

103<sup>D</sup> CONGRESS  
1<sup>ST</sup> SESSION

# H. R. 2331

To amend title 38, United States Code, to clarify the rights of veterans with regard to procedures for housing loans upon default, and for other purposes.

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## IN THE HOUSE OF REPRESENTATIVES

JUNE 8, 1993

Mr. EVANS introduced the following bill; which was referred to the Committee on Veterans' Affairs

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## A BILL

To amend title 38, United States Code, to clarify the rights of veterans with regard to procedures for housing loans upon default, and for other purposes.

1 *Be it enacted by the Senate and House of Representa-*  
2 *tives of the United States of America in Congress assembled,*

3 **SECTION 1. PROCEDURES ON DEFAULT OF HOUSING**  
4 **LOANS.**

5 (a) IN GENERAL.—Paragraph (2) of section 3732(a)  
6 of title 38, United States Code, is amended to read as  
7 follows:

8 “(2)(A) Before suit or foreclosure the holder of the  
9 obligation shall notify the Secretary of the default. Before

1 the holder carries out a liquidation sale of real property  
2 securing a defaulted loan, the Secretary within 60 days  
3 after notification of default may, at the Secretary's option,  
4 pay the holder of the obligation the unpaid balance of the  
5 obligation plus accrued interest and reimburse the holder  
6 for such advances, costs, and attorney fees as the Sec-  
7 retary finds were properly and reasonably incurred in con-  
8 nection with the default and receive an assignment of the  
9 loan and security. Nothing in this section shall preclude  
10 any forbearance for the benefit of the mortgagor as may  
11 be agreed upon by the parties to the loan and approved  
12 by the Secretary.

13       “(B) Within 10 days after receiving a notice of de-  
14 fault pursuant to paragraph (1) of this subsection, the  
15 Secretary shall notify the mortgagor that the Secretary  
16 may purchase the loan from the holder. The notification  
17 shall specify—

18               “(i) that if the Secretary purchases the loan,  
19       the Secretary—

20                       “(I) has the authority to modify the loan  
21       instruments by temporarily or permanently low-  
22       ering the interest rate or by extending or  
23       reamortizing the loan; and

1           “(II) may grant forbearance of interest or  
2           principal or both for a period of not more than  
3           12 months;

4           “(ii) that if the mortgagor wants the Secretary  
5           to purchase the loan, the mortgagor must submit a  
6           written request to the Secretary within 20 days of  
7           receipt of the Secretary’s notification; and

8           “(iii) the consequences to the mortgagor if the  
9           Secretary purchases the loan.

10          “(C) Upon receiving a request from the mortgagor  
11         to purchase the loan pursuant to subparagraph (B) of this  
12         paragraph, the Secretary, for the purpose of avoiding fore-  
13         closure, may purchase the loan in accordance with sub-  
14         paragraph (A). The Secretary shall purchase the loan  
15         from the holder of the obligation if—

16                 “(i) the default was caused by circumstances  
17                 beyond the control of the mortgagor and rendered  
18                 the mortgagor temporarily unable to correct a mort-  
19                 gage delinquency and to resume full mortgage pay-  
20                 ments; and

21                 “(ii) it is determined that—

22                         “(I) the holder is unwilling to grant fur-  
23                         ther forbearance;

24                         “(II) the mortgagor desires to retain and  
25                         occupy the property;

1           “(III) the mortgagor has maintained the  
2           property in good condition or, if major repairs  
3           are required, such repairs are due to cir-  
4           cumstances which were beyond the mortgagor’s  
5           control;

6           “(IV) the estimated net value of the prop-  
7           erty exceeds the unguaranteed portion of the  
8           loan; and

9           “(V) there is a reasonable prospect that  
10          the mortgagor will be able to resume mortgage  
11          payments within 12 months after the Secretary  
12          purchases the loan.

13          “(D) The Secretary may provide assistance, under  
14          such terms and conditions as the Secretary may provide,  
15          to a mortgagor whose loan has been purchased under the  
16          provisions of subparagraph (C) of this paragraph by—

17               “(i) modifying the loan instruments to lower the  
18               interest rate or to extend or to reamortize the loan;  
19               and

20               “(ii) granting forbearance of interest or prin-  
21               cipal or both for a period of not more than 12  
22               months.

23          “(E) If the Secretary decides not to purchase the  
24          loan—

1           “(i) the Secretary shall notify the mortgagor of  
2           the decision and its basis within 30 days after re-  
3           ceiving a written request from the mortgagor asking  
4           the Secretary to purchase the loan pursuant to sub-  
5           paragraph (C) of this paragraph; and

6           “(ii) if the mortgagor is a veteran and used the  
7           veteran’s entitlement under section 3702 to obtain  
8           the loan or substituted entitlement as described in  
9           section 3702(b)(2) to purchase real property secur-  
10          ing a loan guaranteed under this chapter, notice  
11          under clause (i) shall include notice of the right of  
12          appeal.

13          “(F) The Secretary shall obtain and hold in safekeep-  
14          ing a quit claim deed from the mortgagor to the Secretary  
15          for the real property securing the loan after the loan is  
16          purchased from the loan holder and before the Secretary  
17          makes any modification to the loan instruments or grants  
18          any forbearance. If the mortgagor brings the loan current  
19          and keeps the loan current for 12 consecutive months, the  
20          unrecorded quit claim deed shall be returned to the mort-  
21          gagor. If, exclusive of any period of forbearance, the loan  
22          becomes 6 months delinquent, the Secretary may record  
23          the quit claim deed and acquire the property securing the  
24          loan without incurring substantial delays and foreclosure  
25          expenses. Nothing in this section shall preclude the Sec-

1   retary from initiating foreclosure before the loan becomes  
2   6 months delinquent if the Secretary believes it is in the  
3   best interest of the United States to do so.

4       “(G) For the purposes of sections 3720(e) and (h),  
5   loans purchased pursuant to subparagraph (C) that are  
6   not in default and that have not been in default for at  
7   least 12 consecutive months shall be included in pools of  
8   mortgage loans with respect to which certificates or other  
9   securities are issued or guaranteed.”.

10       (b) PERSONNEL.—Section 3732(a)(4) of title 38,  
11   United States Code, is amended—

12           (1) by striking out subparagraph (B); and

13           (2) in paragraph (4) (as amended by paragraph  
14   (1) of this subsection), by striking out “(A)”;

15           (3) in paragraph (4) (as amended by paragraph  
16   (2) of this subsection)—

17                   (A) by redesignating clauses (i) and (ii) as  
18                   subparagraphs (A) and (B), respectively; and

19                   (B) by redesignating subclauses (I) and  
20                   (II) as clauses (i) and (ii), respectively.

21       (c) EXTENSION OF PROCEDURE FOR LIQUIDATION  
22   SALES.—Subsection (c) section 3732(c) of title 38, United  
23   States Code, is amended by striking out paragraph (11).

24       (d) EFFECTIVE DATE.—The amendments made by  
25   subsection (a) shall apply to any housing loan guaranteed

1 under chapter 37 of title 38, United States Code, with  
2 respect to which the Secretary of Veterans Affairs receives  
3 notice of default after the date of enactment of this Act.

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