Crisis Era Housing Intervention: The California Foreclosure Prevention Laws

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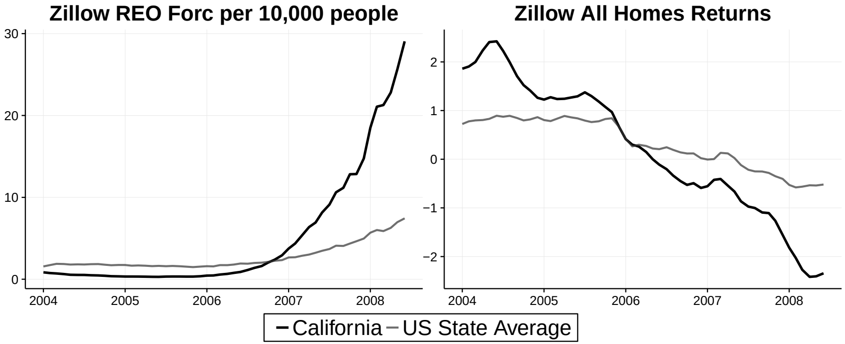
California Foreclosure Intervention

- By 2008, California housing markets were spiraling downward:
  - California House Prices fell over 30 percent from 2006 highs
  - Over 800,000 California homes entered foreclosure
  - Concerns of a second Great Depression



The California Foreclosure Prevention Laws (CFPLs)

- Goal: Increase lender pecuniary and time costs of foreclosure to encourage modification
- SB-1137 Passed and Implemented in July 2008:
  - Before filing a Notice of Default (NOD), lenders must make three attempts to contact borrowers with information on foreclosure alternatives (lender "Due Diligence" requirement)
  - After satisfying the SB-1137 Due Diligence requirement, lenders were then required to wait an additional 30 days before filing an NOD
  - Legal owners of repossessed foreclosures must maintain the property or face fines up to $1000 per property per day
- CFPA implemented in June 2009:
  - Lenders subject to an additional 90 day foreclosure moratorium between NOD and NOS **unless** they had implemented a mortgage modification program meeting the State's standards

CFPLs

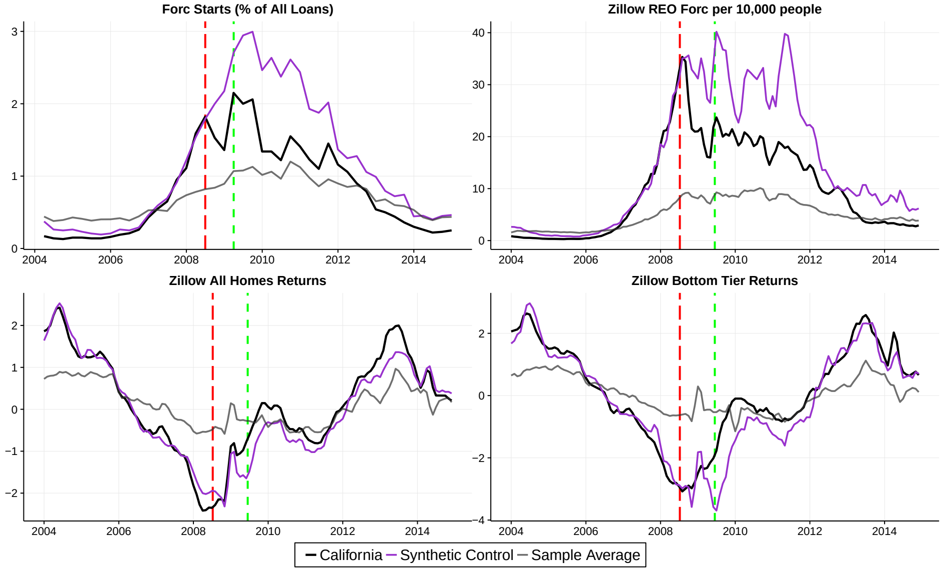
Benefits

1. No delays in policy implementation
2. Distressed borrowers receive policy treatment even in the event of inaction by their lenders
3. Encourages modifications
4. Slows the rate with which homes enter foreclosure
5. Mitigates foreclosure "disamenity" effects by penalizing foreclosure-related property neglect
6. No pecuniary subsidies paid by taxpayers

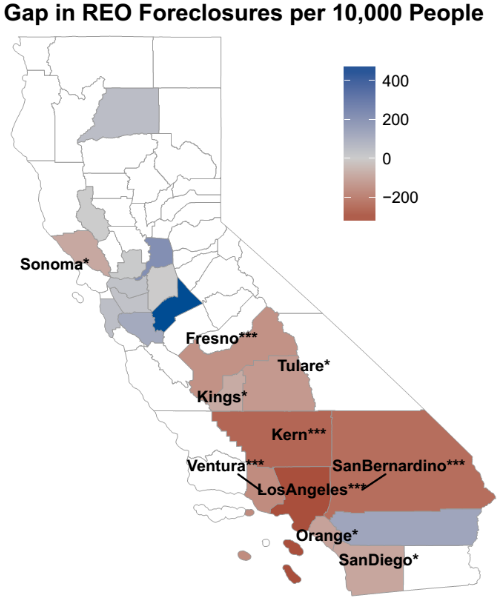
Potential Downsides

1. May push the foreclosure crisis further into the future
2. May adversely affect new borrowers

CFPL Effects



CFPL Effects



Conclusions

- The California Foreclosure Prevention Laws (CFPLs) were highly effective.
- CFPLs also increased modification rates of distressed mortgages and benefited the real economy
  - Compared to an estimated counterfactual, California auto-sales increased 12.5 percent

CFPL Efficacy due to

1. Quick and timely implementation
2. Wide-reaching treatment
3. Low institutional implementation costs
4. Non-dependence relative to the actions of lenders or borrowers