
 - B. No**
 - C. Only for loans over \$10,000**
 - D. Depends on her financial situation**
- 8. For purposes of the right of rescission, when is the APR considered accurate if the disclosed finance charge is understated?**
- A. Understated by no more than 1/2 of 1% of the face amount of the note or \$50**
 - B. Understated by no more than 1/2 of 1% of the face amount of the note or \$100**
 - C. Less than the amount required to be disclosed**
 - D. Greater than the amount required to be disclosed**
- 9. Is a loan to install a new roof on a rental property subject to Regulation Z?**
- A. Yes, because it improves the property**
 - B. No, because it is not owner-occupied**
 - C. Yes, because it is a necessary expense**
 - D. No, because it does not exceed the \$60,000 threshold**

10. True or False: Credit extended to maintain non-owner-occupied rental property is considered business purposes.

- A. True**
- B. False**
- C. Only for commercial property**
- D. Only if the property has multiple units**

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Answers

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

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Explanations

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1. What does the written Notice of the Right to Cancel explain?

- A. The security interest on the home**
- B. The consumer's right to cancel the transaction**
- C. The steps the consumer must take to cancel**
- D. All of the above**

The correct answer highlights that the written Notice of the Right to Cancel encompasses several important components related to consumer rights in a transactional context, particularly for loans secured by a consumer's primary residence. Firstly, the notice explains the consumer's right to cancel the transaction. This aspect is crucial as it empowers consumers by informing them that they have a specific time frame during which they can change their mind about the loan or credit agreement they are entering into. This is particularly relevant in home equity loans or refinancing, where consumers might need additional time to reconsider the implications of the agreement. Additionally, the notice includes information about the security interest on the home. By clarifying that the loan is secured against the consumer's primary residence, it emphasizes the potential risks involved. The consumer must understand that if they opt to keep the transaction, their home could be at risk if they fail to meet repayment obligations. Lastly, the notice outlines the specific steps that consumers must take to effectively cancel the transaction, ensuring there is no ambiguity in the process. This guidance is essential, as it provides the consumer with clear instructions on how to exercise their right to cancel, thus fostering an informed decision-making process. By combining all these elements, the written Notice of the Right to Cancel serves as a comprehensive

2. 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.

3. How many copies of the Notice of Right to Cancel must a borrower receive?

- A. One
- B. Two**
- C. Three
- D. Four

A borrower must receive two copies of the Notice of Right to Cancel as part of the requirements outlined in Regulation Z, which implements the Truth in Lending Act. This regulation ensures that consumers are adequately informed about their right to cancel certain transactions, particularly in the context of home equity loans or refinancing. The purpose of providing two copies is to ensure that the borrower has access to this important information and can retain one copy for their records, while also having a second copy to refer to if needed. This emphasis on clarity and the borrower's rights is a vital aspect of consumer protection laws. The requirement for two copies helps to enhance the borrower's understanding and ability to exercise their rights effectively. Having only one copy would undermine the borrower's ability to refer back to the terms of cancellation and might lead to misunderstandings about their rights within the cancellation period. The clear stipulation of two copies supports a fair and transparent borrowing process.

4. What is the maximum duration of the right of rescission period?

- A. Two days
- B. Three days**
- C. Five days
- D. Seven days

The maximum duration of the right of rescission period is three days. This right applies to certain transactions, particularly in cases involving the refinancing of a home loan or the acquisition of a home with a residential mortgage. Under the Truth in Lending Act (Regulation Z), consumers are given the opportunity to cancel the transaction within this specified period if they feel it is necessary. The three-day period begins when the consumer has completed the transaction and received all required disclosures, including information on their right to rescind. If the required disclosures are not provided or are incomplete, the right of rescission can extend to a longer timeframe, allowing individuals additional time beyond the standard three days to exercise their right to cancel the transaction. However, under normal circumstances, the maximum duration for the right to rescind is capped at three days. This ensures that consumers have a reasonable window to reconsider their commitments without experiencing undue pressure.

5. Which of the following is exempt from some parts of the ATR rule?

- A. Reverse mortgage**
- B. Standard loans**
- C. Fixed-rate mortgages**
- D. Conventional loans**

The reverse mortgage is exempt from some parts of the Ability to Repay (ATR) rule because it is considered a unique financial product designed primarily for older homeowners. The ATR rule requires lenders to assess a borrower's ability to repay a mortgage before issuing a loan. However, due to the structure and purpose of reverse mortgages, which allow seniors to convert part of their home equity into cash without the need for monthly repayments until they move out or pass away, certain ATR requirements are not applicable. Seniors often rely on these loans to supplement their income during retirement, and the lack of monthly payments alleviates the traditional income assessment that applies to other loan products. This exemption is crucial to encourage the availability of reverse mortgages for older homeowners needing financial flexibility, without imposing stringent repayment criteria that may not be relevant to this demographic.

6. How many days does a lender have to provide the servicing transfer notice?

- A. 3 days**
- B. 15 days**
- C. 30 days**
- D. 45 days**

A lender must provide the servicing transfer notice within a specific timeframe to ensure that borrowers are adequately informed about any changes in the servicing of their loans. The correct timeframe is 30 days. This requirement is designed to protect consumers by giving them timely notice of who will be handling their loan payments and customer service going forward. Providing this notice helps prevent confusion and allows borrowers to know where to direct their payments, as well as whom to contact for any inquiries related to their loan. This is especially important in maintaining good communication and transparency in the lending process.

7. When Megan Johnson withdraws from her HELOC for college tuition, does Reg Z require any additional disclosures?

A. Yes

B. No

C. Only for loans over \$10,000

D. Depends on her financial situation

Under Regulation Z, which implements the Truth in Lending Act, specific disclosures must be provided to consumers for certain types of credit transactions. However, when it comes to home equity lines of credit (HELOCs), the regulatory requirements are clear. If Megan Johnson is using her HELOC to withdraw funds for college tuition, it does not trigger any additional disclosure requirements beyond those already provided at the time the line of credit was established. This is because the initial disclosures given for HELOCs cover all future draws on the line of credit, making additional disclosures unnecessary for each individual withdrawal. Thus, the correct answer is that Reg Z does not require any additional disclosures when withdrawing from an existing HELOC for educational expenses, such as college tuition. This maintains a balance between providing adequate information to consumers and avoiding repetitive disclosures that could confuse or overwhelm them.

8. For purposes of the right of rescission, when is the APR considered accurate if the disclosed finance charge is understated?

A. Understated by no more than 1/2 of 1% of the face amount of the note or \$50

B. Understated by no more than 1/2 of 1% of the face amount of the note or \$100

C. Less than the amount required to be disclosed

D. Greater than the amount required to be disclosed

The accurate statement regarding the right of rescission is that the Annual Percentage Rate (APR) is considered accurate if the disclosed finance charge is understated by no more than 1/2 of 1% of the face amount of the note or \$100. This provision allows for a certain tolerance in the disclosure of the finance charge to ensure that minor discrepancies do not lead to penalties or rescission rights for the borrower. The intent is to provide consumers with meaningful and clear information while recognizing that minor errors may occur. An understatement that falls within this tolerance does not trigger the right of rescission because it does not significantly affect the consumer's understanding of the cost of the loan. Therefore, if the understatement is up to this specified threshold, the disclosures can still be considered compliant with Regulation Z requirements.

9. Is a loan to install a new roof on a rental property subject to Regulation Z?

A. Yes, because it improves the property

B. No, because it is not owner-occupied

C. Yes, because it is a necessary expense

D. No, because it does not exceed the \$60,000 threshold

In the context of Regulation Z, a loan related to a rental property is indeed generally not subject to the provisions of Regulation Z when it pertains to loans for business or commercial purposes. Regulation Z primarily governs consumer credit, which is defined as credit extended to individuals for personal, family, or household purposes. Since the property in question is a rental property rather than an owner-occupied dwelling, the loan is classified as being for a business purpose. Lenders typically do not apply Regulation Z's requirements to loans that are secured by investment properties, as these loans are meant for business activities. Therefore, the classification of the property as not owner-occupied aligns with the premise that the loan does not fall under the consumer protections intended by Regulation Z. This understanding highlights the importance of determining the occupancy status and intended use of real estate when assessing the applicability of lending regulations.

10. True or False: Credit extended to maintain non-owner-occupied rental property is considered business purposes.

A. True

B. False

C. Only for commercial property

D. Only if the property has multiple units

The assertion that credit extended to maintain non-owner-occupied rental property is considered for business purposes is true. Under Regulation Z, which governs the Truth in Lending Act, credit extended for business-related activities is treated differently from consumer credit. This includes loans for properties that generate income, such as rental properties that are not occupied by the owner. These types of loans are seen as business transactions because the primary intent behind them is to earn a profit from rental income rather than to enhance personal living circumstances. In the context of Regulation Z, a non-owner-occupied rental property is typically classified as an investment, and financing activities related to such properties fall under the definition of business purposes. This distinction is crucial, as it dictates different regulatory requirements and protections when it comes to disclosures, terms, and other aspects of the lending process. Therefore, the statement is accurate and reflects the proper understanding of how non-owner-occupied rental property financing fits within the framework of business purposes in lending.

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://regzgeneral.examzify.com>

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