

Assembly Joint Resolution

No. 59

**Introduced by Assembly Members Solorio and Garcia
(Coauthors: Assembly Members Dymally, Portantino, and Wolk)**

April 17, 2008

Assembly Joint Resolution No. 59—Relative to California subprime mortgage foreclosures.

LEGISLATIVE COUNSEL'S DIGEST

AJR 59, as introduced, Solorio. California subprime mortgage foreclosures.

This measure would urge the President of the United States and Congress to, among other things, require more oversight of mortgage lenders and loan servicers and increase disclosures and enforcement of mortgage laws. The measure would also urge Congress, the Board of Governors of the Federal Reserve System, the Office of the Comptroller of Currency, the Office of Thrift Supervision, and the Federal Deposit Insurance Corporation to recognize the important role of states in the regulation of mortgage lending and in providing customer protections.

Fiscal committee: no.

1 WHEREAS, Californians are losing their homes to foreclosure
2 at record levels. According to DataQuick, a mortgage industry
3 research firm, in 2007 California had the highest levels of mortgage
4 loan defaults and foreclosures since DataQuick began tracking
5 such data in 1988. Among its findings, California had a total of
6 81,550 foreclosures in the fourth quarter of 2007, an increase of
7 115 percent from the fourth quarter of 2006; and

1 WHEREAS, More than one-half of the mortgage loan default
2 activity was concentrated in 293 ZIP Codes from Sacramento
3 through the Central Valley, the Inland Empire, Orange County,
4 and San Diego. Additionally, for subprime mortgages originated
5 in 2006, DataQuick indicates that four of the five metropolitan
6 areas in the United States expected to experience the highest
7 foreclosure rates for subprime mortgages include the Cities of
8 Merced, Bakersfield, Vallejo, Fairfield, and Fresno; and

9 WHEREAS, Of the top 15 metropolitan areas in the United
10 States projected to see the largest increase in foreclosure rates of
11 subprime mortgages (comparing the projected foreclosure rates of
12 loans originated between 1998–2001 and those originated in 2006),
13 14 are in California. The areas with the largest projected increase
14 in foreclosure rates include Santa Ana, Anaheim, Irvine, Santa
15 Barbara, Santa Maria, San Diego, Carlsbad, and San Marcos; and

16 WHEREAS, Subprime mortgage loans have and will continue
17 to represent the largest share of, and have contributed to a
18 disproportionate number of, foreclosures in California. Recent
19 data from the mortgage banking industry shows that while
20 subprime loans represented 15 percent of outstanding mortgages
21 in California, they accounted for a stunning 68 percent of
22 foreclosures in the second quarter of 2007; and

23 WHEREAS, The California Association of Realtors reported
24 that California home sales plunged 36 percent in November 2007,
25 compared with November 2006; and

26 WHEREAS, The Legislative Analyst of California is now
27 projecting \$16 billion in budget deficits, in part due to slower
28 revenue growth associated with the housing downturn; and

29 WHEREAS, Since California represents 17 percent of the
30 nation's gross domestic product, the state's suffering economy
31 impacts the national economy and could prolong a broader
32 recession; and

33 WHEREAS, Foreclosure undermines Californians' financial
34 well-being, stripping them of their wealth and ability to build assets
35 and make long-term financial plans. In addition to ruining
36 individuals financially, foreclosures are destabilizing entire
37 communities by depressing home values; and

38 WHEREAS, The cost of the subprime mortgage problem extends
39 far beyond the families who lose their homes. Millions of other
40 families who paid their mortgages diligently will be hurt by

1 declines in property values spurred by nearby foreclosures and a
2 weaker housing market. According to a report by the Center for
3 Responsible Lending entitled “Subprime Spillover,” nationwide
4 foreclosures cost neighbors \$223 billion, with an average individual
5 property value loss of \$5,000. In California, that total number is
6 \$67 billion, with an average individual property value loss of more
7 than \$8,000. Three million Los Angeles County homeowners will
8 lose \$30 billion in property value as a result of neighboring
9 foreclosures; and

10 WHEREAS, In August 2007, the Orange County Register
11 reported how one block in Santa Ana was ravaged by subprime
12 mortgage loan foreclosures, many involving Hispanic borrowers
13 who did not fully understand the terms of their mortgages or had
14 been misled and cheated by mortgage loan originators; and

15 WHEREAS, A 2007 study conducted by Moody’s Investors
16 Service showed that subprime mortgage loan modifications are
17 rare. After surveying 16 loan servicers that handle \$950 billion of
18 subprime mortgages, about 80 percent of the market, Moody’s
19 found that only 3.5 percent of loans facing resets in the first eight
20 months of 2007 were modified. The report notes this is the case
21 “despite much industry dialogue and heavy press attention on the
22 topic of loan modifications as a mitigation technique to avoid
23 foreclosure and reduce losses on defaulted loans”; and

24 WHEREAS, An October 2007 survey of 33 California housing
25 counselors conducted by the California Reinvestment Coalition
26 found that mortgage lenders rarely help homeowners who face
27 higher mortgage payments due to loan resets. Only one of the
28 counselors surveyed said that loan modification is among the most
29 common outcomes for its clients. Kevin Stein, associate director
30 of the coalition, was quoted in the San Francisco Chronicle as
31 saying: “The most striking thing that came out of this [study] is
32 that there is a huge chasm between what the lenders are stating,
33 which very well may be their policies, and what’s happening on
34 the ground. That clearly works to the detriment of homeowners
35 and their communities”; and

36 WHEREAS, Several states including Illinois, Indiana, Kentucky,
37 Maryland, New Hampshire, New York, Utah, and West Virginia
38 are considering mortgage reform legislation in response to the
39 foreclosure crisis; now, therefore, be it

1 *Resolved by the Assembly and the Senate of the State of*
2 *California, jointly,* That the Legislature of the State of California
3 urges the President and Congress to require more oversight of, and
4 transparency among, mortgage lenders and loan servicers, to push
5 for additional disclosures and the enforcement of existing mortgage
6 laws, and to take action to pressure loan servicers to streamline
7 and fast track loan modifications; and be it further

8 *Resolved,* That the Legislature of the State of California urges
9 Congress, the Board of Governors of the Federal Reserve System,
10 the Office of the Comptroller of Currency, the Office of Thrift
11 Supervision, and the Federal Deposit Insurance Corporation to
12 recognize the important role of states in the regulation of mortgage
13 lending and in providing consumer protections; and be it further

14 *Resolved,* That the Chief Clerk of the Assembly transmit copies
15 of this resolution to the President and Vice President of the United
16 States, to the Speaker of the House of Representatives, to the
17 Majority Leader of the Senate, to each Senator and Representative
18 from California in the Congress of the United States, and to the
19 author for appropriate distribution.