

110TH CONGRESS
1ST SESSION

S. 2517

To amend the Internal Revenue Code of 1986 to provide that the proceeds of qualified mortgage bonds may be used to provide refinancing for subprime loans, to provide a temporary increase in the volume cap for qualified mortgage bonds, and for other purposes.

IN THE SENATE OF THE UNITED STATES

DECEMBER 18, 2007

Mr. SMITH (for himself, Mr. KERRY, and Mr. COLEMAN) introduced the following bill; which was read twice and referred to the Committee on Finance

A BILL

To amend the Internal Revenue Code of 1986 to provide that the proceeds of qualified mortgage bonds may be used to provide refinancing for subprime loans, to provide a temporary increase in the volume cap for qualified mortgage bonds, 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. MODIFICATIONS AND INCREASED VOLUME CAP**

4 **WITH RESPECT TO QUALIFIED MORTGAGE**

5 **BONDS.**

6 (a) USE OF QUALIFIED MORTGAGE BONDS PRO-
7 CEEDS FOR SUBPRIME REFINANCING LOANS.—Section

1 143(k) of the Internal Revenue Code of 1986 (relating to
2 other definitions and special rules) is amended by adding
3 at the end the following new paragraph:

4 “(12) SPECIAL RULES FOR SUBPRIME
5 REFINANCINGS.—

6 “(A) IN GENERAL.—In the case of a resi-
7 dence which was originally financed by the
8 mortgagor through a qualified subprime loan,
9 this section shall be applied with the following
10 modifications:

11 “(i) Subsection (i)(1) (relating to
12 mortgages must be new mortgages) shall
13 not apply.

14 “(ii) Subsection (a)(2)(D)(i) shall be
15 applied by substituting ‘12-month period’
16 for ‘42-month period’ each place it ap-
17 pears.

18 “(iii) Subsection (d) (relating to 3-
19 year requirement) shall not apply.

20 “(iv) Subsection (e) (relating to pur-
21 chase price requirement) shall be applied
22 by using the market value of the residence
23 at the time of refinancing in lieu of the ac-
24 quisition cost.

25 “(B) QUALIFIED SUBPRIME LOAN.—

1 “(i) IN GENERAL.—The term ‘quali-
2 fied subprime loan’ means an adjustable
3 rate single-family residential mortgage loan
4 originated after December 31, 2001, and
5 before January 1, 2008, that the bond
6 issuer determines has characteristics that
7 suggest both a reasonably foreseeable risk
8 of default and a reasonable potential to
9 avoid default with the benefit of a lower
10 cost refinancing.

11 “(ii) CONSIDERATIONS.—In making
12 the determination under clause (i), the
13 bond issuer may consider the following
14 characteristics:

15 “(I) Loan payments which are
16 scheduled to increase by more than 10
17 percent after December 31, 2007, and
18 before January 1, 2011.

19 “(II) A loan-to-value ratio of 97
20 percent or greater at the time of the
21 original mortgage loan or at the time
22 of the refinancing of such loan after
23 adjustment for any decline in the fair
24 market value of the residence.

1 “(III) A borrower whose credit-
2 worthiness is relatively low in com-
3 parison to a prime borrower, based on
4 a lower credit score, such as a Fair
5 Isaac Credit Organization credit score
6 at the time of the original subprime
7 loan of less than 660 and the absence
8 of an increase in such score by more
9 than 10 percent since the time of the
10 original loan.

11 “(IV) Whether loan payments on
12 the original mortgage loan generally
13 have been made in a current, timely
14 manner, subject only to isolated late
15 payments.

16 “(C) TERMINATION.—This paragraph shall
17 not apply to any bonds issued after December
18 31, 2010.”.

19 (b) INCREASED VOLUME CAP FOR QUALIFIED MORT-
20 GAGE BONDS.—

21 (1) IN GENERAL.—Subsection (d) of section
22 146 of the Internal Revenue Code of 1986 is amend-
23 ed by adding at the end the following new para-
24 graph:

1 “(5) INCREASE AND SET ASIDE FOR QUALIFIED
2 MORTGAGE BONDS FOR 2008.—

3 “(A) IN GENERAL.—The State ceiling for
4 calendar year 2008 shall be increased by
5 \$15,000,000,000.

6 “(B) SET ASIDE.—

7 “(i) IN GENERAL.—Not less than an
8 amount equal to each State’s allocable
9 share of the increase in the State ceiling
10 under subparagraph (A) shall be allocated
11 solely for the purpose of a qualified mort-
12 gage issue which meets the requirement
13 clause (ii).

14 “(ii) REQUIREMENT.—A qualified
15 mortgage issue meets the requirement of
16 this clause if such issue meets the require-
17 ment of section 143(a)(2)(D)(i) (deter-
18 mined by substituting ‘12-month period’
19 for ‘42-month period’ each place it ap-
20 pears).”.

21 (2) CARRYFORWARD OF UNUSED LIMITA-
22 TIONS.—Subsection (f) of section 146 of such Code
23 is amended by adding at the end the following new
24 paragraph:

1 “(6) SPECIAL RULES FOR INCREASED VOLUME
2 CAP UNDER SUBSECTION (d)(5).—No amount which
3 is attributable to the increase under subsection
4 (d)(5) may be used—

5 “(A) for a carryforward purpose other
6 than issuing qualified mortgage bonds, and

7 “(B) to issue any bond after calendar year
8 2010.”.

9 (c) ALTERNATIVE MINIMUM TAX.—

10 (1) IN GENERAL.—Clause (ii) of section
11 57(a)(5)(C) of the Internal Revenue Code of 1986 is
12 amended by striking “shall not include” and all that
13 follows and inserting “shall not include—

14 “(I) any qualified 501(c)(3) bond
15 (as defined in section 145), or

16 “(II) any qualified mortgage
17 bond (as defined in section 143(a)) or
18 qualified veterans’ mortgage bond (as
19 defined in section 143(b)) issued after
20 December 31, 2007, and before Janu-
21 ary 1, 2011.”.

22 (2) CONFORMING AMENDMENT.—The heading
23 for section 57(a)(5)(C)(ii) is amended by striking
24 “QUALIFIED 501(c)(3) BONDS” and inserting “CER-
25 TAIN BONDS”.

1 (d) EFFECTIVE DATE.—The amendments made by
2 this section shall apply to bonds issued after December
3 31, 2007.

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