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**California ‘Homeowner Bill of Rights’ Harms Current and Future Homeowners,
New Study Finds
Bills Being Fast-Tracked Are Likely to Decrease Home Values, Hamper Housing Market
Recovery, Raise Lending Risk**

June 28, 2012—SACRAMENTO, CALIFORNIA—The vast majority of California homeowners will not be helped by several foreclosure and mortgage reform bills currently making their way through the state Legislature, according to a study released today by a consortium of financial services organizations. The analysis finds that the proposed regulations—which would slow the foreclosure process and make it more costly for loan servicers—are unlikely to help more than a tiny fraction of homeowners who are behind on payments, but are likely to slow the housing recovery, ultimately reduce home values, and diminish the future availability of credit for California home buyers.

The study was conducted by independent research firm Beacon Economics, LLC and commissioned by the California Bankers Association, California Credit Union League, California Mortgage Bankers Association, MERSCORP Holdings Inc. and United Trustees Association.

“However well intentioned, these bills are unneeded in a housing market that has just begun to find its footing and is starting to recover from one of the worst crashes in history,” says Beacon Economics’ founding partner and the study’s lead author Christopher Thornberg. “These kinds of interferences that lengthen foreclosure processes have been shown to do little for current borrowers who are behind on payments and can actually incentivize some to default, increasing foreclosure rates. They have also been shown to be detrimental to new borrowers because they result in reduced availability of credit.”

The bills are part of a legislative package sponsored by State Attorney General Kamala Harris—collectively entitled the California Homeowner Bill of Rights (CHBR)—that push the state towards the type of lengthy judicial foreclosure process that exists in places like Florida and New Jersey.

Although it has a long way to go, California’s housing market has improved faster than places with restrictive judicial processes such as Florida—an outcome highly correlated with the state’s more efficient foreclosure system, the analysis finds. Foreclosures in California have already fallen dramatically from their peak, sales are beginning to trend upwards, and prices have risen off their 2011 bottom.

Nevada recently put rules into place that have similarities to the CHBR bills, yet there is little evidence of relief in Nevada’s market. Judicial states have foreclosure timelines that are, on average, 2.5 times longer than non-judicial states, and a wide variety of research cited in the study show important negative effects on homeowners and markets. These include delaying market recovery and incentivizing some consumers to strategically remain delinquent.

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Additional key findings include:

- **The contested bills are unlikely to help borrowers who are behind on their payments.** There is little empirical evidence to suggest that states with longer foreclosure processes have greater rates of loan modifications or a lower share of delinquent borrowers moving into foreclosure. Moreover, according to the study, if states with excessively long foreclosure periods shortened them, it would significantly increase the likelihood that delinquent borrowers would successfully pay down their mortgages. This is because very long foreclosure periods remove the imminent threat of home loss and offer the benefit of “rent free” living.
- **The contested bills will reduce home values.** Allowing defaults to idle in the system keeps discounts high on foreclosed units, placing downward pressure on home prices across the board. This has negative implications for non-distressed properties and drags out a market’s recovery because it prevents home prices from stabilizing in earnest.
- **The contested bills will reduce the availability of credit for future homebuyers.** The proposed regulations will unquestionably raise the risk of lending in California, which will cause mortgage companies to toughen credit standards and increase the down payment needed to purchase a home. This will effectively reduce long-run homeownership rates in the state.
- **The contested bills could end up costing homeowners with distressed mortgages.** An important aspect of non-judicial foreclosure processes is that they do not allow lenders to pursue borrowers’ other assets as compensation for mortgage losses. If the non-judicial route is made more costly, many lenders may choose a judicial foreclosure (which is their right), and seek reimbursement from borrowers’ other assets, costing financially strained homeowners even more.

The financial services community supports many of the bills contained in the CHBR, including legislation that deters blight and that offers enhanced protections to tenants whose landlords are subject to foreclosure. Notably, those bills are moving through typical legislative channels. The contested bills addressed in the study were fast-tracked to a conference committee, which allowed them to bypass the normal legislative process and avoid fiscal and policy hearings in both houses.

The study concludes that the contested CHBR bills also fail to address, or even acknowledge, the fundamental reason behind the state’s wave of foreclosures— borrowers’ underlying financial conditions.

Click [here](#) to view the full study, *Foreclosure Reform in California: An Economic Analysis*.

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