

Date of Hearing: March 17, 2026

ASSEMBLY COMMITTEE ON JUDICIARY
Ash Kalra, Chair
AB 1957 (Pacheco) – As Introduced February 13, 2026

SUBJECT: MORTGAGES: FORECLOSURE

KEY ISSUE: SHOULD THE SUNSET DATE FOR A WELL-INTENDED BUT TROUBLED POLICY TO HELP OWNER OCCUPANTS, TENANTS, AND NONPROFITS PURCHASE FORECLOSED RESIDENTIAL PROPERTIES BE CHANGED FROM JANUARY 1, 2031, TO JANUARY 1, 2027, THEREBY ENDING THE POLICY AT THE END OF THE CURRENT YEAR?

SYNOPSIS

SB 1079 (Skinner) Chap. 202 Stats. 2020, sought to facilitate the purchase of foreclosed residential properties by owner-occupants, tenants, and nonprofit groups by imposing certain restrictions on a trustee's sale of real property containing one to four units. Specifically, SB 1079 gave an "eligible bidder" – a tenant of the property, a prospective owner occupant, nonprofit groups, and public agencies – 45 days after the initial auction sale to purchase the property. An eligible bidder could then purchase the property by offering any amount matching or exceeding the initial bid, and their bid would override the initial bid. While the bill's purpose was to promote more equitable housing opportunities, its implementation, as explained in the analysis, has resulted in unintended consequences that have undermined that purpose and created opportunities for fraud – including fraud by the very entities that the initial legislation targeted. Even when the process works as planned, by allowing a tenant or prospective owner occupant to purchase a home at below market price, it necessarily harms the foreclosed upon homeowner by returning to them less of their hard-earned equity.

This is not the first time the Legislature has recognized problems with the "SB 1079 process" and attempted to remedy them. Most notably, AB 1837 (Bonta) Chap. 642, Stats. 2022, attempted to revise the process to address problems of fraud (it also extended the sunset date to January 1, 2031). AB 295 (Lowenthal) Chap. 142, Stats. 2024, made additional changes aimed at preventing efforts to scam the process. Last year, AB 1158 (Chen, 2025) attempted to address abuse of the process by, among other things, narrowing the definition of "eligible property" and restricting the categories of "eligible bidders." AB 1158 passed out of this Committee on consent; however, it was held in the Assembly Appropriations Committee, presumably due to the "unknown but potentially significant" costs to the courts resulting for a new cause of action created by the bill. The bill now before the Committee is, potentially, the final act in addressing problems of fraud, delay, and operational inefficiency in the SB 1079 process. Rather than seeking further amendments to the SB 1079 process, this bill would instead effectively eliminate the process by moving the sunset date to January 1, 2027. Without this bill, the SB 1079 process would terminate on January 1, 2031, unless subsequent legislation deletes or extends the sunset date.

This bill is sponsored by the United Trustee's Association. No registered opposition was submitted by the Committee's deadline for submitting position letters on pending legislation.

SUMMARY: Changes the sunset date for California’s post-foreclosure property acquisition process (the “SB 1079 process”) from January 1, 2031, to January 1, 2027.

EXISTING LAW:

- 1) Requires a trustee to send written notice of remaining proceeds to all persons with recorded interests in the real property within 30 days of the foreclosure sale. (Civil Code Section 2924j (a). Unless otherwise noted, all further references are to the Civil Code.)
- 2) Requires a trustee to distribute the proceeds of a trustee’s sale in an order of priority, starting with the costs and expenses of the sale, the payment obligation secured by the mortgage that is the subject of the sale, any junior liens and then to the borrower. (Section 2924k.)
- 3) Requires a trustee to provide notice of a trustee sale by publishing notice of sale in a newspaper of general circulation where the property is located, containing information such as the borrower’s name and the amount owed, at least 20 days before the sale date. (Section 2924f.)
- 4) Declares that vulnerable homeowners are increasingly relying on the services of foreclosure consultants, who often charge an exorbitant fee for a service when the homeowner could have obtained the remaining funds from the trustee’s sale from the trustees directly if the homeowner had sufficient time to receive notices from the trustee regarding how and where to make a claim for excess proceeds. (Section 2945 (a).)
- 5) Defines “foreclosure consultant” as any person who, for compensation, offers a homeowner any services relating to a pending foreclosure, including, among other things, representations that the consultant will stop or postpone the foreclosure sale; obtain any forbearances from any beneficiary or mortgagee; assist the owner to obtain a loan or advance of funds; assist the owner in exercising or extending the right of reinstatement; ameliorate damage caused to the homeowners credit as a result of the foreclosure; or assist the owner in obtaining any remaining proceeds from a foreclosure sale. Excludes from the definition of “foreclosure consultant” certain licensed professionals, such as attorneys or mortgage lenders, engaged in the practice of their profession. (Section 2945.1 (a).)
- 6) Prohibits a foreclosure consultant from entering a contract to recover surplus funds after a foreclosure sale. (Section 2945.4 (h).)
- 7) Establishes comprehensive procedures for conducting a foreclosure sale through an auction. (Sections 2924g and 2924h.)
- 8) Enacts a statutory scheme whereby eligible bidders may acquire properties consisting of one to four residential dwelling units offered at a foreclosure auction by matching or exceeding the last and highest offer made at the auction. (Section 2924m.)
- 9) Provides tenants, prospective owner-occupants, nonprofit affordable housing providers, and public entities a 45-day window to purchase residential properties of 1-4 units if they can match or exceed the highest bid at a preceding foreclosure auction. (Section 2924m.)

- 10) Provides liability protection to trustees in performing any required acts for any good faith error resulting from reliance on information provided in good faith by the beneficiary concerning the amount or nature of the default. (Section 2924 (b).)
- 11) Permits a trustee to recover reasonable costs and expenses incurred in enforcing the terms of the obligation, deed of trust, or mortgage, and trustee's or attorney's fees. (Section 2924c (a)(1).)
- 12) Permits a trustee to collect costs and expenses associated with recording, mailing, publishing, and posting certain required notices. (Section 2924c (c).)
- 13) Prohibits bidders from submitting successive bids. (Section 2924m (c)(3).)
- 14) Requires a trustee to submit a recorded deed for any successful transaction conducted under SB 1079's post-sale bid process to the Attorney General's Office. (Section 2924m (i)(4).)

FISCAL EFFECT: As currently in print this bill is keyed fiscal.

COMMENTS: According to the author:

In 2020, the Legislature passed SB 1079 to create alternative pathways to homeownership using the foreclosure process by allowing certain qualified buyers, including nonprofit organizations, to purchase a foreclosed property after the public auction by slightly exceeding the winning bid. Unfortunately, this process has been misused by bad actors who exploit the foreclosure sales system, effectively bypassing public auctions and depriving former homeowners of their hard-earned equity.

These individuals use straw buyers to avoid participating in the public foreclosure auction and instead acquire the property after the sale for as little as one cent more than the winning bid. This misuse of the system undermines fairness and transparency in the foreclosure process and suppresses competitive bidding.

AB 1957 expedites the sunset date for Civil Code 2924m to ensure that foreclosure sales function as a transparent and competitive process – one that allows homeowners to receive the full value of the equity they have built in their homes.

Creating and reforming the “SB 1079 process.” SB 1079 (Skinner) Chap. 202, Stats. 2020, sought to facilitate the purchase of foreclosed residential properties by owner-occupants, tenants, and nonprofit affordable housing groups by imposing certain restrictions on a trustee's sale of residential property containing one to four units. Specifically, SB 1079 gave an “eligible bidder” a 45-day window to come in after the initial auction sale and purchase the property before the sale to the initial bidder became final. The bill initially defined an “eligible bidder” to include a tenant of the property, a prospective owner occupant, a nonprofit, and certain government agencies. An eligible bidder could then purchase the property by offering any amount matching or exceeding the highest bid made at the foreclosure auction sale. By granting eligible bidders a statutory right of first refusal, SB 1079 sought to mitigate the trend of corporate consolidation of California's housing stock and preserve opportunities for individual owner-occupancy and affordable housing.

While the bill's purpose was to promote more equitable housing opportunities, its implementation, according to the author and sponsor, has resulted in unintended and unwanted consequences. They contend that widespread fraud and abuse have undermined the bill's original purpose and, indeed, has harmed the very borrowers it was created to help. According to the sponsors, the lack of a meaningful mechanism for verifying bidders, the broad definition of "prospective owner-occupants," and minimal scrutinization of nonprofits have invited manipulation of the process. Bad faith participants often delay their bids until after the foreclosure sale has concluded, submitting overbids as little as one dollar higher than the original price, thereby exploiting the statutory preference to gain control of the property. The result is a chilling effect on legitimate auction participation, as qualified bidders are deterred by the risk of having substantial funds tied up for 45 days only to be displaced without recourse. Indeed, the "bad faith" actors are apparently some of the business "flippers" and corporate entities that SB 1079 original targeted. Even when the process works as planned, by allowing a tenant or prospective owner occupant to purchase a home at below market price, it necessarily harms the foreclosed-upon property owner by returning to them less of the equity they have built up in the home.

This is not the first time the Legislature has recognized problems with the "SB 1079 process" and attempted to remedy them. Most notably, AB 1837 (Bonta) Chap. 642, Stats. 2022, attempted to revise the process to address problems of fraud; it also extended the sunset date to January 1, 2031. AB 295 (Lowenthal) Chap. 142, Stats. 2024, made additional changes aimed at preventing efforts to scam the process. Last year, AB 1158 (Chen, 2025) attempted to address abuse of the process by, among other things, narrowing the definition of "eligible property" and restricting the categories of "eligible bidders." AB 1158 passed out of this Committee on consent; however, it was held in the Assembly Appropriations Committee, presumably due to the "unknown but potentially significant" court costs resulting from a new cause of action created by the bill. (See Assembly Appropriations Committee Analysis of AB 1156, May 7, 2025.)

This bill, potentially, is the final act in addressing problems of fraud, delay, and operational inefficiency in the SB 1079 process. Rather than seeking further amendments to the SB 1079 process, this bill would instead effectively eliminate the process by moving the sunset date to January 1, 2027. Without this bill, the SB 1079 process would terminate on January 1, 2031, unless subsequent legislation deletes or extends the sunset date.

The Committee may wish to consider whether to modify or abandon the SB 1079 process.

Everyone, it seems, concedes that the existing process does not work very well and has opened the door to fraud, sometimes by the very actors that SB 1079 attempted to prevent buying up foreclosed properties. Moreover, the SB 1079 process picks winners and losers – and not just between prospective homeowners and corporate entities. Not very long ago, in the years immediately following the 2008 foreclosure crisis, this Legislature introduced several measures designed to protect the interests of foreclosed-upon homeowners. However, even when SB 1079 works as intended, it necessarily hurts those very same people. That is, to the extent that SB 1079 succeeds in helping tenants and prospective owner occupants purchase housing at a more affordable price, it also ensures that the foreclosed-upon homeowner will recover less of the equity that they have developed in their home.

The question is whether there are valuable aspects of SB 1079 that are worth preserving, or if it would be better to start anew. The Legislature could continue upon the path it has followed and attempt once more to amend the SB 1079 process in a way that eliminates fraud and restores the

laudable intent of the legislation. Ideally, it could do so in a way that would protect both prospective homeowners and the foreclosed upon homeowner, though to some degree their interests will always run at cross purposes. Alternatively, the Legislature could concede that the SB 1079 process is a flawed process that does not deliver as advertised and, instead, begin the hard work of finding more imaginative solutions to the state's affordable housing crisis, such as multifaceted approaches to increase the housing supply and urban planning, funding affordable housing, protecting existing housing, and protecting tenants from excessively high rents.

ARGUMENTS IN SUPPORT: The United Trustees Association (UTA), the bill's sponsor, contends that AB 1957, by allowing the "SB 1079 process" to sunset on January 1, 2027, will "restore the integrity of the nonjudicial foreclosure sale process [and] protect borrowers." UTA concedes that SB 1079 was a "well-intentioned measure . . . designed to broaden access to homeownership, by creating alternative pathways in the nonjudicial foreclosure process."

Despite these good intentions, UTA maintains, the process has been "manipulated by fraudsters to the great detriment of borrowers who are losing their homes to foreclosure." The problems, according to UTA, include the following: (1) "Real estate investors creating bogus nonprofits to avoid the open, transparent bidding process at the foreclosure sale, and coming in after the sale to claim the property." (2) "Entities using tenants as "straw-buyers" in order to qualify as eligible tenant bidders." (3) "Perhaps most commonly, entities which are simply "flippers" of homes claiming to be prospective owner-occupants, often at the same time and in locations all around California."

"Taken together," UTA concludes, "these avenues to manipulate the law have created a disincentive to bid at the public foreclosure sales, robbing homeowners of the equity they have developed in their properties. Why bid at the foreclosure sale, and tie huge sums of money up for at least 45 days, when you can wait, and cherry-pick properties that you think might have sold at a low price? To be clear, the whole point of the foreclosure sale is to obtain the highest possible price on the property, because the defaulting borrower is entitled to all of the proceeds of the sale, less the loan being foreclosed and costs. *Anything which discourages bidding is bad for borrowers.*"

REGISTERED SUPPORT / OPPOSITION:

Support

United Trustees Association (sponsor)
Brookfields Real Estate Group

Opposition

None on file

Analysis Prepared by: Tom Clark / JUD. / (916) 319-2334