

California making it Easier for Sellers Who Owe More Than Their Home is Worth

July 18, 2011 – Governor Jerry Brown has signed Senate Bill 458 into law. The new law makes it illegal for lien-holders to sue sellers for a loan deficiency after a short sale is approved. The new law, which went into effect immediately, is likely to make short sales a much more attractive option for many people threatened with the loss of their homes.

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Under the old law, only the primary lender on a house was forbidden from seeking a deficiency judgment from a seller. A deficiency judgment is simply the result of a law suit in which the lender asks a court to order the seller to pay the lender for its losses. The new law forbids this practice with any secondary lenders as well.

The law now means that once the lenders involved in a short sale - a sale in which the seller owes more money on their home than the actual sale price will cover – approve the sale, they can no longer file suit against the seller.

Because state law in California has never allowed for a deficiency judgment in foreclosure proceedings involving purchase money loans, many homeowners actually found that foreclosure was a more attractive option than a short sale. The new law changes that and should help both banks and consumers within the state.

by Jim Malmberg

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