The pot is starting to bubble on proposed use of eminent domain to seize the mortgages of private home loans that are underwater.

U.S. Rep. John Campbell, R-Calif., introduced federal legislation Thursday to stop governments from San Bernardino County to Chicago from putting “for-profit methods” in place which allow distressed home loans to be “arbitrarily” seized for “unconventional” modifications.

The bill, H.R. 6397, The Defending American Taxpayers from Abusive Government Takings Act, amends Fannie Mae and Freddie Mac charters, and it bans the agencies from financing loans in counties or cities that cleared “eminent domain” plans within the last 10 years.

It also puts a freeze on the ability of the Federal Housing Administration and the Department of Veterans Affairs from insuring the “seized” mortgages.

Campbell said the legislation is warranted because the government has financed roughly 95 percent of the mortgage market since its crash in 2007.

With serious problems still persisting in the housing sector, Campbell on Friday wrote in FlashReport, **“You may or may not be surprised that a couple of California cities have decided to not waste a good crisis, to paraphrase a now infamous axiom, realizing there is a lot of cash to be made off of underwater homeowners.”**

In the hard-hit area of San Bernardino County, a plan has been proposed by an investor group led by Mortgage Resolution Partners to override private property rights and take control of the loans, write them down and refinance them into a government-backed mortgage.

While it is being sold as assistance to homeowners, **Campbell** labeled it as a **“ploy”** to use federal tax dollars to achieve unconventional, and profitable loan modifications.

"This is wrong," **Campbell** said.

In San Bernardino County, the Joint Powers Authority that's formed there, as many as 42,000 underwater loans could be seized through eminent domain and recast in a way that **Campbell** said would in a way that would pay the investors 85 percent of the underlying home's current appraised value after the loan has been seized.

The loss would be born by the original investor, he said, potentially running into the billions of dollars. "**The JPA would then set the unpaid principal balance of that loan to 95 percent of the underlying home's current appraised value," Campbell** said Friday.

The 10 percent spread would be used by the overleveraged cities, consultants and hedge funds, **Campbell** wrote: **"Adding insult to injury, these entities would then immediately sell the same loan back to you, guaranteed by the FHA."**

The Mortgage Bankers Association has backed the bill **Campbell** introduced Thursday.

As an alternative to the eminent domain program, **Campbell** and Rep. Gary Peters, D- Mich., have introduced H.R. 5940, the Preserving American Homeownership Act, to direct the FHFA to create a program to pilot principal reduction programs for loans owned or guaranteed by Fannie Mae and Freddie Mac.