



March 13, 2008

The Honorable Ellen Corbett, Chair  
Senate Judiciary Committee  
State Capitol, Room 2187  
Sacramento, CA 95814

**Re: Support for Senate Bill 1137 (Perata)**

Dear Senator Corbett:

I am writing on behalf of the Center for Responsible Lending (CRL) to express CRL's support for Senate Bill 1137, which would implement important foreclosure process reforms to protect the hundreds of thousands of Californians who are in danger of losing their homes due to the mortgage crisis. The bill will help to reduce the number of foreclosure sales by requiring lenders to meet with borrowers to provide restructuring options and taking steps to ensure that foreclosed properties do not contribute to neighborhood blight.

Last December, CRL estimated that 2.2 million families nationwide—and nearly 500,000 in California—would lose their homes to foreclosure because of reckless lending practices in the subprime market and voracious investor demand for the resulting loans. Newer estimates are even more grim: CRL estimates that over 350,000 California homes will be lost to foreclosure in 2008 and 2009 alone.<sup>1</sup> The Mortgage Bankers Association just released data indicating that the foreclosure rate for the last three months of 2007 broke yet another record.<sup>2</sup>

While this crisis impacts all Californians, the Central Valley and Inland Empire have been most heavily hit. For February 2008, seven California metro areas made the list of the nation's top 10 metro areas by foreclosure rates, and Stockton ranked second in the nation.<sup>3</sup> Unfortunately, the worst is still ahead. Based on the timing of rate resets for subprime adjustable rate mortgages, the highest volume of resets is expected in the Spring and in October of 2008.

CRL research indicates that, on top of the direct effects of foreclosure, more than 8 million California homeowners who have diligently paid their mortgages will lose property value due to the spillover effects of a weakened housing market and nearby foreclosures, for an estimated total of \$67 billion in lost wealth. Moreover, the foreclosure crisis will also have a significant impact on California's economy and fiscal outlook.

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<sup>1</sup> See <http://www.responsiblelending.org/pdfs/california-state-info-with-fc-starts.pdf>. Analysis based on CRL Report *Subprime Spillover* methodology updated with recent data from Merrill Lynch, Moody's Economy.com and the MBA's 3Q 2007 National Delinquency Survey.

<sup>2</sup> <http://www.mortgagebankers.org/NewsandMedia/PressCenter/60619.htm>

<sup>3</sup> RealtyTrac Press Release "Foreclosures Activity Decreases 4 Percent in February," (March 13, 2008), at <http://www.realtytrac.com/ContentManagement/pressrelease.aspx?ChannelID=9&ItemID=4284&acct=64847> Other California metro areas with foreclosure rates in the top 10 were Modesto at No. 3, Merced at No. 4, Riverside-San Bernardino at No. 5, Bakersfield at No. 7, Vallejo-Fairfield at No. 8 and Sacramento at No. 9.

CRL supports SB 1137 as an important part of the effort to stem the tide of foreclosures and to ameliorate the effects of the current crisis on homeowners, tenants, neighborhoods, communities and the California economy as a whole.

CRL particularly commends the requirement that lenders schedule a meeting (in-person or by phone) to work with borrowers in default, prior to filing a notice of default. Lenders (or affiliated brokers) typically met face-to-face with borrowers to place them in the problem loan. It is reasonable, then, to require a meeting with borrowers before foreclosing on the loan and taking away their home. Requiring such a meeting will increase the chances that borrowers and servicers can reach an agreement to modify the loan or otherwise avoid foreclosure.

We are disappointed, however, that industry protest led to dropping the SB 926 provision that would have required this meeting to be conducted in the language in which the loan was originally negotiated. In a state as diverse as California, it seems critical that lenders do everything in their power to increase transparency of what is an undeniably complex mortgage process. Nowhere is this more important than in the conversations explaining options available to prevent foreclosures.

Additionally, as recent media coverage highlights, the problem of displaced tenants is becoming more widespread. CRL supports the provisions of SB 1137 that would provide additional notice and time to tenants of properties that are facing foreclosure.<sup>4</sup>

We look forward to working with you to see SB 1137 enacted into law as expeditiously as possible. Should you have any questions, please do not hesitate to contact me or my Legislative Associate, Lara Flynn, at 916/444-3509.

Sincerely,

Paul Leonard  
California Director

cc: Senator Don Perata, Senate President Pro Tempore  
Honorable Members Judiciary Committee  
Benjamin Palmer, Consultant

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<sup>4</sup> See, for example, [http://www.montereyherald.com/news/ci\\_8426723](http://www.montereyherald.com/news/ci_8426723) ,  
<http://www1.pressdemocrat.com/article/20080215/WIRE/802150336/1036/BUSINESS01> and  
<http://www.latimes.com/news/local/la-me-oakland12mar12,1,2106378.story>