

UNITED STATES OF AMERICA
Before the
SECURITIES AND EXCHANGE COMMISSION

INVESTMENT COMPANY ACT OF 1940
Release No. 30022 / March 29, 2012

ADMINISTRATIVE PROCEEDING
File No. 3-14829

In the Matter of

**PRINCIPAL MORTGAGE
FUND, INC.**

Respondent

**ORDER INSTITUTING ADMINISTRATIVE
AND CEASE-AND-DESIST PROCEEDINGS
PURSUANT TO SECTIONS 9(f) AND 54(c)
OF THE INVESTMENT COMPANY ACT OF
1940, AND NOTICE OF HEARING**

I.

The Securities and Exchange Commission (“Commission”) deems it appropriate that public administrative and cease-and-desist proceedings be, and hereby are, instituted pursuant to Sections 9(b) and 54(c) of the Investment Company Act of 1940 (“Investment Company Act”) against Principal Mortgage Fund, Inc. (“PMF” or “Respondent”).

II.

After an investigation, the Division of Enforcement alleges that:

Respondent

1. PMF (CIK No. 1410646) is a Nevada corporation located in Carson City, Nevada. According to the Nevada Secretary of State, PMF’s corporate registration has been revoked. On August 24, 2007, PMF filed a notice of intent to elect to be regulated as a business development company (“BDC”), and then on August 27, 2007, PMF elected to be regulated as a BDC.

Fidelity Bond

2. Section 17(g) of the Investment Company Act and Rule 17g-1 thereunder, which Section 59 of the Investment Company Act makes applicable to BDCs, require each BDC to provide and maintain a bond issued by a reputable fidelity insurance company against larceny and embezzlement by officers and employees of the BDC.

3. PMF has not provided and maintained a fidelity bond since October 2008.
4. As a result of the foregoing, PMF violated Section 17(g) of the Investment Company Act, and Rule 17g-1 thereunder.

BDC Status

5. Section 54(c) of the Investment Company Act provides that whenever the Commission finds, on its own motion, or upon application, that a BDC which has filed a notice of election pursuant to Section 54(a) has ceased to engage in business, the Commission shall so declare by order revoking such company's election.

6. As of the date of this Order, PMF is not active in the State of Nevada and has ceased to engage in business.

III.

In view of the allegations made by the Division of Enforcement, the Commission deems it appropriate that administrative and cease-and-desist proceedings be instituted to determine:

- A. Whether the allegations set forth in Section II are true and, in connection therewith, to afford PMF an opportunity to establish any defenses to such allegations;
- B. Whether pursuant to Section 9(f) of the Investment Company Act, PMF should be ordered to cease and desist from committing or causing violations of and any future violation of Section 17(g) of the Investment Company Act and Rule 17g-1 thereunder; and
- C. Whether, pursuant to Section 54(c) of the Investment Company Act, PMF's election as a business development company should be revoked.

IV.

IT IS ORDERED that a public hearing for the purpose of taking evidence on the questions set forth in Section III hereof shall be convened not earlier than 30 days and not later than 60 days from service of this Order at a time and place to be fixed, and before an Administrative Law Judge to be designated by further order as provided by Rule 110 of the Commission's Rules of Practice, 17 C.F.R. § 201.110.

IT IS FURTHER ORDERED that the Respondent shall file an Answer to the allegations contained in this Order within twenty (20) days after service of this Order, as provided by Rule 220 of the Commission's Rules of Practice, 17 C.F.R. § 201.220.

If the Respondent fails to file the directed answer, or fails to appear at a hearing after being duly notified, the Respondent may be deemed in default and the proceedings may be determined against it upon consideration of this Order, the allegations of which may be deemed to be true as provided by Rules 155(a), 220(f), 221(f) and 310 of the Commission's Rules of Practice, 17 C.F.R. §§ 201.155(a), 201.220(f), 201.221(f) and 201.310.

This Order shall be served forthwith upon the Respondent personally or by certified mail.

IT IS FURTHER ORDERED that the Administrative Law Judge shall issue an initial decision no later than 300 days from the date of service of this Order, pursuant to Rule 360(a)(2) of the Commission's Rules of Practice.

In the absence of an appropriate waiver, no officer or employee of the Commission engaged in the performance of investigative or prosecuting functions in this or any factually related proceeding will be permitted to participate or advise in the decision of this matter, except as witness or counsel in proceedings held pursuant to notice. Since this proceeding is not "rule making" within the meaning of Section 551 of the Administrative Procedure Act, it is not deemed subject to the provisions of Section 553 delaying the effective date of any final Commission action.

By the Commission.

Elizabeth M. Murphy
Secretary