

California Lenders, Trustees, and Credit Unions Sue to Strike Down AB 130's Harmful Restrictions on Junior Liens

On September 5, 2025, the California Mortgage Association, California Credit Union League, United Trustees Association and several impacted individuals, financial institutions and small business owners sued Rob Bonta, as Attorney General, to block enforcement of portions of Assembly Bill 130 impacting junior liens that threaten to diminish credit options for homeowners and restrict access to capital for small business and homeowners, at a time when home ownership in California is declining and affordability is at all-time lows. The lawsuit argues that AB 130 unconstitutionally impairs existing contracts, deprives lenders and investors of property rights, violates due process and equal protection, and is preempted by federal law.

Enacted on June 30, 2025, AB 130 was a 215-page budget bill that, buried within its provisions, added Section 2924.13 to the California Civil Code. This new statute retroactively redefines routine loan servicing activities as “unlawful practices,” and conditions foreclosure rights on compliance certifications under penalty of perjury that no unlawful practice ever occurred, even if those practices had been otherwise lawful for decades. Borrowers, in turn, are given new rights to enjoin foreclosures and petition courts for relief—measures that effectively strip junior lienholders of long-recognized contract and property rights.

“As enacted, AB 130 will cause lenders to forgo extending junior credit secured by residential properties at the current velocity. This will destabilize real estate financing and prevent consumers and small businesses from obtaining loans to meet housing, renovation, and business needs,” said Bradley Laddusaw, President of the California Mortgage Association.

AB 130's negative impact on the ability to obtain junior liens for homeowners and small businesses compounds an already complex problem facing California – the affordability of buying and owning a home. According to the California Association of Realtors (CAR), only 15 percent of California households can afford to purchase a median-priced home of \$905,680 in the second quarter of 2025, far lower than the 34 percent affordability rate nationwide.¹ The CAR noted that “mortgage rates continued to stay elevated, keeping borrowing costs near their all-time highs.”² AB 130 exacerbates this problem by hampering access to junior lien credit, such as HELOCS that homeowners often use for debt consolidation and home improvements to preserve their low-interest first lien mortgages or to borrow additional money to qualify for a first mortgage without paying private mortgage insurance. AB 130 will reduce financial flexibility for such homeowners, further hindering homeownership prospects.

¹ “California housing affordability dips in second-quarter 2025, improves from year ago, C.A.R. reports,” California Association of Realtors® (C.A.R.) (August 12, 2025) See <https://www.prnewswire.com/news-releases/california-housing-affordability-dips-in-second-quarter-2025-improves-from-year-ago-car-reports-302527190.html>

² *Ibid.*