
THIRD READING

Bill No: AB 1957
Author: Pacheco (D)
Amended: 8/3/26 in Senate
Vote: 21

SENATE JUDICIARY COMMITTEE: 13-0, 6/30/26
AYES: Umberg, Niello, Allen, Ashby, Caballero, Durazo, Laird, Reyes, Stern, Valladares, Wahab, Weber Pierson, Wiener

ASSEMBLY FLOOR: 70-1, 5/26/26 - See last page for vote

SUBJECT: Mortgages: foreclosure

SOURCE: United Trustees Association

DIGEST: This bill narrows the process by which certain eligible bidders may purchase a residential property of one to four units that was sold at a foreclosure sale by making a matching or greater bid, as specified.

ANALYSIS:

Existing law:

1) Establishes comprehensive procedures for conducting a non-judicial foreclosure sale, pursuant to a power of sale in the deed or mortgage, through a public auction conducted by a trustee (also known as the "trustee's sale"). (Civil (Civ.) Code §§ 2924g & 2924h.)

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. (Civ. Code § 2924k.)

3) Provides a process for a specified eligible bidder to meet or exceed the highest bid at a trustee's sale, if the eligible bidder's bid is received by the trustee within 45 days of the trustee's sale, as specified. (Civ. Code § 2924m.)

4) Defines, for the purposes of the process described in 3), above, an "eligible bidder" to mean:

   a) an eligible tenant buyer;
   b) a prospective owner-occupant;
   c) a nonprofit association, nonprofit corporation, or cooperative corporation in which an eligible tenant buyer is a voting member or director;
   d) an eligible nonprofit corporation that:
      i. has a determination letter from the IRS affirming its tax-exempt 501(c)(3) status;
      ii. has its principal place of business in California;
      iii. has board members whose primary residences are all in California;
      iv. has as one of its primary activities the development and preservation of affordable rental or home ownership housing in California; and
      v. is registered and in good standing with the Attorney General's Registry of Charities and Fundraisers;

      (1) a limited liability company wholly owned by one or more eligible nonprofit corporations described in (c) or (d);
      (2) a community land trust, as defined;
         a. a limited-equity housing cooperative, as defined; or
      (3) the state, the Regents of the UC, or a county, city, district, public authority, or public agency. (Civ. Code § 2924m(a)(3).)

5) Defines a "prospective owner-occupant" to mean a natural person who presents to the trustee an affidavit or declaration stating that:

   a) They will occupy the property as their primary residence within 60 days of the trustee's deed being recorded;
   b) They will maintain their occupancy for at least one year;
   c) They are not acting as the agent of any other person or entity in purchasing the real property, and
   d) They are not the foreclosed upon borrower, or related to or affiliated with the foreclosed upon borrower, as specified. (Civ. Code § 2924m(a)(1).)

6) Defines an "eligible tenant bidder" to mean a natural person who, at the time of the trustee's sale:

   a) Is occupying the property as their primary residence;
   b) Is occupying the real property under a rental or lease agreement entered into as the result of an arm's-length transaction that was entered into before recording of the owner's default, and provides evidence of this;
   c) Is not the borrower or trustor, or the child, spouse, or parent of the borrower or trustor;
   d) Is not acting as the agent of any other person or entity in purchasing the real property; and
   e) Has not filed a petition under the U.S. Bankruptcy Code, as specified. (Civ. Code § 2924m(a)(2).)

7) Permits the Attorney General or a county counsel, city attorney, or district attorney to bring a civil action for specific performance or any other remedy at equity or law to enforce the provisions relating to bids by eligible bidders described in (3) through (6), above. (Civ. Code § 2924m(j).)

8) Specifies that the provisions described in (3) through (7), above, regarding bids by eligible bidders, sunsets and are repealed on January 1, 2031. (Civ. Code § 2924m(m).)

This bill:

1) Removes the "prospective owner occupant" category of eligible bidder for the purposes of the post-sale bidding process described in (3), above, instead defining "eligible bidder" as either:

   a) an "eligible tenant bidder" or
   b) an "eligible community bidder."

2) Requires that "eligible tenant bidder" means, in addition to existing requirements, a tenant who will maintain occupancy for at least one year pursuant to a deed restriction contained within a trustee's deed executed by the trustee that is enforceable as described in (8), below.

3) Defines "eligible community bidder" to mean any of the entities described in (4)(c) through (h), above.

4) Requires that an eligible nonprofit corporation under the "eligible community bidder" category, as described in (4)(d), above, to meet additional specified requirements required of nonprofits that may bid on deed-restricted housing in existing law, as specified.

5) Limits the residential properties eligible for the post-sale bidding process under (3), above, to:

   a) If the party submitting a bid is an eligible community bidder, the property is residential real property of four or fewer units sold at a trustee's sale pursuant to a power of sale contained in a first lien deed of trust or mortgage; or
   b) If the party submitting a bid is an eligible tenant bidder, the property is residential real property of four or fewer units sold at a trustee's sale pursuant to a power of sale contained in a first lien deed of trust or mortgage where:

      i. the city or county in which the property is located has issued a certificate of occupancy that was valid on the date of the trustee's sale and the property was not subject to a red tag or a substandard building code violation preventing occupancy on the date of the sale; and
      ii. the fair market value of the property is equal to or less than the maximum Federal Housing Administration loan limits, as specified.

6) Permits a trustee to reasonably rely on affidavits and declarations regarding bidder eligibility, and specifies that the trustee does not have a duty to investigate or verify the information contained within the affidavit or declaration of the bidder's eligibility. Specifies that the trustee is not liable to any person or entity on any claim arising from an eligible bidder's affidavit or declaration of their eligibility.

7) Requires a trustee, within 30 days of a sale being deemed final, to return any losing bid to the bidder that submitted it.

8) Permits the Attorney General, county counsel, city attorney, or district attorney to bring an action for, in addition to existing specified remedies, a civil penalty equal to one-third of the fair market value of the property, where a bid was submitted by a person or entity that is not entitled to submit a bid.

9) Makes various conforming changes.

FISCAL EFFECT: Appropriation: No Fiscal Com.: Yes Local: No

SUPPORT: (Verified 8/5/26)

United Trustees Association (source)

OPPOSITION: (Verified 8/5/26)

California Association of Realtors
Consumer Federation of California
Legal Assistance for the Elderly
Northern California Land Trust
Oakland Community Land Trust
Public Counsel

ARGUMENTS IN SUPPORT: According to the United Trustees Association, which is the sponsor of AB 1957:

> AB 1957 protects homeowners' equity in their homes by correcting unintended consequences arising from the passage of SB 1079 in 2020. This well-intentioned bill was designed to assist tenants and other first-time homebuyers to become owners of residential property by participating in the nonjudicial foreclosure process. The subject is quite technical, but in brief the idea was this: following a foreclosure sale of a house, certain eligible groups would be allowed to outbid the highest bidder at the foreclosure sale and become owners of the property within 45 days after the foreclosure.
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> Although certainly not intended by the author of SB 1079 five years ago, the unintended consequence was that unscrupulous actors in the foreclosure world learned to manipulate the SB 1079 process by posing as "prospective owner-occupants" or using eligible tenants as "straw buyers" or even forming sham nonprofit entities to outbid the high bid at the public foreclosure sale.
>
> These unscrupulous actors, who are nothing more than for-profit "flippers" of real estate, should have been bidding at the foreclosure sales themselves. Instead, they learned to wait until after the sale, swooping in to claim properties for as little as $1 more than the high bid at the sales. We have seen the system disincentivize bidding at foreclosure sales, which is bad for homeowners losing their homes to foreclosure sales. The whole purpose of the public, transparent sale is to encourage high bidding so that homeowners can receive as much of their equity as possible.

ARGUMENTS IN OPPOSITION: According to the California Association of Realtors, which opposes AB 1957:

> SB 1079 created a carefully balanced framework that provides eligible bidders, including prospective owner-occupants, a meaningful opportunity to acquire foreclosed homes following a trustee's sale. The Legislature adopted this policy to help counteract the growing concentration of residential housing in the hands of institutional investors and to promote pathways to homeownership for California families. Indeed, expanding opportunities for owner occupancy was a central objective of SB 1079.
>
> By eliminating prospective owner-occupants from the post-sale process, AB 1957 would undermine one of the principal policy goals of SB 1079 and shift a significant advantage back to investors and other large-scale purchasers with greater access to capital. As a practical matter, many prospective homeowners rely on the post-sale bidding process as one of the few remaining avenues to compete for ownership opportunities in an increasingly challenging housing market. Removing them from eligibility would substantially reduce those opportunities and further limit access to homeownership.
>
> Prospective owner-occupants also play an important role in promoting neighborhood stability and long-term community investment. Owner-occupied housing is associated with lower vacancy rates, greater community engagement, and stronger neighborhood outcomes. Excluding prospective owner-occupants from the process would run counter to these longstanding housing policy objectives.
>
> At the same time, C.A.R. recognizes concerns regarding potential misuse of the owner occupant provisions and supports reasonable safeguards to ensure that the post-foreclosure bidding process operates as intended. Rather than eliminating prospective owner-occupants altogether, we respectfully request amendments that preserve their eligibility while establishing appropriate guardrails to deter abuse.
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> Specifically, C.A.R. has proposed amendments requiring prospective owner-occupants to record an owner-occupancy deed restriction, execute an affidavit affirming their intent to occupy the property as their principal residence, and be subject to meaningful civil penalties for knowingly violating these requirements. These provisions would help ensure that only bona fide owner-occupants utilize the preference while maintaining access to homeownership opportunities for California families.

Preserving legitimate owner-occupant participation while strengthening enforcement against bad actors would better advance the Legislature's original intent and maintain meaningful pathways to homeownership.

ASSEMBLY FLOOR: 70-1, 5/26/26
AYES: Aguiar-Curry, Ahrens, Alanis, Alvarez, Arambula, Ávila Farías, Bains, Bennett, Berman, Boerner, Bonta, Bryan, Calderon, Caloza, Carrillo, Chen, Connolly, Davies, DeMaio, Dixon, Elhawary, Ellis, Flora, Fong, Gabriel, Gallagher, Gipson, Jeff Gonzalez, Mark González, Hadwick, Haney, Harabedian, Hoover, Irwin, Johnson, Kalra, Krell, Lackey, Lee, Lowenthal, Macedo, McKinnor, Nguyen, Ortega, Pacheco, Papan, Patel, Patterson, Pellerin, Petrie-Norris, Quirk-Silva, Ramos, Ransom, Michelle Rodriguez, Rogers, Blanca Rubio, Sanchez, Schultz, Sharp-Collins, Solache, Soria, Stefani, Ta, Tangipa, Valencia, Wallis, Ward, Wicks, Wilson, Rivas
NOES: Schiavo
NO VOTE RECORDED: Addis, Bauer-Kahan, Castillo, Garcia, Hart, Jackson, Muratsuchi, Celeste Rodriguez, Zbur

Prepared by: Ian Dougherty / JUD. / (916) 651-4113
8/7/26 15:21:23

****** END ******