

# Truth in Savings Act (TISA) Practice Test (Sample)

## Study Guide



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## **Questions**

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- 1. What does a Passbook Savings Account typically involve?**
  - A. A card for electronic transactions**
  - B. A document where the bank records transactions**
  - C. A mobile banking app**
  - D. An investment account**
- 2. Which of the following best describes the role of compounding interest?**
  - A. It simplifies the calculation of monthly interest**
  - B. It allows previously earned interest to generate additional interest**
  - C. It guarantees a fixed return on investments**
  - D. It is irrelevant to daily banking operations**
- 3. When should interest begin to accrue for deposited funds?**
  - A. No later than the business day of deposit credit**
  - B. Immediately upon deposit**
  - C. At the end of the deposit period**
  - D. Only after the first monthly statement**
- 4. What must happen if a bank adds an ATM access feature to a savings account?**
  - A. Notify consumers of fee changes**
  - B. Disclose changes made according to Regulation E**
  - C. Cancel existing account terms**
  - D. Automatically issue a new account**
- 5. How should the interest rate and APY be disclosed for requests made?**
  - A. As of the last month**
  - B. Within the most recent 7 calendar days**
  - C. Only for current accounts**
  - D. On a quarterly basis**

- 6. Which aspect is NOT included when defining interest under TISA?**
- A. Payment of a bonus**
  - B. Payment for the use of funds**
  - C. Reduction in fees**
  - D. Absorption of expenses**
- 7. How is the Average Daily Balance calculated?**
- A. By summing the balances for the period and dividing by the number of transactions**
  - B. By averaging the principal balance each day during the accounting period**
  - C. By using only the highest balance within the month**
  - D. By applying the interest rate to the lowest balance each day**
- 8. Which method is generally preferred for calculating interest when dealing with variable rates?**
- A. Daily Balance Method**
  - B. Low Balance Method**
  - C. Average Daily Balance Method**
  - D. Fixed Rate Method**
- 9. Why are banks no longer permitted to pay interest only on the Investable Balance?**
- A. It incentivizes account holder behavior**
  - B. It may prevent unintentional overdrafts**
  - C. Regulations aimed to enhance transparency and fairness**
  - D. To ensure higher returns for investors**
- 10. Which agency is responsible for enforcing compliance with TISA among credit unions?**
- A. Federal Reserve System**
  - B. National Credit Union Administration**
  - C. Consumer Financial Protection Bureau**
  - D. Office of the Comptroller of the Currency**

## **Answers**

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

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## **Explanations**

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**1. What does a Passbook Savings Account typically involve?**

- A. A card for electronic transactions
- B. A document where the bank records transactions**
- C. A mobile banking app
- D. An investment account

A Passbook Savings Account involves a document where the bank records transactions. This traditional savings account is characterized by its use of a physical passbook—an actual book or booklet issued by the bank that customers present whenever they make deposits or withdrawals. Each transaction, whether depositing or withdrawing funds, is manually recorded by the bank staff in this passbook, providing a tangible record of the account's activity. The passbook serves not only as a record of balance and transactions but also reinforces the personal connection to the account holder because they need to physically visit the bank to update it. Unlike other banking methods, this approach does not rely on electronic cards, mobile apps, or investment vehicles, thus differentiating it as a straightforward savings option that is particularly beneficial for those who prefer a hands-on approach to their finances.

**2. Which of the following best describes the role of compounding interest?**

- A. It simplifies the calculation of monthly interest
- B. It allows previously earned interest to generate additional interest**
- C. It guarantees a fixed return on investments
- D. It is irrelevant to daily banking operations

Compounding interest is a fundamental concept in finance that significantly impacts the growth of savings and investments. The correct choice highlights that compounding interest allows previously earned interest to generate additional interest. This means that not only do you earn interest on your initial principal amount, but you also earn interest on the accumulated interest over time. This process creates a powerful effect where the investment grows at an increasingly faster rate compared to simple interest calculations that only take the initial principal into account. The essence of compounding lies in the frequency with which interest is added to the principal - whether it's daily, monthly, or annually - leading to an exponential growth curve. Over time, this compounding effect can lead to substantial increases in the value of investments, making it a crucial factor for anyone looking to maximize their savings over the long term. Understanding this principle is vital for successful financial planning and investment strategies.

### 3. When should interest begin to accrue for deposited funds?

**A. No later than the business day of deposit credit**

**B. Immediately upon deposit**

**C. At the end of the deposit period**

**D. Only after the first monthly statement**

Interest for deposited funds is required to begin accruing no later than the business day of deposit credit. This means that once the financial institution has officially recorded the deposit, interest should start to accrue. This provision is part of the Truth in Savings Act (TISA), which aims to ensure consumers receive fair and clear information regarding interest earned on their deposits. Accruing interest from the business day of deposit credit ensures that consumers are compensated fairly for the time their funds are held by the bank. This approach aligns with the goals of TISA by promoting transparency and allowing depositors to accurately understand how their interest calculations work. Other options suggest starting interest accrual at less favorable times for the depositor, such as immediately upon deposit (which can be impractical due to processing times) or at the end of the deposit period, neither of which adheres to the requirement that recognizes the bank's responsibility to start interest accrual promptly once the deposit is credited. Similarly, only starting accrual after the first monthly statement would not provide consumers timely benefit from their deposits, contrary to the intent of TISA.

### 4. What must happen if a bank adds an ATM access feature to a savings account?

**A. Notify consumers of fee changes**

**B. Disclose changes made according to Regulation E**

**C. Cancel existing account terms**

**D. Automatically issue a new account**

When a bank adds an ATM access feature to a savings account, it is required to disclose changes made according to Regulation E, which governs electronic fund transfers. This regulation mandates financial institutions to notify customers about any changes to the terms and conditions of accounts that affect electronic withdrawal or deposit functions, including the introduction of an ATM feature. This is essential because such changes can affect how a customer accesses their funds and what fees might be associated with using the ATM. Providing clear and comprehensive disclosures helps ensure that consumers are informed about their rights, fees, and the conditions of accessing their funds with the new features. Transparency is a primary component of both Regulation E and the Truth in Savings Act, which promotes consumer awareness and protection regarding financial products and services.

**5. How should the interest rate and APY be disclosed for requests made?**

- A. As of the last month**
- B. Within the most recent 7 calendar days**
- C. Only for current accounts**
- D. On a quarterly basis**

The correct answer is that interest rate and annual percentage yield (APY) disclosures must be made within the most recent 7 calendar days. This requirement is part of the Truth in Savings Act (TISA), which aims to ensure that consumers receive accurate and timely information about the terms and conditions of their deposit accounts. By stating that the disclosures should reflect the most current rates offered within that 7-day period, TISA emphasizes transparency and enables prospective consumers to make informed decisions based on the most relevant data. Disclosing rates as of the last month, only for current accounts, or on a quarterly basis would not provide consumers with the timely and relevant information needed to understand their financial products effectively. Monthly or quarterly disclosures could lead to outdated information being used for decision-making, therefore undermining the intent of TISA to safeguard consumer rights and enhance the clarity around banking products.

**6. Which aspect is NOT included when defining interest under TISA?**

- A. Payment of a bonus**
- B. Payment for the use of funds**
- C. Reduction in fees**
- D. Absorption of expenses**

The Truth in Savings Act (TISA) aims to ensure that consumers receive clear and concise information regarding the interest earned on their accounts. When defining interest, it encompasses various elements related to the benefits provided to account holders for the use of their funds. Payment of a bonus, while it may seem beneficial, does not fall under the core definition of interest as per TISA. Interest is primarily concerned with the compensation paid to depositors for allowing the use of their funds, which is where payment for the use of funds is relevant. Reductions in fees can indirectly relate to the overall benefit an account holder might receive, but it is not classified as interest income. Absorption of expenses pertains to the financial institution's internal cost management rather than a benefit to the account holder in the context of interest. By understanding that interest specifically relates to the remuneration for the use of funds, it is clear that a payment of a bonus does not directly relate to the fundamental concept of interest under TISA. This distinction is essential in grasping how financial institutions communicate interest rates and other account incentives to consumers.

## 7. How is the Average Daily Balance calculated?

- A. By summing the balances for the period and dividing by the number of transactions
- B. By averaging the principal balance each day during the accounting period**
- C. By using only the highest balance within the month
- D. By applying the interest rate to the lowest balance each day

The Average Daily Balance is calculated by averaging the principal balance each day during the accounting period. This method involves taking the balance of the account at the end of each day, summing these daily balances over the accounting period, and then dividing that total by the number of days in the period. This calculation provides a more accurate representation of the account's activity and interest accrual, as it reflects the fluctuations in the balance throughout the entire period rather than just specific points in time. This method is particularly common in interest calculations for savings accounts and is beneficial for both consumers and institutions as it allows interest to be accrued based on actual daily balances, promoting more fair compensation for account holders.

## 8. Which method is generally preferred for calculating interest when dealing with variable rates?

- A. Daily Balance Method
- B. Low Balance Method
- C. Average Daily Balance Method**
- D. Fixed Rate Method

The Average Daily Balance Method is generally preferred for calculating interest on accounts with variable rates because it provides a more accurate reflection of the account holder's balance over time. Variable rates can change frequently, and the average daily balance helps to account for these fluctuations by averaging the balance over the entire month. By using this method, the interest is calculated based on the balance held each day, resulting in a fairer calculation of interest than methods that might focus solely on beginning or ending balances. This is particularly important for accounts where deposits and withdrawals can occur frequently, as it captures the changing nature of the balance and the impact of varying interest rates on the amount of interest earned or owed. In contrast, other methods such as the Daily Balance Method focus on balance changes on a day-by-day basis without averaging, which can sometimes lead to inconsistencies in reflecting the true interest accumulation over the period. The Low Balance Method could result in less earned interest if the balance drops significantly during the period, and the Fixed Rate Method does not apply when rates are variable, as it relies on a stable rate for calculations. Thus, the Average Daily Balance Method aligns best with the needs of accounts that experience variable interest rates.

**9. Why are banks no longer permitted to pay interest only on the Investable Balance?**

- A. It incentivizes account holder behavior**
- B. It may prevent unintentional overdrafts**
- C. Regulations aimed to enhance transparency and fairness**
- D. To ensure higher returns for investors**

The correct answer highlights the shift in regulations to promote transparency and fairness in financial transactions, particularly in the realm of consumer banking. Under the Truth in Savings Act, the aim is to ensure that consumers are provided with clear and accurate information about interest rates and account terms. By prohibiting banks from paying interest solely on the Investable Balance, regulations help to prevent confusing practices that could mislead consumers about how their interest is calculated. This change reflects broader efforts to create a level playing field in banking, allowing account holders to make informed decisions based on a straightforward understanding of how their funds are managed and how interest is accrued. The focus is on safeguarding consumer interests, ensuring they have access to information that allows for fair comparison and understanding of account terms across different financial institutions. Other potential reasons mentioned, such as incentivizing account holder behavior, preventing unintentional overdrafts, and ensuring higher returns for investors, while important in the context of banking practices, do not specifically address the core goal of enhancing transparency and fairness in the way interest is calculated and communicated to consumers.

**10. Which agency is responsible for enforcing compliance with TISA among credit unions?**

- A. Federal Reserve System**
- B. National Credit Union Administration**
- C. Consumer Financial Protection Bureau**
- D. Office of the Comptroller of the Currency**

The National Credit Union Administration (NCUA) is the correct answer because it is the federal agency specifically tasked with regulating and supervising federal credit unions. Under the Truth in Savings Act (TISA), which is designed to ensure transparency and fairness in the way financial institutions communicate terms and conditions of deposit accounts, the NCUA plays a critical role in enforcing these regulations for credit unions. The agency ensures that credit unions comply with TISA provisions, which include requirements for disclosing interest rates, fees, and other account information to members. By overseeing compliance, the NCUA protects consumers and promotes informed savings decisions within credit unions. Other federal agencies, such as the Federal Reserve System and the Consumer Financial Protection Bureau, also have roles in consumer protection and banking regulation, but their jurisdictions differ. The Office of the Comptroller of the Currency primarily oversees national banks and federal savings associations, not credit unions, making the NCUA the right agency in this context.