

AB 2501

COVID-19 CONSUMER RELIEF

Assemblymember
Monique Limón
37TH DISTRICT



THIS BILL

Assembly Bill 2501 provides payment relief on a range of credit products to help California families who are experiencing financial hardships due to the COVID-19 pandemic. The bill provides Californians with the right to request a forbearance period during the emergency related to amounts owed on a mortgage, car loan, or payday loan. After the forbearance period, the bill requires lenders to evaluate a borrower for a loan modification or repayment plan that avoids lump sum repayments. For mortgages on rental units, the bill requires a property owner that receives forbearance to provide rental relief for tenants. The bill does not cancel or forgive any amounts owed; rather, the bill shifts the timing of payments to a period after the emergency ends.

BACKGROUND

The pandemic has devastated California's economy. Nearly four million workers filed for unemployment benefits in the seven weeks leading up to May 1. According to the Mortgage Bankers Association, the share of mortgages in forbearance exceeded 7.5% nationwide as of April 26, compared to 0.25% as of March 2, and that percentage is expected to grow given the level of distress in the job market. A large auto lender reported in mid-April that 25% of its borrowers had asked for payment deferrals, the vast majority of which had never been delinquent before. California consumers are already struggling to pay their bills, and economists fear the worst has yet to come.

The economic shock caused by the pandemic arrived abruptly, at a time when many California families were already struggling with an affordability crisis. Largely due to the state's high housing costs, millions of households were living paycheck-to-paycheck and unable to save for an emergency. While unemployment and stimulus checks will temporarily cushion the blow for some, these funds will not be sufficient for many families to meet the basic needs of housing, transportation, food, and healthcare. It is also likely that the state's economic challenges will persist long after government support dries up.

Loan forbearance can provide helpful relief so that families can weather the temporary disruption caused by the pandemic. If affordable repayment plans are offered at the end of forbearance periods, consumers have the opportunity to shift scheduled loan payments to a future date when they are more likely to afford repayment.

VOLUNTARY ACTIONS AND FEDERAL POLICY ARE HELPFUL, BUT NOT ENOUGH

As the pandemic began to affect the economy, many lenders proactively offered forbearance to their customers across a range of products, including mortgages, car loans, and credit cards. On March 25, Governor Newsom announced a general outline of financial relief offered by financial institutions. These voluntary measures are beneficial to consumers, but the specific forms of relief differ between financial institutions and can be changed or rescinded at any time.

On March 27, the federal government enacted the CARES Act, which provides a range of stimulus spending and economic stabilization measures to mitigate the negative effects of the crisis. The CARES Act includes forbearance on federally-backed mortgages for up to 180 days, after which borrowers can request an additional 180 days if they are still experiencing a financial hardship. Like voluntary measures, the CARES Act provisions are beneficial to consumers, but they do not comprehensively cover all mortgages and do not require mortgage servicers to provide specified repayment options after the forbearance period ends.

Existing forbearance programs leave many Californians with inadequate protections. For no fault of their own, borrowers who do not have a certain type of mortgage or whose lender is not offering forbearance find themselves lacking the options and protections enjoyed by their similarly situated neighbors who have the "right" type of mortgage or a more gracious lender. The Legislature has the opportunity to take action in a more comprehensive manner that provides more families with the ability to weather the worst of the crisis.

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AN OUNCE OF PREVENTION IS WORTH A POUND OF CURE

California remains in the early stages of the economic crisis caused by the pandemic, but the outlook for the next 12-18 months is bleak. Recent forecasts from the Department of Finance estimate that the state unemployment rate could reach 18%, which is significantly higher than the 12% peak during the Great Recession. If no preventative action is taken by the Legislature, persistently high unemployment will likely result in a sharp increase in foreclosure and repossession activity that will exacerbate the consequences of the downturn and prolong the path to economic recovery.

Failing to act this year will likely lead to more difficult decisions for the Legislature in the years to come. Homeowners and tenants who are displaced due to foreclosures or evictions will further strain the state's inadequate housing infrastructure and social safety net programs. Temporarily unemployed workers who lose their cars to repossession will struggle to search for and maintain employment as the economy recovers, especially as municipal transit agencies reduce service due to budget cuts. Consumers who get trapped in a cycle of payday loans will be less equipped to set aside savings for a security deposit or down payment on a car. All of these outcomes depress economic growth and put a strain on the state budget. It will cost the state – and society as a whole – more resources to fix these problems than to prevent them in the first place.

ACTING NOW CAN PROTECT THE PHYSICAL AND FINANCIAL HEALTH OF CALIFORNIANS

Helping Californians stay in their homes and retain access to their cars are important policy objectives in normal times, but take on a heightened level of importance during the pandemic. Access to stable housing and transportation that allows for appropriate physical distancing is a fundamental prerequisite of public health strategies to reduce transmission of the virus. In addition to protecting physical health, this bill would help to preserve the financial health of families by

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rescheduling payment obligations until the pandemic is contained.

KEY PROVISIONS

For the period of the statewide emergency and 180 days after, this bill:

- Provides up to 360 days of forbearance on mortgages (both single family and multifamily) for borrowers facing a financial hardship.
- Requires a property owner that receives forbearance to provide rent relief to tenants during that period.
- Provides a 90-day forbearance on auto loans that can be renewed up to two times if the borrower's financial hardship continues.
- Requires mortgage and auto loan servicers to work with borrowers on a payment plan after forbearance that avoids lump sum repayments.
- Temporarily pauses specified foreclosure and repossession activity.
- Reduces fees and extends repayment terms for payday loans to make them more affordable and less likely to create a cycle of re-borrowing that harms consumers.

STAFF CONTACT

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