AUTHENTICATED
U.S. GOVERNMENT
INFORMATION
GPO

I

112TH CONGRESS
2D SESSION

H. R. 3841

To prevent foreclosure of, and provide for the reduction of principal on, mortgages held by Fannie Mae and Freddie Mac.

IN THE HOUSE OF REPRESENTATIVES

JANUARY 31, 2012

Ms. WATERS (for herself, Mr. GUTIERREZ, Mr. CONYERS, Mr. BERMAN, Mr. FILNER, Ms. SCHAKOWSKY, Mr. CLARKE of Michigan, Mr. BLUMENAUER, and Mr. GRIJALVA) introduced the following bill; which was referred to the Committee on Financial Services, and in addition to the Committee on Ways and Means, for a period to be subsequently determined by the Speaker, in each case for consideration of such provisions as fall within the jurisdiction of the committee concerned

---

A BILL

To prevent foreclosure of, and provide for the reduction of principal on, mortgages held by Fannie Mae and Freddie Mac.

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled,

SECTION 1. SHORT TITLE.

This Act may be cited as the ''Principal Reduction Act of 2012''.

SEC. 2. PRINCIPAL REDUCTION OF MORTGAGES OWNED OR GUARANTEED BY FANNIE MAE AND FREDDIE MAC.

(a) PROGRAM AUTHORITY.—

(1) IN GENERAL.—The Federal National Mortgage Association and the Federal Home Loan Mortgage Corporation shall each carry out a program under this section to provide for the reduction of the outstanding principal balances on qualified mortgages on single-family housing owned or guaranteed by such enterprise through reduction of such principal balances, in accordance with this section and policies and procedures that the Director of the Federal Housing Finance Agency shall establish.

(2) REQUIREMENT TO REDUCE PRINCIPAL PURSUANT TO REQUEST.—Each such program shall require the reduction of principal on a qualified mortgage upon the request of the mortgagor made to the enterprise and a determination by the enterprise that the mortgage is a qualified mortgage.

(b) QUALIFIED MORTGAGE.—For purposes of this section, the term ''qualified mortgage'' means a mortgage, without regard to whether the mortgagor is current or in default on payments due under the mortgage, that—

(1) is an existing first mortgage that was made for purchase of, or refinancing another first mort-

gage on, a one- to four-family dwelling, including a condominium or a share in a cooperative ownership housing association, that is occupied by the mortgagor as the principal residence of the mortgagor;

(2) is owned or guaranteed by the Federal National Mortgage Association or the Federal Home Loan Mortgage Corporation;

(3) was originated on or before the date of the enactment of this Act;

(4) has a principal balance that exceeds the value of the dwelling subject to the mortgage by more than 20 percent; and

(5) has been determined to be net present value positive for the enterprise that owns or guarantees such mortgage, pursuant to the application of the net present value model identified in subsection (m)(3) that results in the expected net present value of reducing principal on the mortgage exceeding the net present value of foreclosing on such mortgage.

(c) PRINCIPAL REDUCTION ON QUALIFIED MORTGAGES.—To reduce principal on a qualified mortgage under a program of an enterprise under this section, the enterprise shall—

(1) reduce the principal for the qualified mortgage to an amount that results in a loan-to-value ratio for the mortgage of not more than 90 percent;

(2) require that if the dwelling subject to the qualified mortgage that has had its principal reduced under the program is sold by any process other than a foreclosure sale or short sale, to the extent that such property appreciates in value, the mortgagor shall provide not less than one-third of the amount of such appreciation to the enterprise; and

(3) recover from the mortgagor under the qualified mortgage that has had its principal reduced under the program, if such mortgage subsequently enters foreclosure, an amount equal to the difference between the sales price at foreclosure sale of the dwelling subject to such mortgage and the amount of the outstanding principal balance on mortgage immediately before such principal reduction.

(d) STREAMLINED PROCESS.—To the maximum extent possible, each enterprise shall—

(1) limit the amount of paperwork required from a mortgagor to receive a principal reduction under the program established under this section by the enterprise; and

(2) endeavor to complete the principal reduction for a qualified mortgage pursuant to the mortgagor's request not later than 30 days after receiving such request from the mortgagor.

(e) PROHIBITION ON BORROWER FEES.—Neither the servicer conducting the principal reduction on behalf of the enterprise nor the enterprise may charge the mortgagor any fee, including any fee for any appraisal notwithstanding that such appraisal is required to determine the value of the dwelling subject to the qualified mortgage, for the reduction of principal of the qualified mortgage under the program under this section of the enterprise. All fees and penalties related to any default or delinquency on such qualified mortgage shall be waived or forgiven.

(f) FEE TO SERVICER.—For each qualified mortgage of an enterprise for which the servicer of the qualified mortgage provides a principal reduction pursuant to the program under this section of the enterprise, the enterprise shall pay to the servicer a fee not exceeding $1,000.

(g) TAX TREATMENT.—The reduction of principal taken on a qualified mortgage under a program under this section shall not result in any tax liability for the mortgagor under such mortgage.

(h) MAINTENANCE OF LIEN STATUS.—Any reduction of principal taken with respect to a first mortgage under a program under this section shall not impair the priority status of liens on the dwelling subject to the mortgage, to the extent that there are no additional funds advanced to the mortgagor in connection with such principal reduction.

(i) MAINTENANCE OF LOAN STATUS.—Any reduction of principal taken with respect to a qualified mortgage under a program under this section shall not result in the treatment of the modified loan as a new loan.

(j) SECOND LIENS.—The Director shall encourage the modification of second liens on dwellings that are subject to mortgages for which principal reductions are taken under the programs under this section by implementing remedial actions on servicers that service mortgages owned or guaranteed by the enterprises and own second liens that are not modified following a request by the Director upon a reduction of principal of the mortgage owned by the enterprise. Upon termination of any servicing contracts with such servicers, the Director shall take remedial actions with respect to such servicers, which may include—

(1) cancelling servicing rights of mortgages owned by the enterprises;

(2) reducing compensation to any such servicer; or

(3) taking such other actions, consistent with applicable law, as the Director determines is appropriate.

(k) RESTRICTIONS ON COMPENSATION.—The Director may not approve bonus compensation that exceeds the base compensation for any executive or senior executive of an enterprise, unless the aggregate number of qualified mortgages for which principal reductions have been taken pursuant to the program under this section of such enterprise exceeds 1,000,000.

(l) RULE OF CONSTRUCTION.—Any reduction of principal of a qualified mortgage of an enterprise under a program under this section shall be considered consistent with the mission of any conservator of the enterprises as such mission is described in section 1367(b)(2)(D) of the Federal Housing Enterprises Financial Safety and Soundness Act of 1992 (12 U.S.C. 4617(b)(2)(D)).

(m) DEFINITIONS.—For purposes of this section, the following definitions shall apply:

(1) DIRECTOR.—The term "Director" means the Director of the Federal Housing Finance Agency.

(2) ENTERPRISE.—The term ‘‘enterprise’’ means the Federal National Mortgage Association and the Federal Home Loan Mortgage Corporation.

(3) NET PRESENT VALUE.—The term ‘‘net present value’’ means the net present value as determined under the model specified in Supplemental Directive 09–01 for the Home Affordable Modification Program of the Department of the Treasury and any updates thereto.

(n) REGULATIONS.—The Director shall issue any regulations or guidance necessary to carry out the programs required under this section not later than the expiration of the 6-month period that begins on the date of the enactment of this Act.

(o) TERMINATION.—The requirement under subsection (a)(2) for an enterprise to forgive principal on a qualified mortgage shall not apply with respect to any request for principal reduction made after the expiration of the 12-month period that begins on the earlier of—

(1) the date that any regulations or guidance issued pursuant to subsection (n) take effect; or

(2) the expiration of the 6-month period identified in subsection (n).

○