

Original sponsor: Rules/House Members  
Of The Joint Committee  
On Economic Recovery

1 IN THE HOUSE BY THE COMMUNITY AND REGIONAL  
AFFAIRS COMMITTEE

2 SENATE CS FOR HOUSE BILL NO. 550 (C&RA)

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 re-  
23 scheduling principal payments, reducing interest rates and payment amounts,  
24 and adjusting maturity dates to induce existing owners to remain in title  
25 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

17 (1) may reduce the interest rate payable on a mortgage  
18 under (a) of this section only if the modification contains an inter-  
19 est rate reopener clause; the interest rate reopener clause must

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

24 (B) specify the date by which the borrower and the  
25 department are to renegotiate the rate of interest under (A) of  
26 this paragraph;

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

1 conclude renegotiation of the rate of interest under (A) of this  
2 paragraph; the department may not use the call feature incor-  
3 porated under this subparagraph to demand repayment of the entire  
4 principal amount due before the date determined under (B) of this  
5 paragraph;

6 (2) may not approve a rate of interest under this section  
7 that is less than six percent.

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

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

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

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