

1 IN THE HOUSE

BY THE RULES COMMITTEE BY REQUEST
OF THE HOUSE MEMBERS OF THE JOINT
COMMITTEE ON ECONOMIC RECOVERY

2

HOUSE BILL NO. 550

3

IN THE LEGISLATURE OF THE STATE OF ALASKA

4

FIFTEENTH LEGISLATURE - SECOND SESSION

5

A BILL

6 For an Act entitled: "An Act authorizing the Department of Community and
7 Regional Affairs to modify the terms of its mortgage
8 loans; and providing for an effective date."

9 BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF ALASKA:

10 * Section 1. FINDINGS. The legislature finds that

11 (1) some residents of the state who have obtained mortgage loans
12 from the Department of Community and Regional Affairs have mortgages with
13 payment obligations that exceed their present ability to make the required
14 payments;

15 (2) the Department of Community and Regional Affairs does not
16 have statutory authority to reduce interest rates;

17 (3) the costs of foreclosure and resale, including legal ex-
18 penses, publication costs, maintenance costs, repair and renovation costs,
19 sales expenses, closing costs, and costs due to sale in a distressed mar-
20 ket, may be very substantial;

21 (4) it may be in the department's and state's best direct finan-
22 cial interest to avoid foreclosure by modifying loan terms including
23 rescheduling principal payments, reducing interest rates and payment
24 amounts, and adjusting maturity dates to induce existing owners to remain
25 in title to the property and maintain active management of the property.

26 * Sec. 2. AS 44.47 is amended by adding a new section to read:

27 Sec. 44.47.525. MODIFICATION OF LOANS. (a) Notwithstanding
28 AS 44.47.410(a) and (b) and 44.47.520(b), on mortgages that it has
29 financed under AS 44.47.360 - 44.47.560 the department may, by loan

1 modification, reschedule principal payments or reduce interest rates,
2 or both, if the department finds that

3 (1) a loan modification would result in the likelihood that
4 the loan would pay to maturity and induce the borrower to remain in
5 active management and ownership of the property; and

6 (2) the loan modification would be

7 (A) in the best financial interest of the department
8 and the state; and

9 (B) considered prudent by private lending standards
10 taking into account the financial circumstances of the borrower
11 and other costly alternatives such as foreclosure.

12 (b) Rescheduling of the borrower's repayment of principal under
13 (a) of this section provides an interim payment adjustment and is not
14 intended to affect the obligation of the borrower to repay the princi-
15 pal amount on the mortgage loan.

16 (c) The department may reduce the interest rate payable on a
17 mortgage under (a) of this section only if the modification contains
18 an interest rate reopener clause. The interest rate reopener clause
19 must

20 (1) require that, if the interest rate is reduced, the
21 borrower and the department shall renegotiate the rate of interest on
22 the mortgage within five years of the date of an interest rate reduc-
23 tion approved by the department under this section;

24 (2) specify the date by which the borrower and the depart-
25 ment are to renegotiate the rate of interest under (1) of this sub-
26 section;

27 (3) incorporate a call feature reserving to the department
28 the right to demand repayment of the entire principal amount due if
29 the borrower and the department are unable to conclude renegotiation

1 of the rate of interest under (1) of this subsection; the department
2 may not use the call feature incorporated under this paragraph to
3 demand repayment of the entire principal amount due before the date
4 determined under (2) of this subsection.

5 (d) An interest rate reduction approved by the department under
6 this section cancels the borrower's obligation to pay the amount due
7 that is attributable to the difference between the original interest
8 rate and the interest rate reduction for the period of the rate re-
9 duction.

10 (e) When an interest rate is renegotiated under (c) of this
11 section, the renegotiated rate may not exceed the interest rate orig-
12 inally charged on the loan.

13 (f) The department shall adopt regulations prescribing the terms
14 and conditions of and the procedures applicable to loan modifications
15 made under this section.

16 * Sec. 3. This Act takes effect July 1, 1988.