ABILITY-TO-REPAY:

REGULATING OR UNDERWRITING?

PART I

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MAGAZINE ARTICLE

"Then," said Poirot, "having placed my solution before you,
I have the honour to retire from the case."
Murder on the Orient Express - Agatha Christie [1]

On May 11, 2011, the Federal Reserve Board (FRB) issued a proposed rule (Rule) to implement ability-to-repay requirements for closed-end residential loans.[2] The Rule implements Section 1411, Section 1412, and part of Section 1414 of the Dodd-Frank Wall Street Reform and Consumer Financial Protection Act of 2010 (Dodd-Frank).[3] Comments on the Rule are to be received by no later than July 22, 2011.[4] Having published the proposed Rule, the FRB will soon retire from its involvement in this matter, because it will hand over its rulemaking authority in the subject statute to the Consumer Financial Protection Bureau (CFPB) on July 21, 2011. **Thus, the promulgation of the final Rule will be under the aegis of the CFPB.**

In this article, we will explore some of the salient features of this Rule, noting particularly that, as a revision to Regulation Z (the implementing regulation of the Truth in Lending Act), it requires creditors to determine a consumer's ability to repay a mortgage **before** making the loan and would also establish minimum mortgage underwriting standards. The Rule applies to any consumer credit transaction secured by a dwelling, except an open-end credit plan,[5] timeshare plan, reverse mortgage, or temporary loan or ''bridge'' loan with a term of 12 months or less. It appears that the Rule applies to purchase money and refinances, but not modifications of existing mortgages. There is a prohibition on prepayment penalties unless the mortgage is a prime, fixed rate, qualified mortgage, and unless the amount of the prepayment penalty is limited.

Complying with the requirements of the ability-to-repay Rule is essential, because borrowers in a foreclosure proceeding will likely claim that the creditor failed to comply with the Rule as a defense by way of recoupment or set off, without regard to the normal statute of limitations under the Truth-in-Lending Act (TILA).[6] A violation of the Rule subjects the creditor to the TILA civil monetary penalties, plus the same enhanced civil remedies that apply to violations of TILA's high-cost loan rules,[7] and TILA also would authorize state attorneys general to bring actions for violations of the Rule for a period of up to three years.[8]

A loan that is a covered transaction must qualify, among other things, as a **"qualified mortgage" (QM)** if the creditor wishes to include a prepayment penalty in the loan. The Rule provides a presumption of compliance with the ability-to-repay requirements if the mortgage loan is a ''qualified mortgage,'' which does not contain certain risky features and limits points and fees on the loan. Furthermore, one feature of a higher-risk mortgage loan (i.e., subject to enhanced appraisal requirements under Dodd-Frank § 1471) is the loan may not be a QM.[9] (Under Dodd-Frank § 941, a "qualified residential mortgage" may not be broader in scope than a QM as defined in the Rule.)

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I will provide an outline, followed by some elucidation of the implications and dimensions of the Rule.

FOUR OPTIONS

I like not fair terms and a villain's mind.
The Merchant of Venice (Act I, Scene III) - Shakespeare

There are **four (4) options** to the determination of compliance with the Rule. The Rule refers to these origination options as "methods" and equips each method with a description of (1) limits on the loan features or term, (2) limits on points and fees, (3) underwriting requirements, and (4) payment calculations.

Option # 1: General Ability-to-Repay Standard

A creditor can meet the general ability-to-repay standard or test by:

- Considering and verifying the following **eight (8) underwriting factors**:
    1. Income or assets relied upon in making the ability-to-repay determination;
    2. Current employment status;
    3. The monthly payment on the mortgage;
    4. The monthly payment on any simultaneous mortgage;
    5. The monthly payment for mortgage-related obligations;
    6. Current debt obligations;
    7. The monthly debt-to-income ratio, or residual income; and
    8. Credit history.
- Underwriting the payment for an adjustable-rate mortgage based on the fully indexed rate.

Option # 2: Qualified Mortgage (QM)

A creditor can originate a "qualified mortgage," which provides special protection from liability. The FRB is soliciting comment on two alternative definitions of a "qualified mortgage."

Alternative # 1: Provides a legal safe harbor and defines a "qualified mortgage" as a mortgage for which:

- The loan does not contain negative amortization, interest-only payments, or a balloon payment, or a loan term exceeding 30 years;
- The total points and fees do not exceed three (3%) percent of the total loan amount;
- The income or assets relied upon in making the ability-to-repay determination are considered and verified;[10] and,

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- The underwriting of the mortgage (a) is based on the maximum interest rate that may apply in the first five years, (b) uses a payment scheduled that fully amortizes the loan over the loan term, and (c) takes into account any mortgage-related obligations.

Alternative # 2: Provides a rebuttable presumption of compliance and would define a "qualified mortgage" as including the criteria listed under Alternative # 1 (above) as well as additional underwriting requirements from the general ability-to-repay standard (see Option # 1). In any event, under Alternative 2, the creditor would also have to consider and verify:

- The consumer's employment status;
- The monthly payment for any simultaneous mortgage;
- The consumer's current debt obligations;
- The monthly debt-to-income ratio or residual income; and
- The consumer's credit history.

Option # 3: Balloon-Payment Qualified Mortgage

This option is obviously meant to preserve access to credit for consumers located in rural or under-served areas where creditors may originate balloon loans to hedge against interest rate risk for loans held in a portfolio.

Under this option, a creditor may make a balloon-payment qualified mortgage with a loan term of five (5) years or more by:

- Complying with the requirements for a qualified mortgage; and
- Underwriting the mortgage based on the scheduled payment, except for the balloon payment.

Option # 4: Refinancing of a Non-Standard Mortgage

A creditor may refinance a "non-standard mortgage" with "risky" features into a more stable "standard mortgage." It has been asserted that this option is meant to preserve a consumer's access to a streamlined refinance that "materially" lowers the mortgage payment.

Under this option, a creditor complies by:

- Refinancing the consumer into a "standard mortgage" that has limits on loan fees and that does not contain certain features such as negative amortization, interest-only payments, or a balloon payment;
- Considering and verifying the underwriting factors listed in the general ability-to-repay standard, except the requirement to consider and verify the consumer's income or assets; and
- Underwriting the "standard mortgage" based on the maximum interest rate that can apply in the first five years.

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JUST A FEW MORE LAWS, PLEASE!

Laws are like cobwebs, which may catch small flies,
but let wasps and hornets break through.
Thoughts on Various Subjects - Jonathan Swift

There are other provisions incorporated into the Rule,[11] such as:

- Implementing the Dodd-Frank Act's limits on **prepayment penalties**.
- **Lengthening the time creditors must retain records** that evidence compliance with the ability-to-repay and prepayment penalty provisions.
- **Prohibiting evasion of the Rule** by structuring a closed-end extension of credit as an open-end plan.

STRANGERS IN A FAMILIAR WORLD

Because some stories end,
but old stories go on,
and you gotta dance if you want to stay ahead.
The Amazing Maurice and his Educated Rodents – Terry and Lyn Pratchett [12]

Let's elucidate the aforementioned options, keeping in mind that this is a very complex statute and by offering this broad overview, I am concomitantly constrained to a selective approach in evaluating key principles and features. Often it is not merely what is included from discourse, but what is excluded, that militates against a comprehensive understanding of a subject. For guidance, I urge you to seek advice of a competent, risk management professional.

OPTION # 1 - ABILITY TO REPAY [13]

This is an option that will be carefully reviewed by plaintiff's counsel in an action to challenge a creditor's compliance with the Rule. Consequently, enforcing compliance with the Rule will require fully vetted, tested, and continually updated, written procedures to govern every aspect of the application and underwriting process. Without clear and unambiguous policies and internal enforcement of appropriate policies and procedures, the creditor is allowing exposure to such a challenge. This option contains rigorous underwriting criteria and requires unmitigated, fact-based evaluations. Option # 1- the ability-to-repay test - is a somewhat unstable (due to the invariant rigors of procedural compliance) though a relatively favorable methodology for the creditor, even if the loan flow process leaves very little room for error.

OPTION # 2: QUALIFIED MORTGAGE (QM) [14]

Perhaps it is best to understand the QM as a mortgage that lacks (or is perceived to lack) risk features. It consists of **six (6) elements**, as follows:

1. Provides for regular periodic payments (except for payment changes that result from rate changes in an ARM or step-rate loan) that do not result in an increase in principal, allow the borrower to defer repayment of principal (i.e., an interest-only loan or partially amortizing loan), or result in a balloon payment (except for the special balloon-payment QMs). A single-payment loan cannot be a QM.

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2. Has a loan term of no more than 30 years.
3. Has total points and fees that do not exceed the permitted percentage of the total loan amount (discussed below).
4. The creditor underwrites the loan by including all mortgage-related obligations.
5. The creditor underwrites using the maximum interest rate that will apply at any time during the first five years following consummation (assuming, of course, that the interest rate for an ARM will rise as quickly as possible, taking any contractual rate caps into consideration) and periodic payments of principal and interest that will repay either the outstanding principal over the remaining loan term once the maximum interest rate is reached or the loan amount as of the date of consummation over the loan term.

Two alternatives are given: in the first alternative, to obtain a legal **safe harbor**, the creditor must consider and verify the borrower's current or reasonably expected income or assets to determine the borrower's repayment ability; and, in the second alternative, to obtain a rebuttable **presumption of compliance**, the creditor must consider and verify the borrower's current or reasonably expected income or assets (i.e., other than the value of the dwelling in question), the borrower's current employment status (assuming the creditor relies on employment income), the borrower's monthly payment on any simultaneous loan, the borrower's current debt obligations, the borrower's monthly DTI or residual income, and the borrower's credit history. It should be noted that the second alternative is for the most part similar to the ability-to-repay test.

There are some important aspects of Option # 2 that should be considered. With the safe harbor alternative, the FRB states that a QM will be **deemed to have complied** with the ability-to-repay test; therefore, the only way that the borrower can get past the safe harbor is by proving that the loan is not a QM. If this occurs, the burden will shift to the creditor or assignee to demonstrate that the loan meets the ability-to-repay test. With the presumption of compliance alternative, the FRB states that a QM is **presumed to have complied** with the ability-to-repay test; which means that, even if the mortgage is a QM, the borrower can rebut the "presumption of compliance" with evidence that the mortgage did not meet the ability-to-repay test. Part of the basis of the FRB's proposal is to determine, through comments, which conditions should apply, either the safe harbor or the presumption of compliance.

In my opinion, creditors and similarly situated entities (i.e., mortgage lenders, investors, and servicers) would probably favor the safe harbor approach because of the protection from liability that it will afford. On the other hand, consumer advocacy groups and the plaintiff's bar will favor the presumption of compliance, because that provides *the opportunity to challenge the ability-to-repay for any mortgage, particularly those in imminent foreclosure.*

POINTS AND FEES

Embedded in the QM requirements is a test for **Points and Fees**, the purpose of which is to determine what does or does not constitute a QM. The Rule would limit the total points and fees to a specific percentage of the total loan amount in order to create a threshold to identify a QM.

The term "points and fees" uses the definition of that term provided in the revised high-cost mortgage rules, which include the following:

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A. All finance charges Regulation Z[15] (except interest; time-price differential; mortgage insurance premiums assessed under a federal or state agency program; mortgage insurance premiums not in excess of the amount payable under policies in effect at origination under §203(c)(2)(A) of the National Housing Act (regardless of when or how paid)), provided that the premiums are automatically refundable on a *pro rata* basis upon notification of the satisfaction of the mortgage, or the mortgage insurance premiums are payable after loan closing.

B. All compensation payable directly or indirectly to loan originators (i.e., third party mortgage brokers, table-funding brokers, and in-house loan officers).

C. All items under Regulation Z § 226.4(c)(7) that are payable at or before loan closing (other than tax escrows), unless the charge is reasonable, the creditor receives no direct or indirect compensation in connection with the charge, and the charge is not paid to an affiliate of the creditor.

D. Premiums payable at or before loan closing for certain credit insurance or debt cancellation/suspension coverage, whether mandatory or optional.

E. The maximum prepayment penalty that may be collected for the loan.

F. The total prepayment penalty incurred if the loan is being refinanced by the current holder or servicer of the existing mortgage, or an affiliate of either.

Points and fees do not include compensation paid to licensed persons who perform real estate broker services (so long as they are not compensated by a creditor, loan originator, or an agent of either); a servicer or its employees or agents, including those who negotiate loan offers or modifications for delinquent or defaulted loans or those in danger of delinquency or default; and, certain employees of manufactured home retailers.

Having set forth a basic outline of what constitutes “Points and Fees,” the FRB provides two ways to account for Points and Fees, the first caps them based on the loan amount tier (i.e., *Points and Fees Cap: Based on Loan Amount Tier*) and the second caps them based on a loan amount tier or formula (i.e., *Points and Fees Cap: Based on Loan Amount Tier or Formula*).

For purposes of the QM points and fees test, *bona fide* third party charges (other than includable mortgage insurance premiums) may be excluded so long as they are not paid to the creditor, a loan originator, or an affiliate of either of them.[16] And, up to two (2) *bona fide* discount points can be excluded if the interest rate before discount does not exceed by more than 1% the APOR[17]for a comparable transaction as of the date the interest rate is set for the discounted interest rate. But, if these discount points have not been excluded, then up to one (1) *bona fide* discount point can be excluded if the interest rate before discount does not exceed by more than 2% of the APOR for a comparable transaction as of the date the interest rate is set for the discounted interest rate.[18]

LOAN ORIGINATOR COMPENSATION AND THIRD-PARTY CHARGES

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As it relates to the QM points and fees test, perhaps this is a good place to discuss briefly the role played by the recent revisions to TILA with respect to loan originator compensation.[19] **Compensation to loan originators is included in the points and fees.** However, compensation to a loan originator that cannot be attributed to a particular loan at the time of origination is not included in the points and fees. Examples of excluded compensation are compensation based upon the long-time performance of the loan originator, compensation based on the overall quality of the loan originator's loan files, and the base salary of a loan originator who is the employee of the creditor.

On the other hand, *bona fide* third party charges may be excluded (other than includable mortgage insurance premiums) as long as they are not paid to the creditor, a loan originator, or an affiliate of either of them.

OPTION # 3: BALLOON-PAYMENT QUALIFIED MORTGAGE [20]

As mentioned above, this option is obviously meant to preserve access to credit for consumers located in rural or under-served areas. [21] This kind of QM is a loan that generally qualifies as a QM but also includes a balloon payment. Option # 3 QM is not subject to the requirement that the loan be underwritten based on a fully amortizing payment schedule that takes into account all mortgage-related obligations and uses the maximum interest rate that may apply during the first five years after consummation. [22]

However, the Balloon-Payment Qualified Mortgage must satisfy the following requirements:

(1) the creditor must determine that the borrower can make all of the scheduled payments, other than the balloon payment, from the borrower's current or reasonably expected income or assets (not including the dwelling that secures the loan);

(2) the scheduled payments are calculated using an amortization period (regardless of the actual loan term) that does not exceed thirty (30) years and includes all mortgage-related obligations;

(3) the loan term is five years or longer;

(4) during the preceding calendar year, the creditor extended more than 50% of its total covered transactions that provide for balloon payments in one or more counties designated by the FRB as "rural" or "underserved";

(5) during the preceding calendar year, the creditor and its affiliates (a) extended covered transactions with loan amounts that aggregated to a tiered loan amount (see above: Alternative 1) or (b) loan amount tier or formula for fewer covered transactions (see above: Alternative 2); [23]

(6) (a) on or after the effective date of the final rule, the creditor has not transferred legal title to any covered transaction that includes a balloon payment (see above: Alternative 1) or (b) during the preceding and current calendar year, the creditor has not transferred legal title to any covered transaction that includes a balloon payment (see above: Alternative 2); and,

(7) as of the end of the preceding calendar year, the creditor had total assets that did not exceed an asset threshold [24] which asset threshold is to be revised annually by the FRB based on movements in the Consumer Price Index (CPI).

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This option is subject to certain requirements to which all QMs are subject; for instance, there must be regular periodic payments that do not result in an increase in the principal balance, the loan term may not exceed 30 years, the total points and fees may not exceed the permitted percentage of the total loan amount, and the loan must satisfy the same underwriting and verification requirements.

OPTION # 4: REFINANCING OF A NON-STANDARD MORTGAGE [25]

A refinance of a non-standard mortgage into another mortgage is at the basis for this regulatory framework. The Rule provides for refinancing a "non-standard mortgage" into a "standard mortgage." So let's be clear by what is meant by these terms.

A **non-standard mortgage** is a covered transaction that is an ARM with an introductory fixed rate for a period of one year or more (i.e., a 2/28 ARM), an interest-only loan, or a negative amortization loan. Dodd-Frank refers to a "hybrid mortgage," but the Rule uses the term "non-standard mortgage."

A **standard mortgage** is a covered transaction which, among other things, does not contain negative amortization, interest-only payments, or balloon payments, and limits the points and fees. Essentially, the standard mortgage structure provides regular periodic payments that do not cause the principal balance to increase,[26] does not allow the borrower to defer repayment of principal, and does not result in a balloon payment; the total points and fees do not exceed the permitted percentage of the total loan amount (see above: Alternative 1 or Alternative 2); the loan term does not exceed 40 years; the interest rate is fixed for at least five years after consummation (this includes step-rate mortgages without a variable rate feature); and, the loan proceeds are used solely to pay off the outstanding principal balance on the non-standard mortgage and closing costs (including escrow amounts).

The Rule introduces a new term to replace a term that has been in use for ARM adjustments for many years. Specifically, for adjustable-rate mortgages with low, fixed introductory rates, the term ''reset'' has typically meant the time at which a low teaser rate converts to a fully indexed rate, resulting in significantly higher monthly payments for homeowners. According to the Rule, the term **''recast''** is henceforth to be used in reference to the time at which fully amortizing payments are required for interest-only and negative amortization loans, on the basis that the term ''reset'' is more frequently used to indicate the time at which adjustable-rate mortgages with an introductory fixed rate convert to a variable rate.[27] Consequently, the Rule uses the term "recast" to cover the conversion to less favorable terms and higher payments not only for interest-only loans and negative amortization loans but also for adjustable-rate mortgages. [28]

Option # 4 is available when (1) a non-standard mortgage is refinanced into a standard mortgage, and (2) the following conditions are met:

(1) the creditor for the standard mortgage is the current holder or servicer of the non-standard mortgage;

(2) the monthly payment on the standard mortgage is **materially lower** than the monthly payment on the non-standard mortgage; [29]

(3) the creditor receives the borrower's written application for the standard mortgage before the non-standard mortgage is recast;

(4) the borrower has no more than one payment more than 30 days late on the non-standard mortgage in the 24 months before the creditor receives the borrower's written application for the standard mortgage;

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(5) the borrower has no payments more than 30 days late in the six months immediately before the creditor receives the borrower's written application for the standard mortgage;

(6) the creditor has considered whether the borrower is likely to default (a lower standard than "imminent default") on the non-standard mortgage once it is recast; and,

(7) the creditor has considered whether the standard mortgage will prevent the borrower's default.

WHAT MAY YET COME!

Then, long before we are ready, it moves on.
If You Come Softly - Jacqueline Woods [30]

The Ability-to-Repay Rule is enormously complex and interlinks with numerous, other regulatory statutes. In this article, I have endeavored to provide a high-level overview, but I have only grazed the surface of the requirements set forth in the FRB's proposal. In analyzing an implementing regulation, often not only what is outlined but also what is not outlined may raise significant and substantive issues of procedures, policy, and the law. As the proposed Rule makes its way toward its new home at the CFPB, with the comment period ending on July 22, 2011, it would be prudent to consult with risk management professionals to determine precisely how and by what means and metrics the Rule will be achieved through a coherent loan flow process.

In the next article in this two-part article series, we will dig a little deeper into those eight factors that constitute the ability-to-repay as well as explore many other features of the Rule, including **the limits on prepayment penalties**, the **lengthening of the time creditors must retain records** evidencing compliance with the ability-to-repay and prepayment penalty provisions, the **prohibition to evading the Rule** by structuring a closed-end extension of credit as an open-end plan, the delineation of **new terms, procedures, and their resulting implications**, and, very importantly, the means by which the Rule claims to offer **tools to prevent likely default** and mitigate risk for creditors and others who arrange, negotiate, or obtain an extension of mortgage credit for a consumer in return for compensation or other monetary gain.

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[1] Christie, Agatha, *Murder on the Orient Express*, G. P. Putnam's Sons, 1934

[2] Federal Register, Vol. 76, No. 91, Wednesday, May 11, 2011, Proposed Rules, 12 CFR Part 226, Regulation Z - Truth in Lending Act. [Regulation Z; Docket No. R–1417]

[3] H.R. 4173: *Dodd-Frank Wall Street Reform and Consumer Protection Act*, 111th Congress (2009-2010): "A bill to promote the financial stability of the United States by improving accountability and transparency in the financial system, to end "too big to fail", to protect the American taxpayer by ending bailouts, to protect consumers from

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abusive financial services practices, and for other purposes." Sponsored by Representative Barney Frank (D-MA) and Senator Christopher Dodd (D-CT)

[4] It is worth noting that the Consumer Financial Protection Bureau (CFPB) will receive rulemaking and examination authority over the "enumerated laws" on the transfer date of July 21, 2011, the Designated Transfer Date. See *Designated Transfer Date*, Bureau of Consumer Financial Protection, Federal Register, Vol. 75, No. 181 (09/20/10). The Designated Transfer Date must be between January 17, 2011 and July 21, 2011, unless the Treasury Secretary determines that the orderly implementation of Title X is not feasible within 12 months; but, in no case may the Designated Transfer Date be later than January 21, 2012. Accordingly, this rulemaking will become a proposal of the CFPB and will not be finalized by the FRB.

[5] Includes a closed-end home improvement loan on a vacation residence.

[6] Op. cit. 3 § 1413

[7] Under the Home Ownership and Equity Protection Act (HOEPA), a consumer has a right to rescind a transaction for up to three years after consummation when the mortgage contains a provision prohibited by a rule adopted under the authority of TILA § 129(l)(2). Any consumer who has the right to rescind a transaction may rescind the transaction as against any assignee. See: TILA §131(c). The right of rescission does not extend, however, to home purchase loans, construction loans, or certain refinancing with the same creditor. See: TILA § 125(e).

[8] Op. cit. 3, §§ 1416, 1422

[9] Mortgages covered by the HOEPA amendments have been referred to as ''HOEPA loans,'' ''Section 32 loans,'' or ''high-cost mortgages.'' The Dodd-Frank Act now refers to these loans as ''high-cost mortgages."

[10] Does not define a ''qualified mortgage'' to include a requirement to consider the consumer's debt-to-income ratio or residual income.

[11] These and other provisions will be explored in detail in Part II of this article.

[12] Pratchett, Terry and Lyn Pratchett, *The Amazing Maurice and his Educated Rodents*, HarperCollins, 2001

[13] Regulation Z § 226.43(c)

[14] Regulation Z § 226.43(e)

[15] Regulation Z §§ 226.4(a) and (b)

[16] The FRB has requested comment as to whether loan-level price adjustments to offset added risks, which are imposed by secondary market purchasers and passed through to borrowers in the form of points, should be excluded from the points and fees under this provision.

[17] Required by Dodd-Frank, effective April 1, 2011, if a jumbo loan's APR exceeds the average prime offer rate (APOR) by 2.5 or more percentage points on the date the interest rate is set, then TILA requires the establishment of an escrow account for the payment of property taxes and any creditor-required premium for mortgage-related insurance, prior to consummation. For jumbo loans with an APR which does not exceed the APOR by 2.5 percentage points or more, this escrow requirement will no longer apply.

[18] To be a bona fide discount point, the calculation must both (1) be consistent with established industry practice, and (2) account for the amount of compensation that the creditor can reasonably expect to receive from secondary market investors for the loan.

[19] Regulation Z § 226.36(a)

[20] Regulation Z § 226.43(f)

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[21] A county is “rural” if it is not in a metropolitan statistical area (MSA) (or a micropolitan statistical area), contains no town with 2,500 or more residents, and is (a) either not adjacent to any metropolitan statistical area (or a micropolitan statistical area) or (b) is adjacent to an MSA with fewer than one million residents (or adjacent to a micropolitan statistical area).

[22] TILA § 129D(d) authorizes an exemption from escrow requirements for certain creditors operating predominantly in rural or underserved areas and providing an exemption from escrow requirements for transactions secured by shares in a cooperative.

[23] The FRB proposal solicits comments on an appropriate dollar amount or number of transactions.

[24] $2 billion for calendar year 2011

[25] Regulation Z § 226.43(d)

[26] The safe harbor offered by the FRB requires that a 10% or larger reduction in the monthly payment will meet the “materially lower” standard in reducing monthly payments.

[27] The term “recast” is to be used in order to accommodate the proposed Regulation Z §§ 226.43(c) and (d)

[28] For instance, an ARM recasts upon the expiration of the period during which payments based on the introductory fixed rate are permitted. An interest-only loan recasts upon the expiration of the period during which interest-only payments are permitted. A negative amortization loan recasts upon the expiration of the period during which negatively amortizing payments are permitted.

[29] Op. cit. 26

[30] Woodson, Jacqueline, *If You Come Softly*, Puffin Books, 1998

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