

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.

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. SHORT TITLE.**

4 This Act may be cited as the “Principal Reduction  
5 Act of 2012”.

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

4 (a) PROGRAM AUTHORITY.—

5 (1) IN GENERAL.—The Federal National Mort-  
6 gage Association and the Federal Home Loan Mort-  
7 gage Corporation shall each carry out a program  
8 under this section to provide for the reduction of the  
9 outstanding principal balances on qualified mort-  
10 gages on single-family housing owned or guaranteed  
11 by such enterprise through reduction of such prin-  
12 cipal balances, in accordance with this section and  
13 policies and procedures that the Director of the Fed-  
14 eral Housing Finance Agency shall establish.

15 (2) REQUIREMENT TO REDUCE PRINCIPAL PUR-  
16 SUANT TO REQUEST.—Each such program shall re-  
17 quire the reduction of principal on a qualified mort-  
18 gage upon the request of the mortgagor made to the  
19 enterprise and a determination by the enterprise  
20 that the mortgage is a qualified mortgage.

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

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

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

5           (2) is owned or guaranteed by the Federal Na-  
6       tional Mortgage Association or the Federal Home  
7       Loan Mortgage Corporation;

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

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

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

20       (c) PRINCIPAL REDUCTION ON QUALIFIED MORT-  
21       GAGES.—To reduce principal on a qualified mortgage  
22       under a program of an enterprise under this section, the  
23       enterprise shall—

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

4           (2) require that if the dwelling subject to the  
5       qualified mortgage that has had its principal re-  
6       duced under the program is sold by any process  
7       other than a foreclosure sale or short sale, to the ex-  
8       tent that such property appreciates in value, the  
9       mortgagor shall provide not less than one-third of  
10      the amount of such appreciation to the enterprise;  
11      and

12          (3) recover from the mortgagor under the quali-  
13      fied mortgage that has had its principal reduced  
14      under the program, if such mortgage subsequently  
15      enters foreclosure, an amount equal to the difference  
16      between the sales price at foreclosure sale of the  
17      dwelling subject to such mortgage and the amount  
18      of the outstanding principal balance on mortgage  
19      immediately before such principal reduction.

20      (d) STREAMLINED PROCESS.—To the maximum ex-  
21      tent possible, each enterprise shall—

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

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

5           (e) PROHIBITION ON BORROWER FEES.—Neither the  
6           servicer conducting the principal reduction on behalf of  
7           the enterprise nor the enterprise may charge the mort-  
8           gagor any fee, including any fee for any appraisal notwith-  
9           standing that such appraisal is required to determine the  
10          value of the dwelling subject to the qualified mortgage,  
11          for the reduction of principal of the qualified mortgage  
12          under the program under this section of the enterprise.  
13          All fees and penalties related to any default or delinquency  
14          on such qualified mortgage shall be waived or forgiven.

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

20          (g) TAX TREATMENT.—The reduction of principal  
21          taken on a qualified mortgage under a program under this  
22          section shall not result in any tax liability for the mort-  
23          gagor under such mortgage.

24          (h) MAINTENANCE OF LIEN STATUS.—Any reduction  
25          of principal taken with respect to a first mortgage under

1 a program under this section shall not impair the priority  
2 status of liens on the dwelling subject to the mortgage,  
3 to the extent that there are no additional funds advanced  
4 to the mortgagor in connection with such principal reduc-  
5 tion.

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

10 (j) SECOND LIENS.—The Director shall encourage  
11 the modification of second liens on dwellings that are sub-  
12 ject to mortgages for which principal reductions are taken  
13 under the programs under this section by implementing  
14 remedial actions on servicers that service mortgages  
15 owned or guaranteed by the enterprises and own second  
16 liens that are not modified following a request by the Di-  
17 rector upon a reduction of principal of the mortgage  
18 owned by the enterprise. Upon termination of any serv-  
19 icing contracts with such servicers, the Director shall take  
20 remedial actions with respect to such servicers, which may  
21 include—

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

24 (2) reducing compensation to any such servicer;

25 or

1           (3) taking such other actions, consistent with  
2           applicable law, as the Director determines is appro-  
3           prium.

4           (k) RESTRICTIONS ON COMPENSATION.—The Direc-  
5           tor may not approve bonus compensation that exceeds the  
6           base compensation for any executive or senior executive  
7           of an enterprise, unless the aggregate number of qualified  
8           mortgages for which principal reductions have been taken  
9           pursuant to the program under this section of such enter-  
10          prise exceeds 1,000,000.

11          (l) RULE OF CONSTRUCTION.—Any reduction of  
12          principal of a qualified mortgage of an enterprise under  
13          a program under this section shall be considered con-  
14          sistent with the mission of any conservator of the enter-  
15          prises as such mission is described in section  
16          1367(b)(2)(D) of the Federal Housing Enterprises Finan-  
17          cial Safety and Soundness Act of 1992 (12 U.S.C.  
18          4617(b)(2)(D)).

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

21               (1) DIRECTOR.—The term “Director” means  
22               the Director of the Federal Housing Finance Agen-  
23               cy.

1           (2) ENTERPRISE.—The term “enterprise”  
2       means the Federal National Mortgage Association  
3       and the Federal Home Loan Mortgage Corporation.

4           (3) NET PRESENT VALUE.—The term “net  
5       present value” means the net present value as deter-  
6       mined under the model specified in Supplemental  
7       Directive 09–01 for the Home Affordable Modifica-  
8       tion Program of the Department of the Treasury  
9       and any updates thereto.

10       (n) REGULATIONS.—The Director shall issue any  
11       regulations or guidance necessary to carry out the pro-  
12       grams required under this section not later than the expi-  
13       ration of the 6-month period that begins on the date of  
14       the enactment of this Act.

15       (o) TERMINATION.—The requirement under sub-  
16       section (a)(2) for an enterprise to forgive principal on a  
17       qualified mortgage shall not apply with respect to any re-  
18       quest for principal reduction made after the expiration of  
19       the 12-month period that begins on the earlier of—

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

22           (2) the expiration of the 6-month period identi-  
23       fied in subsection (n).

○