California Foreclosure Defense Practice Guide
(Updated with Decisions through May 31, 2017)

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In July 2012, California Governor Jerry Brown signed the Homeowner Bill of Rights (HBOR).\(^1\) This landmark legislation was created to combat the foreclosure crisis and hold loan servicers accountable for exacerbating it.\(^2\) HBOR became effective on January 1, 2013, on the heels of the National Mortgage Settlement.\(^3\) This practice guide provides an overview of the legislation, quickly developing case law, and related state-law causes of action often brought alongside HBOR claims. Finally, the guide surveys some common procedural issues that arise in HBOR litigation.

I. Homeowner Bill of Rights

A few months before HBOR became law, 49 state attorneys general agreed to the National Mortgage Settlement (NMS) with five of the country’s largest mortgage servicers.\(^4\) The servicers agreed to provide $20 billion worth of mortgage-related relief to homeowners and to abide by new servicing standards meant to address some of the worst foreclosure abuses.\(^5\) Under the NMS, state attorneys general could sue noncompliant banks, but borrowers could not.\(^6\) The California

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Legislature passed HBOR to give borrowers a private right of action to enforce many of these protections in court\(^7\) and to apply key NMS requirements to all servicers, not just the five NMS signatories.\(^8\) These protections include pre-NOD outreach, single point of contact requirements and restrictions on dual-tracking.

There are significant limits to HBOR’s application. First, HBOR applies only to foreclosures of first liens on owner-occupied, one-to-four unit properties.\(^9\) Advocates should plead the “owner-occupied” requirement in the complaint,\(^10\) with respect to at least one of the plaintiffs.\(^11\) Second, HBOR only provides procedural protections to promote alternatives to foreclosure; nothing in HBOR requires a servicer to give a loan modification to a particular borrower or entitles a borrower to a particular outcome of a loss mitigation review.\(^12\) Third,
HBOR offers fewer protections for borrowers whose loans are serviced by small servicers.\textsuperscript{13} Fourth, while the National Mortgage Settlement (NMS) was in effect, a signatory who was NMS-compliant with respect to the individual borrower could assert compliance with the NMS as an affirmative defense.\textsuperscript{14}

There is also a “safe harbor” provision if a servicer remedies an HBOR violation before recording a trustee’s deed upon sale.\textsuperscript{15} Though

\textsuperscript{13} Compare § 2924.12 (listing sections with a private right of action against large servicers), with § 2924.19 (listing sections with a private right of action against small servicers, defined as servicers that conducted fewer than 175 foreclosures in the previous fiscal year, as determined by CAL. CIV. CODE § 2924.18(b)). “Large servicers” are generally the large, well-known banks and the entities listed on the California Department of Business Oversight’s website, available at http://www.dbo.ca.gov/Laws_&_Reg郑/legislation/ca_foreclosure_reduction_act.asp. DBO released a report in July 2016 that includes licensees’ foreclosure volumes: http://www.dbo.ca.gov/Licensees/Residential_Mortgage/pdf/2015%20CRMLA%20Annual%20Report%20FINAL%2007-11-16.pdf at p. 12. An updated list should be available in July 2017. Advocates can verify a lesser-known servicer’s licensing status online at http://www.dbo.ca.gov/fsd/licensees/, or request foreclosure volume information for the relevant year from the servicer.

\textsuperscript{14} CAL. CIV. CODE § 2924.12(g) (2013). The NMS consent judgment was entered on April 4, 2012 and remained in effect for three and half years until October 2015, so this safe harbor would not apply to claims that arose after that date. Courts rejected servicers’ argument that a borrower had to plead a servicer’s noncompliance with the NMS in the borrower’s complaint to state an HBOR claim. Courts have roundly rejected this tactic. See Gilmore v. Wells Fargo Bank, 75 F. Supp. 3d 1255, 1262 (N.D. Cal. 2014) (rejecting servicer’s argument that its NMS compliance is presumed and finding NMS compliance an affirmative defense to be proved by the servicer); Banks v. JPMorgan Chase, 2014 WL 6476139, at *7 (C.D. Cal. Nov. 19, 2014) (HBOR immunity based on NMS compliance is an affirmative defense best asserted by servicer at summary judgment, not as part of a motion to dismiss); Segura v. Wells Fargo Bank, N.A., 2014 WL 4798890, at *5-6 (C.D. Cal. Sept. 26, 2014) (same); Stokes v. Citimortgage, 2014 WL 4359193, at *8 (C.D. Cal. Sept. 3, 2014) (same); Bowman v. Wells Fargo Home Mortg., 2014 WL 1921829, at *4 (N.D. Cal. May 13, 2014) (same); Rijhwani v. Wells Fargo Home Mortg., Inc., 2014 WL 890016, at *9 (N.D. Cal. Mar. 3, 2014) (same); cf. Gilmore v. Wells Fargo Bank, N.A., 2014 WL 3749984, at *3-4 (N.D. Cal. July 29, 2014) (Servicer’s dual tracking and failure to provide borrower with an online portal to check his application status violated the NMS and prevented servicer from invoking the safe harbor to defend a preliminary injunction.); Sese v. Wells Fargo Bank, N.A., No. 2013-00144287-CU-WE (Cal. Super. Ct. July 1, 2013) (granting a PI on borrower’s dual tracking claim because servicer’s offering of a modification does not, by itself, prove compliance with the NMS and because dual tracking violates the NMS, making servicer liable to a HBOR dual tracking claim).

\textsuperscript{15} CAL. CIV. CODE §§ 2924.12(c), 2924.19(c) (2013). Saji v. Residential Credit Sols., 2017 WL 1407997, at *5 (N.D. Cal. Apr. 20, 2017) (dismissing claim regarding servicer’s failure to provide a timely acknowledgement letter after receiving borrower’s loan modification application because servicer had later provided an acknowledgement letter); MacDonald v. Wells Fargo Bank N.A., 2017 WL 1150362, at *2 (N.D. Cal. Mar. 28, 2017) (rejecting §2924.12(c) defense at summary judgment
still somewhat unsettled, “correct[ing] and remed[y]ing” an HBOR violation should include rescinding any improperly recorded Notice of Default (NOD) or Notice of Trustee Sale (NTS).\(^\text{16}\) In addition, relief (in either the pre-sale injunctive form or as post-sale damages) is only available for a servicer’s “material” HBOR violations.\(^\text{17}\) Courts have differed widely on what constitutes a material violation.\(^\text{18}\) Some have concluded that materiality is a factual question that should not be resolved at the pleading stage.\(^\text{19}\) Others suggest that every violation that undermines the purpose of HBOR is a material violation.\(^\text{20}\) Other


\(^{17}\) CAL. CIV. CODE §§ 2924.12(a), 2924.19(a) (2013). Neither statute defines a “material” violation.

\(^{18}\) See Rahbarian v. JP Morgan Chase, 2015 WL 2345395, at *3 (E.D. Cal. May 14, 2015) (listing various approaches and declining to choose a single test because plaintiff’s allegation that he would have qualified for loan modification absent the violation would satisfy any test).


courts have considered whether it is plausible that the violation caused harm to the plaintiff.\footnote{Compare Mackensen v. Nationstar Mortg., 2015 WL 1938729 (N.D. Cal. Apr. 28, 2015) (finding material violation when the complaint alleged that Nationstar’s SPOC violation resulted in his inability to accept the loan modification offer); Hestrin, 2015 WL 847132, at *3 (finding servicer’s failure to perform the required pre-NOD outreach under CC 2923.55 a material HBOR violation, rejecting servicer’s argument that borrower must plead that the outreach would have led him to avoid default) with Montes v. Wells Fargo Bank, N.A., 2017 WL 1093940, at *4 (E.D. Cal. Mar. 23, 2017) (alleged HBOR violations “are not material because they did not deprive [plaintiff] of the opportunity to obtain review of her application and potential loss mitigation”); Colom v. Wells Fargo, 2014 WL 5361421, at *1-2 (N.D. Cal. Oct. 20, 2014) (servicer’s failure to cite NPV numbers in a denial letter, and the SPOC’s failure to return emails and phone calls not considered “material” violations of HBOR).}

HBOR’s protections are also limited to “borrowers,” as defined by the statute.\footnote{See McCarthy v. Servis One, Inc., 2017 WL 1316810, at *4 (N.D. Cal. Apr. 10, 2017) (N.D. Cal. March 7, 2017) (“the appropriate focus is whether a[n] HBOR violation occurred either prior to the filing of the bankruptcy case or after the bankruptcy case was dismissed…”); Foronda v. Wells Fargo Home Mortg., Inc., 2014 WL 6706815, at *8 (N.D. Cal. Nov. 26, 2014) (rejecting section 2920.5(c) argument when HBOR violation predated bankruptcy filing, even though bankruptcy remained pending); Withers v. J.P. Morgan Chase Bank N.A., 2014 WL 3418367, at *5 (N.D. Cal. July 11, 2014) (rejecting section 2920.5(c) argument “because Plaintiff did not have a bankruptcy case pending when the Notice of Trustee’s Sale was recorded”).} This limitation excludes borrowers in active bankruptcy,\footnote{See Baker v. Wells Fargo Bank, N.A., 2017 WL 931879, at *6–7 (E.D. Cal. Mar. 9, 2017) (holding that plaintiff’s allegations that deceased borrower had quitclaimed the property to plaintiff and that he was the trustee of the deceased borrower’s trust were not sufficient to establish prudential standing because he had not alleged that he was obligated on the loan taken out by the deceased borrower); Deck v. Wells Fargo Bank, N.A., 2017 WL 815678, at *3 (E.D. Cal. Feb. 27, 2017) (sole borrower’s ex-husband was not a “borrower” under HBOR even though he alleged that the property was his primary residence); Van Zandt v. Select Portfolio Servicing, Inc., 2015 WL 574357 (N.D. Cal. Feb. 10, 2015) (denying TRO because plaintiff was not the borrower but successor to the borrower); Zanze v. Cal. Capital Loans Inc., No. 34-2014-00157940-CU-CR-GDS (Cal. Super. Ct. Sacramento Cnty. May 1, 2014) (finding plaintiff had standing to allege a dual tracking claim because the mortgage note indicated that he was a “borrower” through his capacity as a trustee); cf. McLaughlin v. Aurora Loan Services, 2015 WL 1926268, at *7-9 (C.D. Cal. Apr. 28, 2015).} but courts have found standing when the HBOR violation occurred at a time when the borrower’s bankruptcy was not pending.\footnote{CAL. CIV. CODE § 2920.5(c) (2013).} Successors-in-interest who inherit the property or take title after dissolution of a marriage may also find it difficult to assert HBOR’s protections since they are not clearly included in the definition of a “borrower,”\footnote{CAL. CIV. CODE § 2920.5(c)(2)(C).} however, new legislation that went into effect in
January 2017 (SB 1150) will also help successors avoid foreclosure.\(^{26}\)
Finally, HBOR exempts bona fide purchasers from liability.\(^{27}\)

A. Pre-NOD Outreach Requirements

HBOR continued an existing requirement in California law that a
servicer may not record a notice of default (NOD) until 30 days after
contacting,\(^{28}\) or diligently attempting to contact, the borrower to
discuss alternatives to foreclosure.\(^{29}\) The statutes provide specific
instructions on the nature and content of the communication.\(^{30}\)

With each version of the law, some courts accept bare assertions
that a borrower was never contacted pre-NOD as sufficient to pass the
pleading stage,\(^{31}\) while others require more specific allegations to
overcome a servicer’s NOD declaration attesting to its due diligence.\textsuperscript{32} Because the statute requires the servicer to initiate specific contact, borrower-initiated loan modification inquiries, or general contact, generally do not satisfy the pre-NOD contact requirements.\textsuperscript{33}

\textsuperscript{32} See Bever v. Cal-Western Reconveyance Corp., 2013 WL 5493422, at *2-4 (E.D. Cal. Oct. 2, 2013) (reading a CC 2923.5 claim into borrower’s pleading based on his allegations that: 1) servicer never made pre-NOD contact; 2) borrower was available by phone and mail; and 3) borrower’s answering machine recorded no messages from servicer); Weber v. PNC Bank, N.A., 2013 WL 4432040, at *5 (E.D. Cal. Aug. 16, 2013) (borrower successfully pled servicer did not and \textit{could not} have possibly contacted borrower pre-NOD because: 1) borrower’s home telephone number remained the same since loan origination; 2) servicer had contacted borrower in the past; 3) answering machine recorded no messages from servicer; and 4) borrower never received a letter from servicer). \textit{But see} Wyman v. First Am. Title Ins. Co., 2017 WL 1508864, at *3 (N.D. Cal. Apr. 27, 2017) (servicer’s recorded declaration defeats borrower’s conclusory allegations); Rodriguez v. Wells Fargo Bank, N.A., 2017 WL 896289, at *3 (E.D. Cal. Mar. 6, 2017) (“[A] conclusory allegation that the declaration is false is insufficient to overcome the presumption [of compliance]”); Huweih v. US Bank Trust, N.A., 2017 WL 396143, at *6 (N.D. Cal. Jan. 30, 2017) (outreach claim subject to dismissal because plaintiff “fails to adequately describe the circumstances surrounding such alleged lack of contact.”); Peters v. Wells Fargo Bank, N.A., 2016 WL 7474910, at *6 (E.D. Cal. Dec. 28, 2016) (allegations that “no contact with plaintiff was made nor notice given prior to the recordation of the operative Notice of Default” sufficient to withstand motion to dismiss); Caldwell v. Wells Fargo Bank, N.A., 2013 WL 3789808, at *6 (N.D. Cal. July 16, 2013) (finding borrower unlikely to prevail on her CC 2923.5 claim, relying on servicer’s NOD declaration that it had attempted to contact borrower with “due diligence” before recording the NOD); \textit{but cf.} Shapiro v. Sage Point Lender Servs., 2014 WL 5419721, at *3-4 (C.D. Cal. Oct. 24, 2014) (failing to find that servicer’s inaccurate NOD declaration prejudiced borrower, and granting servicer’s MTD).

\textsuperscript{33} See, \textit{e.g.}, Castillo v. Bank of Am., 2014 WL 4290703, at *5 (N.D. Cal. Aug. 29, 2014) (modification eligibility discussions do not, by themselves, satisfy the requirements of CC 2923.55); Woodring v. Ocwen Loan Servicing, LLC, 2014 WL 3558716, at *3-4 (C.D. Cal. July 18, 2014) (finding borrower’s multiple, pre-NOD modification applications not fatal to her CC 2923.55 claim because servicer failed to “respond meaningfully” to these applications and no real foreclosure alternative discussion took place); Mungai v. Wells Fargo Bank, 2014 WL 2508090, at *10-11 (N.D. Cal. June 3, 2014) (considering borrower’s modification application submission and servicer’s acceptance letter “coincidental contact” that did not absolve servicer of its obligation to reach out to borrower “via specific means about specific topics”). \textit{But see} Trepte v. PHH Mortg. Corp., 2017 WL 2273190, at *4 (C.D. Cal. May 16, 2017) (dismissing claim because the complaint alleged extensive communications between plaintiff and servicer regarding plaintiff’s loan modification application); Johnson v. SunTrust Mortg., 2014 WL 3845205, at *4 (C.D. Cal. Aug. 4, 2014) (dismissing borrower’s CC 2923.55 claim because he admitted to multiple, pre-NOD discussions with servicer regarding his financial situation and loan modification options. That servicer did not explicitly inform borrower about the face-to-face meeting opportunity, or provide HUD information, does not violate CC 2923.55).
HBOR’s pre-NOD outreach requirements expand upon existing communication requirements. For example, the former Civil Code Section 2923.5 only applied to deeds of trust originated between 2003 and 2007; HBOR removed this time limitation.34 Borrowers who successfully brought claims under the pre-HBOR law were limited to postponing a foreclosure until the servicer complied with the outreach requirements.35 Enjoining a sale is still a remedy, but HBOR also makes damages available after a foreclosure sale.36

HBOR requires a number of additional outreach requirements from large servicers. These servicers must alert borrowers that they may request documentation demonstrating the servicer’s authority to foreclose.37 They are also required to provide post-NOD outreach if the borrower has not yet exhausted the loan modification process.38

B. Single Point of Contact

Large servicers must also provide borrowers with a single point of contact, or “SPOC.” Specifically, “upon request from a borrower who requests a foreclosure prevention alternative, the . . . servicer shall promptly establish a [SPOC]”39 and provide borrower with a “direct

35 See, e.g., Mabry v. Superior Court, 185 Cal. App. 4th 208, 214 (2010) (“The right of action is limited to obtaining a postponement of an impending foreclosure to permit the lender to comply with section 2923.5.”).
36 CAL. CIV. CODE §§ 2924.12 & § 2924.19 (2013) (applying to large and small servicers, respectively).
37 Compare § 2923.5 (2013) (small servicers), with § 2923.55(b)(1)(B) (2013) (large servicers). See Rahbarian v. JP Morgan Chase, 2014 WL 5823103, at *3 (E.D. Cal. Nov. 10, 2014) (finding borrower’s assertion that he never received the notices required by CC 2923.55 sufficient to state a claim and rejecting servicer’s argument that its NOD declaration—which did not discuss this new disclosure aspect of CC 2923.55—signified its compliance with the statute); Johnson, 2014 WL 3845205, at *4 (finding a viable pre-NOD outreach claim where borrower pled he never received written notice regarding his option to request loan documents).
38 CAL CIV. CODE § 2924.9 (2013) (requiring servicers that routinely offer foreclosure alternatives to contact the borrower within five days of NOD recordation, explain those alternatives, and explain exactly how to apply).
means of communication” with that SPOC.\footnote{CAL CIV. CODE § 2923.7 (2013); Johnson, 2014 WL 3845205, at *6 (borrower adequately pled his SPOC claim by alleging no one from his SPOC “team” was directly reachable).} Some servicers have argued the statutory language requires borrowers to specifically request a SPOC to be assigned one. Though this argument initially gained some traction,\footnote{See, e.g., Rizk v. Residential Credit Solutions, Inc., 2015 WL 573944, at *9 (C.D. Cal. Feb. 10, 2015) (agreeing with servicer that borrower had to specifically request a SPOC to trigger servicer’s SPOC obligations and dismissing borrower’s claim).} most federal district courts have rejected it, finding a borrower’s request for a foreclosure alternative triggers servicer’s duty to assign a SPOC.\footnote{See, e.g., Punay v. PNC Mortg., 2017 WL 2380115, at *9 (S.D. Cal. May 31, 2017) (concluding that “a mortgage servicer’s obligation to establish a single point of contact under section 2923.7 is triggered upon a request for a foreclosure prevention alternative, rather than a request for a single point of contact.”); Green v. Cent. Mortg. Co., 148 F. Supp. 3d 852, 874 (N.D. Cal. 2015) (collecting cases); Hild v. Bank of Am., N.A., 2015 WL 401316, at *7 (C.D. Cal. Jan. 29, 2015); McFarland v. JP Morgan Chase Bank, 2014 WL 4119399, at *11 (C.D. Cal. Aug. 21, 2014); Penermon v. Wells Fargo Bank, N.A., 47 F. Supp. 3d 982, 1000 (N.D. Cal. 2014); Mungai v. Wells Fargo Bank, 2014 WL 2508090, at *10 (N.D. Cal. June 3, 2014); cf. Hendricks v. Wells Fargo Bank, N.A., 2015 WL 1644028, at *9 (C.D. Cal. Apr. 14, 2015) (no request required for claim that SPOC was inadequate if a SPOC was assigned); Shapiro v. Sage Point Lender Servs., 2014 WL 5419721, at *6 (C.D. Cal. Oct. 24, 2014) (to fulfill SPOC duties and comply with HBOR’s dual tracking rules, a SPOC must necessarily be appointed before an NOD is recorded.); Hixson v. Wells Fargo Bank, 2014 WL 3870004, at *5, n.4 (N.D. Cal. Aug. 6, 2014) (servicer’s argument that borrower must specifically request a SPOC is mooted by servicer’s assignment of SPOCs.); see also Cal. Assem. Floor Analysis, AB 278 (2011-2012 Reg. Sess.), July 2, 2012, p. 5, ¶ (9) (conference committee amendments “[p]rovide for a borrower who requests a foreclosure prevention alternative, the mortgage servicer shall promptly establish a single point of contact”). But see, Dare v. Aegis Wholesale Corporation, 2017 WL 1135587 at *7 (S.D. Cal. March 27, 2017) (dismissing SPOC claim because plaintiff did not plead that he had requested a SPOC); Neal v. Select Portfolio Servicing, 2017 WL 1065284 at *5 (N.D. Cal. March 20, 2017) (same).} The SPOC provision was intended to reduce borrowers’ frustrations as they attempt to contact their servicers and to gain useful information about the loan modification process. SPOCs may be a “team” of people, not necessarily a single person.\footnote{CAL. CIV. CODE § 2923.7(e) (2013).} Many courts have considered SPOC “shuffling” and there appears to be no clear pattern on this issue; some find that incessant SPOC reassignments constitute a valid SPOC claim,\footnote{See, e.g., Alvarez v. Nationstar Mortgage LLC, 2017 WL 1153029 at *8 (N.D. Cal. March 28, 2017) (servicer ‘cannot retroactively label all of its representatives as a ‘team’ when the representatives fail to coordinate and to provide consistent information to [the borrower]); Cortez v. Citimortgage Inc., 2014 WL 7150050, at *6 (N.D. Cal. Dec. 17, 2014) (granting summary judgment to servicer on borrower’s SPOC claim).} while others require borrower to plead that, not...
only were SPOCs shuffled, but that none of the SPOCs could perform their statutory duties. To bring a valid claim based on SPOC shuffling, advocates should allege SPOC violations with as much specificity as possible.

In either the “team” or individual form, SPOCs must provide the borrower with information about foreclosure prevention alternatives, deadlines for applications, how and where a borrower should submit

(C.D. Cal. Dec. 11, 2014) (finding a shuffling of SPOCs prohibited by statute, noting that borrower did not allege she was reassigned to “different members of a team which comprised her SPOC; she alleged that the SPOCs themselves changed”); Banks v. JP Morgan Chase, 2014 WL 6476139, at *9 (C.D. Cal. Nov. 19, 2014) (shuffling SPOCs and the SPOCs’ inability to relay deadlines and requests for missing documents constitute SPOC violations); see also Shapiro v. Sage Point Lender Servs., 2014 WL 5419721, at *6 (C.D. Cal. Oct. 24, 2014) (finding servicer’s computer-generated form letters insufficient evidence that borrower was appointed a “team” of SPOCs).

Johnson v. PNC Mortgage, 80 F. Supp. 3d 980, 986-88 (N.D. Cal. 2015) (finding a viable claim (alleged as a UCL claim) where none of borrower’s many “assigned” SPOCs could perform SPOC duties); Hild v. Bank of Am., N.A., 2015 WL 401316, at *7 (C.D. Cal. Jan. 29, 2015) (mere shuffling of SPOCs does not constitute a violation, but denying servicer’s MTD borrower’s SPOC claim because none of the SPOCs performed their statutory duties); Johnson v. Bank of Am., 2015 WL 351210, at *5-6 (N.D. Cal. Jan. 23, 2015) (same); Rahbarian v. JP Morgan Chase, 2014 WL 5823103, at *4 (E.D. Cal. Nov. 10, 2014) (simple allegation that servicer shuffled SPOCs, without more factual information, insufficient to state a SPOC violation); Shaw v. Specialized Loan Servicing, LLC, 2014 WL 3362359, at *7 (C.D. Cal. July 9, 2014) (granting a PI based on borrower’s allegations that he was shuffled from SPOC to SPOC and none could provide him with the status of his modification application); Diamos v. Specialized Loan Servicing, LLC, 2014 WL 3362259, at *4 (N.D. Cal. July 7, 2014) (borrower pled viable SPOC claim where none of servicer’s representatives had the “knowledge or authority” to perform SPOC duties (complaint dismissed on jurisdictional grounds.)); Mann v. Bank of Am., N.A., 2014 WL 495617, at *4 (C.D. Cal. Feb. 3, 2014) (finding shuffling of SPOCs to violate the statute because even if the SPOCs were a team, no member of the team was able to perform the required duties). But cf. Boring v. Nationstar Mortg., LLC, 2014 WL 2930722, at *3 (E.D. Cal. June 27, 2014) (rejecting borrower’s argument that allegation that multiple SPOCs, none of whom could perform SPOC duties, stated a valid CC 2923.7 claim).

See Shupe v. Nationstar Mortgage LLC, ___F. Supp.3d___, 2017 WL 431083 at *3 (E.D. Cal. Jan. 31, 2017) (mere allegation that borrowers were repeatedly reassigned to non-responsive representatives insufficient); Hestrin v. Citimortgage, 2015 WL 847132, at *4, n.6 (C.D. Cal. Feb. 25, 2015) (granting servicer’s MTD borrower’s SPOC claim because the borrower did not state the “who, what, or when” of the alleged SPOC violation, including descriptions of conversations with different representatives).

Nasseri v. Wells Fargo Bank, N.A., 147 F. Supp. 3d 937, 944-45 (N.D. Cal. 2015) (holding that advising borrower to apply for a loan modification when the loan had exceeded the total number of modifications allowed by the investor and failure to set up a borrower with the correct type of payment method under a forbearance agreement violated CC 2923.7).
their application, and must alert the borrowers if any documents are missing. Critically, the SPOC must have access to the information and servicer personnel “to timely, accurately, and adequately inform the borrower of the current status of the [application]” and be able to make important decisions like stopping a foreclosure sale. Courts have held that a servicer cannot avoid SPOC obligations by simply claiming there is “nothing to communicate” after denying borrower’s application, or by appointing a SPOC only after a loan modification application has been reviewed. Because SPOC violations are independent from dual tracking violations, borrowers may proceed on SPOC claims even if there is no dual tracking violation; however, they should always allege the harm caused by the lack or deficiencies of a SPOC.

C. Dual Tracking

48 CAL. CIV. CODE § 2923.7(b)(1)-(2); see Garcia v. Wells Fargo Bank, N.A., 2014 WL 458208, at *4 (N.D. Cal. Jan. 31, 2014) (finding SPOC’s failure to follow up on loan modification request violated CC 2923.7).

49 CAL. CIV. CODE § 2923.7(b)(3)-(4) (2013). Compare Colom v. Wells Fargo, 2014 WL 5361421, at *1-2 (N.D. Cal. Oct. 20, 2014) (denying borrower’s SPOC claim because the SPOC’s failure to return phone calls and emails was not shown to be a material violation of SPOC duties and because borrower was ultimately informed of his application’s status by the denial letter), with McLaughlin v. Aurora Loan Services, LLC, 2014 WL 1705832, at *5 (C.D. Cal. Apr. 28, 2014) (denying motion to dismiss because borrower sufficiently alleged that SPOC did not timely return borrower’s calls and emails).


52 Glaser v. Nationstar Mortgage, LLC, 2017 WL 1861850, at *8 (N.D. Cal. May 9, 2017) (allegations that borrowers submitted a loan modification application two years before being assigned a SPOC sufficient to withstand motion to dismiss).


In addition to mandating outreach and communication, the California Legislature has reined in dual tracking, the practice of evaluating a borrower for a modification while simultaneously proceeding with a foreclosure. If the borrower has submitted a complete loan modification application, HBOR prohibits the servicer from “recording” an NOD or NTS, or “conducting” a foreclosure sale.\(^{55}\) Courts disagree on the meaning of this statutory language.\(^{56}\) Regardless of whether postponing a sale is considered “conducting” a sale, however, injunctive relief based on dual tracking claims is still possible when the sale has been postponed.\(^{57}\)

1. Timing logistics

\(^{55}\) CAL. CIV. CODE §§ 2923.6(c) (large servicers), 2924.18 (small servicers) (2013).

\(^{57}\) See, e.g., Young v. Deutsche Bank Nat’l Trust Co., 2013 WL 3992710, at *2 (E.D. Cal. Aug. 2, 2013) (allowing borrowers leave to amend their complaint to include a dual tracking claim even though servicer had voluntarily postponed the sale and was negotiating a modification with borrowers); Leonard v. JPMorgan Chase Bank, N.A., No. 34-2014-00159785-CU-OR-GDS (Cal. Super. Ct. Sacramento Cnty. Mar. 27, 2014) (granting preliminary injunction even though servicer postponed the sale).
Dual tracking protections apply even if the loan modification application was submitted prior to 2013, as long as the servicer moved forward with a foreclosure after January 1, 2013, with the application still pending.\(^{58}\) The borrower must submit an application within the reasonable timeframe specified by the servicer. Because HBOR does not include additional deadlines or timetables related to application submission, a borrower may submit an application up to the day of the sale, and a servicer may not avoid HBOR liability by imposing its own internal deadlines if those deadlines are unreasonable.\(^{59}\) Servicers may maintain internal policies with regards to their ultimate denial or grant of a modification, including a policy denying all applications submitted on the eve of sale, but that servicer would still need to notify the borrower of the denial in writing and wait for the appeal period to pass (or process borrower’s appeal) before proceeding with foreclosure.

Within five business days of receiving a loan modification application—“or any document in connection with a[n] . . . application”—the servicer must provide borrowers with written acknowledgement of receipt that includes a description of the modification process, pertinent deadlines, and notification if


\(^{59}\) See Bingham v. Ocwen Loan Servicing, LLC, 2014 WL 1494005, at *5 (N.D. Cal. Apr. 16, 2014) (rejecting servicer’s argument that borrower’s application does not deserve dual tracking protection because servicer does not offer modifications to borrowers who submit their applications less than seven days before a foreclosure sale); Valbuena v. Ocwen Loan Servicing, 237 Cal. App. 4th 1267, 1274-75 (2015) (Even though the borrower submitted additional documents after the servicer’s deadline of seven business days prior to date of scheduled foreclosure sale, borrower adequately pled a complete application by “alleging the submission of the loan modification application three days after receipt of the Offer Letter, and the transmittal of the additional documents requested by Ocwen on the date of request.”); see also Penermon v. Wells Fargo Home Mortg., 2014 WL 4273268, at *4 (N.D. Cal. Aug. 28, 2014) (finding a viable dual tracking claim where borrower alleged she submitted a complete application within one month of receiving servicer’s request for additional documents; borrower did not need to allege the specific date she submitted the application, or that it complied with servicer’s internal submission deadline to bring a dual tracking claim). But see Cornejo v. Ocwen Loan Servicing, LLC, 2017 WL 469345, at *4 (E.D. Cal. Feb. 2, 2017) (granting defendant’s motion for a new trial after jury verdict in favor of borrowers because borrowers had failed to respond to servicer’s outreach for two years and then submitted missing application materials only hours before the scheduled sale date).
documents are missing.\textsuperscript{60} If a servicer offers a modification, borrowers have 14 days to accept or reject that offer before the servicer can move ahead with foreclosure.\textsuperscript{61} When an application is denied, the servicer must explain appeal rights, give specific reasons for investor-based denials, report certain inputs used in any net present value (NPV) calculations, and describe foreclosure alternatives still available.\textsuperscript{62} Further, servicers may not proceed with the foreclosure until 31 days after denying borrower’s application, in writing,\textsuperscript{63} or 15 days after


\textsuperscript{62} CAL. CIV. CODE § 2923.6(f) (2013); \textit{see} Weber v. PNC Bank, 2015 WL 269473, at *5 (E.D. Cal. Jan. 21, 2015) (finding a valid dual tracking claim where servicer used incorrect income figures to miscalculate borrowers’ NPV numbers, denied their modification, and vaguely dismissed their appeal); Bowman v. Wells Fargo Home Mortg., 2014 WL 1921829, at *5 (N.D. Cal. May 13, 2014) (borrower pled viable dual tracking claim based on servicer’s failure to provide reason for modification denial or notice of appeal rights). \textit{But see} Colom v. Wells Fargo, 2014 WL 5361421, at *1 (N.D. Cal. Oct. 20, 2014) (finding servicer’s failure to cite NPV numbers or explain other foreclosure alternatives in borrower’s denial letter did not violate CC 2923.6(f) because the denial was not predicated on the NPV test and borrower did not show why servicer’s failure to list alternatives was a material violation). This provision only applies to loan \textit{modification} applications, not to other foreclosure prevention alternatives. \textit{See} Ware, 2013 WL 6247236, at *5 (S.D. Cal. Oct. 29, 2013) (granting servicer’s motion to dismiss borrower’s CC 2923.6(f) claim because servicer was not required to give reasons for a short sale denial).

\textsuperscript{63} CAL. CIV. CODE § 2923.6(d) (2013); \textit{see} Palma v. Select Portfolio Servicing, Inc., 2017 WL 1364667, at *5 (E.D. Cal. Apr. 14, 2017) (allegations that servicer did not provide a denial notice in response to complete application prior to recording NOD survive MTD); Walls v. Wells Fargo Bank, N.A., 2017 WL 1478961, at *3 (N.D. Cal. Apr. 25, 2017) (granting TRO when servicer had not changed sale date set for a week after the date of its denial notice to borrower); Copeland v. Ocwen Loan Servicing, LLC, 2014 WL 304976, at *5 (C.D. Cal. Jan. 3, 2014) (denying MTD because the
denying borrower’s appeal. Servicers are prohibited from charging borrowers late fees during either the application or appeal processes. HBOR creates a procedural framework for requiring a decision on pending loan modification applications before initiating or proceeding with a foreclosure, but the statute does not require any particular result from that process.

2. “Complete” applications

Court decisions to date have illustrated the importance of submitting a “complete” application to trigger HBOR’s dual tracking protections. The grant or denial of a TRO or preliminary injunction has often turns on whether the borrower has submitted a complete

borrower received denial only seven days before sale); Vasquez v. Bank of Am., N.A., 2013 WL 6001924, at *6, 9 (N.D. Cal. Nov. 12, 2013) (denying servicer’s motion to dismiss because servicer recorded an NTS without waiting the 30-day appeal period after denying borrower’s application); Monterrosa v. PNC Bank, No. 34-2014-00162063-CU-OR-GDS (Cal. Super. Ct. Sacramento Cnty. May 8, 2014) (granting borrower’s preliminary injunction because servicer recorded an NTS before providing a written denial of borrower’s pending modification application).

But see Lane v. Citimortgage, 2014 WL 5036512, at *1 (E.D. Cal. Oct. 7, 2014) (granting a TRO because borrower pled servicer planned to continue with sale before responding to borrower’s timely appeal and because servicer may have denied borrower based on incorrect information); McLaughlin v. Aurora Loan Services, LLC, 2014 WL 1705832, at *6 (C.D. Cal. Apr. 28, 2014) (finding a dual tracking violation when servicer moved forward with foreclosure during pending appeal). But see Lane v. Citimortgage, Inc., 2014 WL 6670648, at *4 (E.D. Cal. Nov. 21, 2014) (dissolving the court’s previous TRO (see above) and denying a PI because servicer had formally denied borrower’s appeal before the TRO and had postponed the sale for more than 15 days post-denial, complying with the statute).

But see Beck v. Ocwen Loan Servs., LLC, 2015 WL 519052, at *3 (C.D. Cal. Feb. 6, 2015) (rejecting borrowers’ fee claim because they alleged only that servicer threatened to charge fees during the modification process, not that servicer actually exacted those fees).

Cf Dotter v. JP Morgan Chase Bank, No. 30-2011-00491247 (Cal. Super. Ct. Orange Cnty. Oct. 31, 2013) (TPP contract, not HBOR, required servicer to offer a permanent modification similar to TPP and “better than” original loan agreement.).
modification application. An application may be complete even if the servicer states that it may request further documentation. Some courts have declined to decide the “completeness” of an application during the pleading stages of litigation. Recently, courts have

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67 Compare Gilmore v. Wells Fargo Bank, N.A., 2014 WL 3749984, at *5 (N.D. Cal. July 29, 2014) (granting the PI and finding “at least serious questions” going to the completeness of borrower’s application where servicer verbally requested unnecessary information from borrower in a confusing manner), and Massett v. Bank of Am., N.A., 2013 WL 4833471, at *2-3 (C.D. Cal. Sept. 10, 2013) (granting a TRO in part because borrower produced emails from the servicer, acknowledging receipt of an application and stating “no further documentation” was required), with Lindberg v. Wells Fargo Bank, N.A., 2013 WL 1736785, at *3 (N.D. Cal. Apr. 22, 2013) (denying TRO when borrower failed to respond to servicer’s request for further documentation); see also Stokes v. Citimortgage, 2014 WL 4359193, at *7 (C.D. Cal. Sept. 3, 2014) (denying borrowers’ dual tracking claim because, even though they pled compliance with HAMP document requirements, they did not provide every document requested by servicer); Penermon v. Wells Fargo Bank, N.A., 47 F. Supp. 3d 982, 998-99 (N.D. Cal. 2014) (granting borrower leave to amend her claim to explicitly state she submitted a “complete” application, but noting servicer’s neglect to inform borrower that her application was incomplete).

68 McKinley v. CitiMortgage, Inc., 2014 WL 651917, at *4 (E.D. Cal. Feb. 19, 2014) (holding the fact that servicer “may hypothetically request additional information in the future does not render implausible [borrower’s] claim that the loan modification application was complete”); Flores v. Nationstar, 2014 WL 304766, at *4 (C.D. Cal. Jan. 6, 2014) (determining borrower had successfully alleged he submitted a “complete” application by complying with servicer’s additional document requests over the course of two months).

69 See, e.g., Alvarez v. Nationstar Mortg. LLC, No. 15-CV-04204-BLF, 2017 WL 1153029, at *6 (N.D. Cal. Mar. 28, 2017) (allegations that borrower submitted all the documents requested by the servicer and received no notification of any further missing documents, borrower “plausibly alleged” submission of a complete application, but dismissing claim on other grounds); Hestrin v. Citimortgage, 2015 WL 847132, at *3 (C.D. Cal. Feb. 25, 2015) (accepting borrower’s assertion that he submitted a “complete” application sufficient and denying servicer’s MTD); Medrano v. Caliber Home Loans, 2014 WL 7236925, at *7 (C.D. Cal. Dec. 19, 2014) (borrower need not use specific statutory language in asserting that her application was “complete”); Gonzales v. Citimortgage, 2014 WL 7927627, at *1 (N.D. Cal. Oct. 10, 2014) (finding whether borrower submitted enough information to constitute a “complete” application despite using an incorrect form, according to the servicer, is a factual issue giving rise to “serious questions” on the merits of borrower’s dual tracking claim and granting her PI); cf. Penermon, 2014 WL 2754596, at *11 (granting borrower leave to amend her claim to explicitly state she submitted a “complete” application, but noting servicer’s neglect to inform borrower that her application was incomplete); Murfitt v. Bank of Am., N.A., 2013 WL 7098636 (C.D. Cal. Oct. 22, 2013) (determining that the completeness of an application is a triable issue of fact, allowing borrower’s ECOA claim (which has the same “complete” definition as HBOR’s dual tracking provision) to survive the pleading stage). But see Farren v. Select Portfolio Servicing, Inc., 2017 WL 1063891, at *3 (E.D. Cal. Mar. 20, 2017) (dismissing dual-tracking claim without leave to amend because plaintiffs alleged that servicer never acknowledged their application); Woodring v. Ocwen Loan
considered whether servicers may request duplicative or unnecessary information, and/or falsely claim documents were not received, to assert that an application was incomplete, thereby escaping dual tracking liability. So far, courts have sided with borrowers on this issue.⁷⁰

3. Subsequent applications

To prevent borrowers from submitting multiple applications just to delay foreclosure, HBOR’s dual tracking protections do not apply to subsequent loan modification applications submitted by a borrower who has already been evaluated or had a “fair opportunity” to be evaluated for modification, unless the borrower experienced a material change in financial circumstances and submitted documentation of that change to the servicer.⁷¹ Even though borrowers often reapply with increased income, a decline in income can also constitute a material change in financial circumstances since some borrowers get denied for having too much income.⁷² For borrowers who had prior reviews,⁷³ this provision is critical because a second application under that circumstance will still trigger dual tracking protections. Alleging

⁷⁰ See, e.g., Vethody v. Nat’l Default Servs. Corp., 2016 WL 7451666, at *3 (N.D. Cal. Dec. 28, 2016) (rejecting argument that servicer’s subsequent request for an updated document rendered application incomplete); Dias v. JP Morgan Chase NA, 2015 WL 1263558, at *5 (N.D. Cal. Mar. 19, 2015) (rejecting servicer’s argument that application was not complete in hindsight when servicer failed to notify borrower a need for additional documents before NTS was recorded); Shapiro v. Sage Point Lender Servs., 2014 WL 5419721, at *4-5 (C.D. Cal. Oct. 24, 2014) (rejecting as “absurd” servicer’s assertion that borrower’s application was incomplete because servicer representative told borrower he should ignore servicer’s form letter stating that all requested documents were not received); Gilmore, 2014 WL 3749984, at *5 (granting a PI and finding “at least serious questions” going to the completeness of borrower’s application where servicer verbally requested unnecessary information from borrower in a confusing manner).

⁷¹ See CAL. CIV. CODE 2923.6(g) (2013).

⁷² See Dias v. JP Morgan Chase, N.A., 2015 WL 1263558, at *5 (N.D. Cal. Mar. 19, 2015) (borrower sufficiently pled $2,000 decline in monthly income as material change); Valentino v. Select Portfolio Servicing, Inc. 2015 WL 575385, at *4 (N.D. Cal. Feb. 10, 2015) (finding “no basis to conclude that a reduction in income cannot satisfy the “material change” requirement of section 2923.6(g”).

⁷³ These reviews could have occurred pre-2013. CAL. CIV. CODE § 2923.6(g) (2013); see Vasquez v. Bank of Am., N.A., 2013 WL 6001924, at *2, 6-9 (N.D. Cal. Nov. 12, 2013).
a change in financial circumstances in a complaint without having submitted documentation of that change to the servicer with the subsequent modification application generally does not fulfill the “document” and “submit” requirements under the statute. Courts have differed over the manner in which a borrower must document a change in financial circumstances, most accepting specific dollar-amount specificity, and a minority accepting a borrower’s simple assertion that a change was documented as part of a subsequent, complete application. Courts have also extended dual tracking protections to borrowers who can show that their servicer voluntarily

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75 See, e.g., Gilmore v. Wells Fargo Bank, 75 F. Supp. 3d 1255, 1264-65 (N.D. Cal. 2014) (borrower’s subsequent application specifying a $5,400/month income increase and a $1,000/month decrease in expenses sufficiently stated a dual tracking claim); Penaloza v. Select Portfolio Servicing, Inc., 2014 WL 6910334, at *10 (C.D. Cal. Dec. 8, 2014) (borrower demonstrated material change in circumstances with an income increase of $5,500 per month and a $1,500 decrease in monthly expenses); Banks v. JP Morgan Chase, 2014 WL 6476139, at *8 (C.D. Cal. Nov. 19, 2014) (accepting borrower’s assertion that she notified servicer of an $8,000 increase in monthly income as part of a subsequent application as adequately alleging she “documented” and “submitted” a material change in financial circumstances, though she did not explain the specific reasons behind the increase); cf. Rosenfeld v. Nationstar Mortg., LLC, 2014 WL 457920, at *4 (C.D. Cal. Feb. 3, 2014) (finding that the borrower subsequently satisfied the documentation requirement when she pled that she wrote the servicer that she eliminated her credit card debt). But see Winterbower v. Wells Fargo, N.A., 2013 WL 1232997, at *3 (C.D. Cal. Mar. 27, 2013) (denying TRO when borrowers simply wrote their servicer that they decreased their expenses from $25,000/month to $10,000/month).

agreed to review a subsequent application,\textsuperscript{77} or that the servicer never reviewed borrower’s previous applications.\textsuperscript{78} Another court views § 2923.6(g) as the basis for an affirmative defense, not an element of a dual-tracking claim.\textsuperscript{79} Even if the servicer declines to review a subsequent application due to insufficient evidence of material change in financial circumstances, the servicer must still provide the borrower with a denial stating that reason.\textsuperscript{80}

4. Other dual tracking protections

HBOR also provides protections for borrowers approved for a temporary or permanent loan modification or other foreclosure

\textsuperscript{77} See Norris v. Bayview Loan Servicing, LLC, 2016 WL 337381, at *3 (C.D. Cal. Jan. 25, 2016); Curtis v. Nationstar Mortg. LLC, 2015 WL 4941554, at *2 (N.D. Cal. Aug. 19, 2015) (“If the servicer voluntarily undertakes to review a loan modification application, a borrower may avail him or herself of the protections afforded under Cal. Civ. Code § 2923.6.”); Dias v. JP Morgan Chase NA, 2015 WL 1263558, at *5 (N.D. Cal. Mar. 19, 2015) (finding it unlikely borrower submitted subsequent application for the purpose of delay when application solicited by servicer); Vasquez v. Bank of Am., N.A., 2013 WL 6001924, at *9 (N.D. Cal. Nov. 12, 2013) (allowing borrower’s dual tracking claim to survive a motion to dismiss because servicer solicited borrower’s second application and CC 2923.6(g) only specifies that servicers are not “obligated” to review subsequent applications); \textit{see also} Foronda v. Wells Fargo, 2014 WL 6706815, at *7 (N.D. Cal. Nov. 26, 2014) (court found viable dual tracking claim where servicer requested that borrower resubmit her already existing application, then scheduled and refused to postpone a sale); \textit{cf.} Rizk v. Residential Credit Solutions, Inc., 2015 WL 573944, at *12 (C.D. Cal. Feb. 10, 2015) (Servicer’s solicitation of multiple applications, coupled with its denial of those applications based on their contents, rather than on missing documents, gives rise to dual tracking claim even where it was unclear if borrower submitted “complete” applications).

\textsuperscript{78} See, e.g., Cornejo v. Ocwen Loan Servicing, 2016 WL 4382569 (E.D. Cal. Aug. 16, 2016) (merely providing application materials to borrowers did not constitute fair opportunity to be evaluated); Johnson v. Bank of Am., 2015 WL 351210, at *4-5 (N.D. Cal. Jan. 23, 2015) (finding servicer never gave borrower a fair opportunity to be evaluated because it denied the application for lack of documents, not on its merits, and because servicer had previously acknowledged borrower’s application as complete); Cooksey v. Select Portfolio Servs., Inc., 2014 WL 2120026, at *2 (E.D. Cal. May 21, 2014) (finding it “unlikely” servicer evaluated borrower’s previous applications, or that borrower was ever “afforded a fair opportunity to [be] evaluated,” and granting borrower’s TRO based on a dual tracking claim).


\textsuperscript{80} Id.; \textit{see also} Caldwell v. Wells Fargo Bank, N.A., 2013 WL 3789808, at *5-6 (N.D. Cal. July 16, 2013) (Wells Fargo evaluated borrower’s second application based on Wells Fargo’s internal policy of denying modification to borrowers who previously defaulted on a modification. The court found this process constituted an “evaluation” and fulfilled the requirements of CC 2923.6.).
alternative. A servicer may not proceed with the foreclosure process as long as the borrower accepts a loan modification offer within 14 days of receipt.81 A servicer may not record an NOD as long as the borrower remains compliant with an approved loss mitigation plan.82 If a plan is approved after an NOD is recorded, a servicer may not proceed with the foreclosure process as long as the borrower is plan-compliant.83 Once a loan modification is made permanent, the servicer must also rescind the NOD and cancel any pending sale.84

D. HBOR's Interplay with Federal Mortgage Servicing Rules

Created by the Dodd-Frank Act,85 the Consumer Financial Protection Bureau's (CFPB) new mortgage servicing rules add to and amend the existing federal framework provided by the Real Estate Settlement and Procedures Act (RESPA) and the Truth in Lending Act (TILA).86 The rules went into effect on January 10, 2014. Whether a borrower may allege RESPA violations for servicer conduct occurring after January 10, 2014, but related to a complete modification application submitted before January 10, 2014, is unclear.87 As advocates weigh whether to bring RESPA claims using the recent rules

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81 CAL. CIV. CODE § 2923.6(c)(2) (2013). See also Gillies v. JP Morgan Chase Bank, 7 Cal. App. 5th 907, 917 (2017) (affirming dismissal of § 2923.6 claim because borrower failed to accept an offered loan modification within 14 days of receipt).


84 CAL. CIV. CODE § 2924.11(d) (2013).


86 RESPA is codified as “Regulation X,” at 12 C.F.R. § 1024; TILA as “Regulation Z,” at 12 C.F.R. § 1026.

(for servicer conduct occurring after January 10, 2014), they should consider whether HBOR actually gives greater protection, or better remedies, to their client. Advocates should consider that the CFPB rules only provide for damages under various RESPA statutes. Borrowers cannot use the CFPB rules to enjoin a foreclosure sale, but injunctive relief is available under HBOR before a sale is completed. On the other hand, a pre-foreclosure cause of action for damages is available under RESPA but unavailable under HBOR. For example, a borrower may recover money damages for a servicer’s failure to respond to a “request for information” under 12 C.F.R. §1024.

The two sets of laws both include pre-foreclosure outreach requirements and dual tracking provisions, but there are significant differences in how these requirements operate. First, with respect to the initiation of foreclosure, the federal rules prohibit servicers from recording a notice of default until a borrower is more than 120 days delinquent. HBOR, by contrast, only prevents servicers from recording a notice of default for 30 days after servicer made (or attempted to make) contact with a delinquent borrower. HBOR specifies that pre-NOD contact to discuss foreclosure alternatives be made “in person or by telephone”. RESPA rules require two separate forms of contact: a servicer must make (or attempt) “live contact” by a borrower’s 36th day of delinquency; and written contact by the borrower’s 45th day of delinquency. HBOR requires a post-NOD

88 Very few of the CFPB rules preempt more protective state laws so advocates will generally be able to select whichever law (or combination of laws) is more tailored to their client’s situation. A notable exception includes rules involving the transfer of servicing rights. See 12 C.F.R. § 1024.33(d) (effective Jan. 10, 2014).

89 See generally Nat’l Consumer Law Ctr., Foreclosures and Mortgage Servicing § 3.2.10.4 (8th ed. 2014, updated at www.nclc.org/library) (discussing case law but arguing injunctive relief should be available under RESPA). But see discussion infra section II.D (using the UCL to enforce RESPA).

90 See e.g., Frank v. JPMorgan Chase Bank, N.A., 2016 WL 3055901 at *11-12 (N.D. Cal. May 31, 2016) (holding plaintiff’s allegations that Chase did provide the information requested, if true, indicate Chase failed to correct the error or conduct a reasonable investigation, in violation of 12 C.F.R. §1024.35(e)).


92 CAL. CIV. CODE §§ 2923.5, 2923.55 (2013); see discussion supra section I.A.

93 § 2923.55(b)(2) (2013). Servicers must also send written notice that a borrower may request certain documents, but that notice need not explain foreclosure alternatives. § 2923.55(b)(1)(a)(B).


95 § 1024.39(b) (effective Jan. 10, 2014).
notice,\textsuperscript{96} but the federal rules do not. The federal rules apply to both non-judicial and judicial foreclosures in California, while HBOR covers only non-judicial foreclosures.

Generally, HBOR provides greater dual tracking protections. First, borrowers may submit more than one modification application under HBOR, if they can document and submit a material change in financial circumstances to their servicer.\textsuperscript{97} By contrast, the current version of the federal rules only apply to one foreclosure alternative application, no matter how significantly a borrower’s financial circumstances may change after that application.\textsuperscript{98} This “one bite at the apple” limitation in the federal rules will change, however, as of October 17, 2017, when a revised version of the RESPA dual tracking regulation goes into effect.\textsuperscript{99}

Second, there is some disagreement regarding whether RESPA’s dual tracking protections prohibit servicers from recording a Notice of Trustee’s Sale in California while a timely and complete application is under review.\textsuperscript{100}

Third, HBOR does not condition dual tracking protections on when the borrower submits a complete loan modification application; as long as a borrower submits the complete application before a foreclosure sale, the servicer may not move ahead with the sale while the

\textsuperscript{96} CAL. CIV. CODE § 2924.9(a) (2013). The notice is only required if the borrower has not yet “exhausted” modification attempts. Id.
\textsuperscript{97} § 2923.6(g); see also discussion supra, section I.C.2.
\textsuperscript{98} 12 C.F.R. § 1024.41(i) (effective Jan. 10, 2014). This rule excludes all subsequent applications even if the first application was for a non-modification foreclosure alternative, like a short sale. Id. A borrower may, however, submit a new application to a new servicer after a servicing transfer. Official Bureau Interpretation, Supp. 1 to Part 1024, ¶ 41(i)-1. See, e.g., McMahon v. JP Morgan Bank, NA, 2017 WL 1495214, at *3-4 (E.D. Cal. Apr. 26, 2017) (RESPA claim pertaining to subsequent application dismissed with prejudice). But see Thomas v. Wells Fargo Bank, N.A., 2016 WL 1701878 at*6-8 (S.D. Cal. Apr. 28, 2016) (reasoning that borrower’s compliance with servicer’s request for additional information after receipt of first complete application does not constitute duplicative loan application requests).
\textsuperscript{99} Compare the current version of 12 C.F.R. § 1024.41(i) with the revised § 1024.41(i) that will become effective October 17, 2017. The new rule will extend the Regulation X loss mitigation protections to subsequent applications as long as the borrower was not delinquent on the loan for some period of time following the prior application.
application is “pending.”\textsuperscript{101} The federal rules, in contrast, provide a tiered set of protections depending on how early the borrower submits an application. Borrowers receive full dual tracking protections – including a notice listing any missing documents and a right to appeal a denial, when they submit an application within the first 120 days of a delinquency or before the loan is referred to foreclosure,\textsuperscript{102} or, if a Notice of Default has been recorded, 90 or more days before a scheduled sale date.\textsuperscript{103} After that, the rights conferred by the federal rules diminish. Applications submitted between 89 and 45 days before a scheduled sale date do not trigger the right to appeal a denial.\textsuperscript{104} Applications submitted after the 45-day mark do not entitle the borrower to a notice listing any missing documents.\textsuperscript{105} Applications submitted by 37 days before a scheduled sale require a servicer to refrain from conducting the sale until making a determination on the application,\textsuperscript{106} but only if the application is complete. Borrowers who submit their application less than 37 days before a scheduled foreclosure sale receive no dual tracking protections under the federal rules.\textsuperscript{107} In contrast, under HBOR, all borrowers (with large servicers)\textsuperscript{108} receive full dual tracking protections, including the right to an appeal.\textsuperscript{109}

\textsuperscript{101} CAL. CIV. CODE § 2923.6(c) (2013). Servicers may maintain policies of denying those applications, but they must comply with the denial and appeal timelines and procedures outlined in the dual tracking provisions. See supra discussion in section I.C.1.

\textsuperscript{102} Servicers cannot even begin the foreclosure process in this case, until making a determination on borrower’s application and allowing the 14-day appeal period to pass. 12 C.F.R. § 1024.41(f)(2) (effective Jan. 10, 2014).

\textsuperscript{103} § 1024.41(h) (effective Jan. 10, 2014).


\textsuperscript{105} § 1024.41(h)(2)(i) (effective Jan. 10, 2014).

\textsuperscript{106} § 1024.41(g) (effective Jan. 10, 2014). Servicers must notify borrowers of their evaluation within 30 days of receiving borrower’s complete application. § 1024.41(c); see Lage v. Ocwen Loan Servicing, 2015 WL 631014, at *2-3 (S.D. Fla. Feb. 11, 2015) (finding a viable RESPA claim where servicer did not evaluate borrower’s application until two months after borrower’s application submission).

\textsuperscript{107} See 12 C.F.R. § 1024.41(g) (effective Jan. 10, 2014).

\textsuperscript{108} Borrowers with small servicers do not receive an appeal period. Compare CAL. CIV. CODE § 2924.18 (2013) (explaining dual tracking protections applied to borrowers with small servicers), with § 2923.6 (2013) (explaining dual tracking protections for borrowers with large servicers).

\textsuperscript{109} See § 2923.6(d) (2013). Under the CFPB rules, borrowers who do receive an appeal opportunity have only 14 days to appeal. 12 C.F.R. § 1024.41(h)(2) (effective Jan. 10, 2014). California borrowers have 30 days to appeal a denial. CAL. CIV. CODE § 2923.6(d) (2013).
However, some RESPA dual tracking rules are more protective than HBOR. For instance, a “facially complete application” (where a servicer receives all requested information but later determines that more information or clarification is necessary), must be treated as “complete” as of the date that it was facially complete. HBOR contains no such distinctions and leaves the “completeness” of an application up to the servicer and to the courts. Because the federal rules do not define borrower, case law under those rules has been more favorable to successors-in-interest than under HBOR, which has a statutory definition. However, SB 1150, effective January 1, 2017, has expanded HBOR’s coverage to include most successors.

Advocates should note that in October 2016 the CFPB finalized rules amending the existing servicing regulations. Major proposed revisions include more robust protections for successors-in-interest, more regulations governing servicing transfers, and a rule requiring servicers to notify borrowers when applications are “complete.” However, most provisions of the revised rule will not be effective until October 19, 2017, and the new servicing requirements for successors-in-interest do not go into effect until April 19, 2018.


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111 See discussion supra section I.C.2.
112 Compare Barzelis v. Flagstar Bank, F.S.B., 784 F.3d 971, 977 (5th Cir. 2015) (determining plaintiff was a “borrower” under RESPA as the successor in community debt and successor in the promissory note); Frank v. J.P. Morgan Chase Bank, N.A., 2016 WL 3055901, at *5 (N.D. Cal. May 31, 2016) (determining surviving spouse is a “borrower” under RESPA because she is obligated to make debt payments and named a borrower in the Deed of Trust); Washington v. Am. Home Loans, 2011 WL 11651320, at *2 (C.D. Cal. Nov. 12, 2011) (determining plaintiff is a “borrower” under RESPA because she was obligated on the loan having signed the deed of trust as a joint tenant, and stood to lose equitable interest in the event of a default); with Van Zandt v. Select Portfolio Servicing, Inc., 2015 WL 574357 (N.D. Cal. Feb. 10, 2015) (denying TRO because plaintiff was not the borrower but successor to the borrower); Austin v. Ocwen Loan Servicing, LLC, 2014 WL 3845182 (E.D. Cal. Aug. 1, 2014) (trustee may not sue under HBOR because the trust is not party to the loan).
113 Amendments to the 2013 Mortgage Rules under the Real Estate Settlement Procedures Act (Regulation X) and the Truth in Lending Act (Regulation Z), Final Rule, 81 Fed. Reg. 72,160 (Oct. 19, 2016).
114 See id. at 72,160.
II. Non-HBOR Causes of Action

Because HBOR limits injunctive relief to actions brought before the trustee’s deed upon sale is recorded, advocates with post-foreclosure cases should explore whether other claims could overturn a completed foreclosure sale. HBOR explicitly preserves remedies available under other laws.

A. Wrongful Foreclosure Claims

Wrongful foreclosure claims (which can set aside or “undo” foreclosure sales) are important for borrowers who were unable to bring pre-sale claims. Claims challenging the foreclosing party’s authority to foreclose are unavailable before the sale because courts are hesitant to add new requirements to the non-judicial foreclosure statutes. As a result, most wrongful foreclosure claims are brought after the sale. Advocates may find it easier to challenge the validity

115 See CAL. CIV. CODE §§ 2924.12(a)(1) & 2924.19(a)(1) (2013). It is a closer and unsettled question whether injunctive relief is available post-sale, but before a trustee’s deed upon sale is recorded. See, e.g., Bingham v. Ocwen Loan Servicing, LLC, 2014 WL 1494005, at *6-7 (N.D. Cal. Apr. 16, 2014) (declining to determine at the pleading stage what type of remedy is available in this situation, but noting that some remedy should be available for a dual tracking violation and denying servicer’s motion to dismiss).

116 See CAL. CIV. CODE §§ 2924.12(h) & 2924.19(g) (2013).

117 See CEB, supra note 29, §§ 7.67A, 10.75, & 10.76, for descriptions of the different bases for wrongful foreclosure claims.

118 Only certain entities possess the “authority to foreclose”: the beneficiary under the deed of trust, the original or properly substituted trustee, or the authorized agent of the beneficiary. CAL. CIV. CODE § 2924(a)(6) (2013).


120 See, e.g., Glaski v. Bank of Am. N.A., 218 Cal. App. 4th 1079 (2013). Pre-sale wrongful foreclosure claims are also possible, if less frequent. See Nguyen v. JPMorgan Chase Bank N.A., 2013 WL 2146606, at *4 (N.D. Cal. May 15, 2013) (A claim for wrongful foreclosure may be brought pre-sale if plaintiff alleges inaccurate or
of the foreclosure in a post-sale unlawful detainer action,121 where the
servicer must affirmatively demonstrate proper authority.122 Ideally,
the advocate can persuade the trial court to consolidate a pending
unlawful detainer action with a wrongful foreclosure action so that all
relevant issues can be fully litigated.123 Borrowers may obtain full tort
recovery under a wrongful foreclosure claim, including moving
expenses, lost rental income, damage to credit, and emotional
distress.124

1. Assignments of the note and deed of trust

Only the holder of the beneficial interest may substitute a new
trustee, assign the loan, or take action in the foreclosure process.125 A

false mortgage documents and if plaintiff has received a notice of trustee sale.); cf.
(allowing pre-default foreclosure-related claims because economic injury (due to
dramatically increased mortgage payments) was “sufficient to satisfy the ripeness
961 (N.D. Cal. 2010) (finding a pre-sale wrongful foreclosure claim premature); Vega
Wrongful foreclosure issues may also be resolved in bankruptcy. In re Takowsky,
2014 WL 5861379 (B.A.P. 9th Cir. Nov. 12, 2014).

121 Not only is this tactic often easier, but it is sometimes necessary to avoid res
judicata issues in any subsequent wrongful foreclosure action. See, e.g., Hopkins v.
a wrongful foreclosure claim because servicer had already established duly perfected
title in a UD action). Advocates can refer to our Defending Post-Foreclosure Evictions
practice guide for more information on litigating title in the context of a post-
foreclosure UD.

UD court’s judgment for plaintiff because plaintiff had failed to show compliance with
CC 2924 – specifically, plaintiff failed to explain why DOT and Trustee’s Deed listed
two different trustees); U.S. Bank v. Cantartzoglou, 2013 WL 443771, at *9 (Cal.
App. Div. Super. Ct. Feb. 1, 2013) (If the UD defendant raises questions as to the
veracity of title, plaintiff has the affirmative burden to prove true title.); Aurora Loan
( voiding a sale where servicer could not demonstrate authority to foreclose and
refusing to accept a post-NOD assignment as relevant to title).

123 See, e.g., Habtemariam v. Vida Capital Grp., LLC, 2017 WL 627404, at *7 (E.D.
action arising out of foreclosure on an allegedly cancelled debt); Brainangkul v.
granting writ petition and directing superior court to grant wrongful foreclosure
plaintiff’s motion to consolidate UD with her affirmative quiet title action against a
third party purchaser).

beneficiary’s assignee must obtain an assignment of the deed of trust before moving forward with the foreclosure process.\textsuperscript{126} While foreclosing entities have always been required to have the authority to foreclose, HBOR codified this requirement in Civil Code Section 2924(a)(6) for notices of default recorded after January 1, 2013.

\textbf{Glaski:} A notable California Court of Appeal case, \textit{Glaski v. Bank of Am. N.A.}, 218 Cal. App. 4th 1079 (2013), allowed a borrower to challenge a foreclosure by alleging very specific facts to show that the foreclosing entity was not the beneficiary. In so doing, the court had to grant borrower standing to challenge the assignment of his loan, which was attempted after the closing date of the transferee-trust.\textsuperscript{127} This failed assignment attempt rendered the assignment void, not voidable, and led to the wrong party foreclosing.\textsuperscript{128}

\textbf{Post-\textit{Glaski}:} \textit{Glaski} initially gave hope to many borrowers whose loans had been improperly securitized. The case, though, was roundly rejected by the other Court of Appeal districts and by federal district courts.\textsuperscript{129}

\textbf{Yvanova:} Despite other courts’ almost universal rejection of \textit{Glaski}, the California Supreme Court partly vindicated \textit{Glaski} in \textit{Yvanova v. New Century Mortgage}. In \textit{Yvanova}, the court granted review on the question whether a foreclosed borrower has standing to challenge an assignment as void.\textsuperscript{130} The court held that “a borrower

\begin{footnotesize}
\begin{enumerate}
\item See Nguyen v. JP Morgan Chase Bank, N.A., 2013 WL 2146606, at *5 (N.D. Cal. May 15, 2013) (denying motion to dismiss wrongful foreclosure claim because foreclosing assignee could not demonstrate that it received an assignment from the original beneficiary).
\item Id.
\item See, e.g., \textit{In re Davies}, 565 F. App’x 630, 633 (9th Cir. 2014) (declining to follow \textit{Glaski}); \textit{In re Sandri}, 501 B.R. 369, 374-77 (Bankr. N.D. Cal. 2013) (rejecting the \textit{Glaski} court’s reasoning and siding with the majority of California courts that have found borrowers have no standing to challenge problems with the authority to foreclose); Rubio v. US Bank, N.A., 2014 WL 1318631, at *8 (N.D. Cal. Apr. 1, 2014) (same); Diunugala v. JP Morgan Chase Bank, N.A., 2013 WL 5568737, at *8 (S.D. Cal. Oct. 3, 2013) (same); cf. Kan v. Guild Mortg. Co., 230 Cal. App. 4th 736 (2014) (declining to consider the \textit{Glaski} holding, distinguishing it as challenging a completed foreclosure, and noting that even the \textit{Glaski} court did not take issue with the long-standing principle that borrowers may not bring pre-foreclosure actions that impose additional requirements to the statutory foreclosure structure).
\item Yvanova v. New Century Mortg., 62 Cal. 4th 919 (2016).
\end{enumerate}
\end{footnotesize}
who has suffered a nonjudicial foreclosure does not lack standing to sue for wrongful foreclosure based on an allegedly void assignment merely because he or she was in default on the loan and was not a party to the challenged assignment.” In doing so, the court expressly rejected prior Court of Appeal cases that held to the contrary. ¹³¹ However, Yvanova declined to rule on what defects would render an assignment void and left the question unresolved. The court also declined to speculate on how its ruling impacts pre-foreclosure challenges.

**Post-Yvanova:** After Yvanova, the California Court of Appeal in *Saterbak v. JP Morgan Chase* declined to extend Yvanova to pre-sale challenges.¹³² The Court also held that a late transfer into the securitized trust, the defect alleged in Glaski, only rendered the transfer voidable, not void.¹³³ Similarly, in *Yhudai v. Impac Funding*, the Court of Appeal followed Saterbak to hold that a post-closing date transfer in violation of a PSA is voidable, not void, and therefore a borrower in a post-foreclosure case had no standing to bring a wrongful foreclosure claim based on the PSA violation.¹³⁴ In *Sciarratta v. U.S. Bank Nat'l Ass'n*, the court held that an allegation of void assignment

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¹³² Saterbak v. JP Morgan Chase Bank, N.A., 245 Cal. App. 4th 808, 815 (2016) (“Because Saterbak brings a preforeclosure suit challenging Defendant's ability to foreclose, Yvanova does not alter her standing obligations.”). But see Lundy v. Selene Fin., LP, 2016 WL 1059423 (N.D. Cal. Mar. 17, 2016) (predicting that the California Supreme Court would extend Yvanova to pre-foreclosure challenges without citing Saterbak); Powell v. Wells Fargo Home Mortg., 2016 WL 1718189 at *13-14 (N.D. Cal. Apr. 29, 2016) (adopting Lundy and allowing plaintiff to challenge, with specific factual basis, a defendant’s authority to initiate the foreclosure process).

¹³³ Saterbak, 245 Cal. App. 4th at 815 (declining to follow Glaski because the New York case Glaski relied on was later overturned); see also Ramos v. JP Morgan Chase & Co., No. 15-16668, __ F. App'x __, 2017 WL 1755946, at *1 (9th Cir. May 4, 2017) (affirming dismissal of claims because defects in assignment of a note may render a transfer voidable, not void); Tjaden v. HSBC Bank USA, Nat'l Ass'n, __ F. App'x __, 2017 WL 943943, at *1 (9th Cir. Mar. 10, 2017) (following Saterbak); Rivac v. NDeX W., LLC, 2017 WL 1075040, at *15 (N.D. Cal. Mar. 22, 2017) (same).

is sufficient to satisfy the prejudice element of a wrongful foreclosure tort because harm is created where a defendant with no right to do so forecloses on a property.\textsuperscript{135}

2. Substitutions of trustee

Only the original trustee or a properly substituted trustee may carry out a foreclosure, and unlike assignments of a deed of trust, substitutions of trustee must be recorded.\textsuperscript{136} Without a proper substitution of trustee, any foreclosure procedures (including sales) initiated by an unauthorized trustee are void.\textsuperscript{137} Courts have upheld challenges when the signer of the substitution may have lacked authority or the proper agency relationship with the beneficiary.\textsuperscript{138}

\footnotesize{\textsuperscript{135} Sciarratta v. U.S. Bank Nat’l Ass’n, 247 Cal. App. 4th 552 (2016); see also Jacobsen v. Aurora Loan Services, LLC, 661 F. App’x 474, 2016 WL 4578367, at *2-3 (9th Cir. Sept. 2, 2016) (reversing summary judgment of wrongful foreclosure claim when the servicer currently has possession of the note endorsed in blank but did not show that it was the holder of the note before the trustee sale).

\textsuperscript{136} CAL. CIV. CODE § 2934a (2012). The statute provides a very relaxed standard governing the timing of this recording. The substitution may be executed and recorded after the substituted trustee records the NOD, if a copy of the substitution and an affidavit are mailed to the borrower. § 2934a(c). But even this disclosure requirement may be contracted around in the DOT. See Ram v. Onewest Bank, FSB, 234 Cal. App. 4th 1, 16 (2015).

\textsuperscript{137} See, e.g., Dimock v. Emerald Props. LLC, 81 Cal. App. 4th 868, 876 (2000) (finding the foreclosing entity had no power to foreclose because the substitution of trustee had never been recorded as required by section 2934a); Pro Value Props., Inc. v. Quality Loan Servicing Corp., 170 Cal. App. 4th 579, 581 (2009). But see Maomanivong v. Nat’l City Mortg., Co., 2014 WL 4623873, at *6-7 (N.D. Cal. Sept. 15, 2014) (denying borrower’s CC 2924(a)(6) claim because the acting trustee eventually recorded a proper substitution in compliance with CC 2934a(c), even if after it recorded an NOD); Ram, 234 Cal. App. 4th at 17-18 (finding an NOD allegedly signed by an incorrect trustee not prejudicial to the borrowers because they received all pertinent information to rectify their default, rendering the sale voidable, not void).

\textsuperscript{138} See Engler, 2013 WL 6815013, at *6 (allowing borrowers to assert a claim based on an improperly substituted trustee: MERS was the listed beneficiary but the signature on the substitution belonged to an employee of the servicer, not an employee of MERS); Patel v. U.S. Bank, N.A., 2013 WL 3770836, at *1, 7 (N.D. Cal. July 16, 2013) (allowing borrowers’ pre-sale wrongful foreclosure claim, based partly on robo-signing allegations pertaining to the substitution of trustee and assignment of the DOT, to proceed); Halajian, 2013 WL 593671, at *6-7 (warning that if the MERS “vice president” executing the foreclosure documents was not truly an agent of MERS, then she “was not authorized to sign the assignment of deed of trust and substitution of trustee [and] both are invalid”); Tang v. Bank of Am., N.A., 2012 WL 960373, at *11 (C.D. Cal. Mar. 19, 2012); Sacchi, 2011 WL 2533029, at *24 (denying servicer’s motion to dismiss because an unauthorized entity executed a substitution substitution of trust).}
Courts have also allowed cases to proceed when the substitution of trustee was allegedly backdated.\textsuperscript{139}

3. Loan origination claims

A court may set aside a foreclosure sale if the underlying loan was unconscionable. For example, the California Court of Appeal reinstituted a claim to set aside a sale when the borrowers, who had limited education and English proficiency, took out a loan with monthly payments that exceeded their income by $1,000 per month.\textsuperscript{140}

Some borrowers attempt to stop or reverse a foreclosure by bringing rescission claims under the federal Truth in Lending Act (TILA) regarding disclosure violations at loan origination\textsuperscript{141} or by seeking cancellation of instruments related to foreclosure of an allegedly rescinded loan.\textsuperscript{142} While many such claims are barred by the statute of limitations, following the United States Supreme Court decision in Jesinoski v. Countrywide Home Loans, Inc., 135 S. Ct. 790, 792 (2015), holding that a TILA rescission claim is not barred by the statute of limitations if the borrower delivered a rescission notice within three years after consummation of the loan, some courts have been more open to such claims.\textsuperscript{143} There remain, however, disagreements over whether a completed foreclosure extinguishes a borrower’s right of

\textsuperscript{142} See, e.g., Hinrichsen v. Bank of Am., N.A., 2017 WL 1885788, at *7 (S.D. Cal. May 9, 2017) (denying MTD on cancellation of instruments claim arising out of allegations that borrower had timely rescinded under TILA).
rescission and therefore bars related claims, and over whether allegations of tender are required to state a TILA rescission claim.

4. Procedural foreclosure notice requirements

Attacks on completed foreclosure sales based on noncompliance with notice requirements are rarely successful. Borrowers need to demonstrate prejudice from the notice defect and must tender the unpaid principal balance of the loan. Courts have also considered HBOR violations under a wrongful foreclosure claim.

5. Loan modification related claims

If the servicer foreclosed while the borrower was compliant with a loan modification agreement, the borrower may bring a wrongful foreclosure claim to set aside the sale. In addition, violation of

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144 Compare id. at *6-9 with Mikels v. Estep, 2016 WL 1056067, at *5 (N.D. Cal. Mar. 17, 2016) (finding borrower’s rescission right was extinguished by foreclosure sale).
145 See discussion of tender requirements below in Section III(C).
146 See, e.g., Siqueiros v. Fed. Nat’l Mortg. Ass’n, 2014 WL 3015734, at *4-5 (C.D. Cal. June 27, 2014) (servicer’s failure to mail borrower NOD and NTS directly contributed to the loss of borrower’s home); Passaretti v. GMAC Mortg., LLC, 2014 WL 2653353, at *12 (Cal. Ct. App. June 13, 2014) (improper notice of sale prejudiced the borrower a great deal since he was unable to take any action to avoid the sale (the court found it important that borrower had previously cured his defaults)). One court seemed to limit prejudice only for claims that attacked a procedural aspect of the foreclosure process, rather than a substantive element like an improper assignment. See Deschaine v. IndyMae Mortg. Servs., 2014 WL 281112, at *11 (E.D. Cal. Jan. 23, 2014) (The presumption that a foreclosure was conducted properly “may only be rebutted by substantial evidence of prejudicial procedural irregularity.” “On a motion to dismiss, therefore, a [borrower] must allege ‘facts showing that [he was] prejudiced by the alleged procedural defects,’” or that a “violation of the statute[s] themselves, and not the foreclosure proceedings, caused [his] injury.”).
147 See, e.g., Lona v. Citibank, N.A., 202 Cal. App. 4th 89, 112 (2011). For a brief description of prejudice, refer to section II.A.1; for a full discussion of tender, refer to section III.C.
149 See Chavez v. Indymac Mortg. Servs., 219 Cal. App. 4th 1052, 1062-63 (2013) (holding that the borrower stated a wrongful foreclosure claim based on the servicer’s breach of the modification agreement); Barroso v. Ocwen Loan Servicing, 208 Cal. App. 4th 1001, 1017 (2012) (finding that the borrower may state a wrongful foreclosure claim when the servicer foreclosed while the borrower was in compliance
HAMP’s dual-tracking prohibition may also form the basis for a wrongful foreclosure claim.150

6. FHA loss mitigation rules

Servicers of FHA loans must meet strict loss mitigation requirements, including, under specified circumstances, a face-to-face meeting with the borrower, before they may accelerate the loan.151 Borrowers may bring equitable claims to enjoin a sale or to set aside a completed sale based on a servicer’s failure to comply with these requirements; monetary damages, however, are currently unavailable.152

7. Misapplication of payments or borrower not in default

A borrower may bring a wrongful foreclosure claim if the servicer commenced foreclosure when the borrower was not in default or when borrower had tendered the amount in default.153 If the foreclosure commenced on or after 2013, this conduct may also form the basis for an HBOR claim under Civil Code Section 2924.17.154

152 See Pfeifer, 211 Cal. App. 4th at 1255 (allowing borrowers to enjoin a pending sale); Fonteno v. Wells Fargo Bank, N.A., 228 Cal. App. 4th 1358 at *8 (2014) (extending Pfeifer to allow borrowers to bring equitable claims to set aside a completed sale); see also Urenia v. Public Storage, 2014 WL 2154109, at *7 (C.D. Cal. May 22, 2014) (declining to dismiss borrower’s wrongful foreclosure claim on the grounds that Pfeifer only contemplates pre-sale injunctions).
153 See In re Takowsky, 2014 WL 5861379, at *4-8 (B.A.P. 9th Cir. Nov. 12, 2014) (affirming the bankruptcy court’s decision to recognize borrower’s wrongful foreclosure claim when borrower had tendered the amount due on the notice of default).
154 Servicers may not record a document related to foreclosure without ensuring its accuracy and that it is supported by “competent and reliable evidence.”
B. Contract Claims

Breach of contract claims have succeeded against servicers that foreclose while the borrower is compliant with a Trial Period Plan (TPP)\textsuperscript{155} or permanent modification.\textsuperscript{156} An increasing number of state initiating foreclosure, a servicer must substantiate borrower’s default and servicer’s right to foreclose. CAL. CIV. CODE § 2924.17(a)-(b) (2013). While straight robo-signing claims under this statute have generally failed (see \textit{Mendoza v. JP Morgan Chase Bank}, N.A., 228 Cal. App. 4th 1020 (2014), \textit{depub}lished and review granted, 337 P.3d 493 (Cal. 2014) for an example), some borrowers have successfully asserted CC 2924.17 claims unrelated to robo-signing. See, \textit{e.g.}, \textit{Nardolillo v. JPMorgan Chase Bank}, N.A., 2017 WL 1493273, at *4 (N.D. Cal. Apr. 26, 2017) (denying MTD on CC 2924.17 claim because borrower alleged that Note was actually assigned to a specific, named entity other than the foreclosing party); \textit{Henderson v. Ocwen Loan Servicing}, 2014 WL 5461955, at *3 (N.D. Cal. Oct. 27, 2014) (rejecting servicer’s argument that CC 2924.17 requires an allegation of widespread and repeated robo-signing and finding that the NOD could not have been “supported by competent and reliable evidence” because borrower was never in default); \textit{Penermon v. Wells Fargo Bank}, N.A., 47 F. Supp. 3d 982, 997-98 (N.D. Cal. 2014) (denying servicer’s motion to dismiss borrower’s CC 2924.17 claim based on servicer’s failure to credit her account with accepted mortgage payments, evidence that servicer failed to substantiate her default); \textit{Rothman v. U.S. Bank Nat’l Ass’n}, 2014 WL 1648619, at *7 (N.D. Cal. Apr. 24, 2014) (allowing borrowers to state a CC 2924.17 claim based on an incorrect NOD which included inappropriate fees and charges, and rejecting servicer’s argument that CC 2924.17 only applies to robo-signing claims).

\textsuperscript{155} See, \textit{e.g.}, \textit{Corvello v. Wells Fargo Bank}, N.A., 728 F.3d 878, 883-84 (9th Cir. 2013) (HAMP participants are contractually obligated to offer borrowers a permanent modification if the borrower complies with a TPP by making required payments and by accurately representing their financial situation.); \textit{Curley v. Wells Fargo & Co.}, 2014 WL 7336462, at *5 (N.D. Cal. Dec. 23, 2014) (servicer improperly failed to send borrower a permanent loan modification, or a notification that he did not qualify for a permanent modification, and foreclosed on borrower after borrower complied with the TPP and returned signed copies of the TPP); \textit{Harris v. Bank of Am.}, 2014 WL 1116356, at *4-6 (C.D. Cal. Mar. 17, 2014) (breach of contract claim based on TPP agreement); \textit{Karimian v. Caliber Home Loans Inc.}, 2013 WL 5947966, at *3 (C.D. Cal. Nov. 4, 2013) (“Having entered into the TPP, and accepted payments, CitiMortgage could not withhold a permanent modification simply because it later determined that plaintiff did not qualify for HAMP.”); \textit{West v. JP Morgan Chase Bank}, 214 Cal. App. 4th 780, 799 (2013).

\textsuperscript{156} See, \textit{e.g.}, \textit{Moreno v. Wells Fargo Home Mortg.}, 2014 WL 5934722, at *7 (E.D. Cal. Nov. 12, 2014) (denying servicer’s MTD borrowers’ oral contract claim where borrowers made a lump-sum payment and servicer began withdrawing monthly payments but never modified the mortgage as agreed); \textit{Desser v. US Bank}, 2014 WL 4258344, at *7 (C.D. Cal. Aug. 27, 2014) (leaving a servicer to decide whether to execute and return the final agreement to borrower unfairly imubes servicer with complete control over contract formation; borrower’s acceptance of the modification creates a contract); \textit{Barroso v. Ocwen Loan Servicing}, 208 Cal. App. 4th 1001, 1013-14 (2012) (finding the language and intent of a permanent modification forms an enforceable contract even if the agreement is not countersigned by the servicer; once
and federal courts have found that TPP agreements require servicers to offer permanent modifications to TPP-compliant borrowers. This is now established law in both California state court and the Ninth Circuit. Claims based on the deed of trust have also succeeded when the servicer refused to accept payments or honor a permanently modified loan.

1. The statute of frauds defense

Servicers have invoked the statute of frauds to defend these contract claims. In *Corvello v. Wells Fargo Bank*, for example, a borrower’s oral TPP agreement modified her written deed of trust, so her servicer argued statute of frauds. The Ninth Circuit reasoned the borrower’s full TPP performance allowed her to enforce the oral agreement, regardless of the statute of frauds.

The statute of frauds defense has also failed when a servicer merely neglects to execute a permanent modification agreement by signing the final documents. In that case, the borrower’s modified payments, servicer’s acceptance of those payments, and the language of the TPP and permanent modification estopped the servicer from asserting the statute of frauds.

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158 See id.; see also *Rufini v. CitiMortgage, Inc.*, 227 Cal. App. 4th 299, 305-06 (2014) (allowing a borrower to amend his complaint to allege not only TPP payments, but continued HAMP eligibility to plead valid contract and wrongful foreclosure claims).


161 *Corvello*, 728 F.3d at 882, 885.

162 Id. at 885.


Other courts have declined to dismiss a case based on a statute of
frauds defense on the ground that a signed TPP or permanent
modification agreement may be found in discovery.\(^\text{165}\) One court
explained that a TPP does not fall within the statute of frauds because
it only contains the promise of a permanent modification, and does not,
by itself, actually modify the underlying loan documents.\(^\text{166}\)

\section*{2. Non-HAMP breach of contract claims}

Breach of contract claims are also possible outside the HAMP
context.\(^\text{167}\) In 2013, a California Superior Court held that Corvello and
Barroso could apply to borrower’s breach of contract claim even though
those cases dealt with HAMP TPPs and permanent modifications,
while the “Loan Workout Plan” relied upon by this borrower was a
“proprietary” modification, created by the servicer, not HAMP.\(^\text{168}\) The
borrower argued there was no material difference between a HAMP
TPP and the agreement at issue because the two contracts used almost
identical language. Indeed, the Corvello court relied on the language
in the TPP agreement, not the fact that it was created by HAMP, to find a
valid breach of contract claim.\(^\text{169}\) The superior court agreed and

\begin{itemize}
  \item CitiMortgage, Inc., 2014 WL 1344677, at *3 (S.D. Cal. Mar. 28, 2014); Harris, 2014
  WL 1116356, at *6.
  \item See, e.g., Orozco v. Chase Home Fin. LLC, 2011 WL 7646369, at *1 (Bankr. E.D.
  \item Chavez, 219 Cal. App. 4th at 1062.
  \item See, e.g., Menan v. U.S. Bank, Nat'l Ass'n, 924 F. Supp. 2d 1151, 1156-58 (E.D.
  Cal. 2013) (finding a “Forbearance to Modification Agreement” document an
  enforceable contract and that defendant breached the agreement by failing to cancel
  the NOD); Lueras v. BAC Home Loan Servicing, LP, 221 Cal. App. 4th 49, 71-72
  (2013) (finding an agreement under the HomeSaver Forbearance Program an
  enforceable contract obligating servicer to consider borrower for foreclosure
  alternatives in “good faith,” relying on the reasoning in West v. JP Morgan Chase
  Bank, 214 Cal. App. 4th 780 (2013)).
  \item Hamidi v. Litton Loan Servs. LLP, No. 34-2010-00070476-CU-OR-GDS (Cal.
  \item See Corvello v. Wells Fargo Bank, N.A., 728 F.3d 878, 883-85 (9th Cir. 2013). At
  least one federal court has expressed the view that the HAMP nature of the TPP at
  issue in Corvello did not affect the outcome in that case. Beck v. Ocwen Loan Servs.,
  LLC, 2015 WL 519052, at *3 (C.D. Cal. Feb. 6, 2015) (distinguishing Corvello as
  applying only to HAMP TPP agreements and noting Treasury Directive 09-01, which
  imposes rules on HAMP contracts that do not govern proprietary contracts, but
  declining to dismiss borrower's contract claim without further discussion on the
  TPP's language).
\end{itemize}
overruled servicer’s demurrer. The court found that nothing in the TPP itself contradicted the allegation of a binding promise to modify, and treated the TPP as a HAMP TPP, concluding that servicer was obligated to offer a permanent modification after borrowers’ successful TPP completion. The Ninth Circuit recently revived a borrower’s breach of contract claim based on mandatory language in a TPP offer. A federal district court and the California Court of Appeal have also found viable deceit, promissory estoppel, and negligence claims based on a borrower’s proprietary TPP agreement.

Conversely, in a recent California federal district court case, the borrower argued that Corvello’s reasoning applied to her Workout Agreement and Foreclosure Alternative Agreement. But because neither contract contained the mandatory language found in Corvello’s HAMP agreement (servicer “will provide” a modification), the court found Corvello inapposite. A California Superior Court came to a similar conclusion.

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170 Hamidi, No. 34-2010-00070476-CU-OR-GDS (“After reviewing Barroso [citation], the court concludes that [borrower’s] allegations can be construed to state breach of the implied covenant of good faith and fair dealing, as well as breach of contract, notwithstanding the absence of [servicer’s] signature on the Loan Workout Plan.”); see also Natan v. Citimortgage, 2014 WL 4923091, at *2 (C.D. Cal. Oct. 1, 2014) (finding that nothing in Corvello suggests that borrowers must be HAMP eligible to bring contract-related claims based on TPPs – it was the language of the TPP in Corvello that was determinative, not the fact it was a HAMP TPP).

171 Id. If a proprietary TPP does not closely track the HAMP language or framework, courts are more skeptical of contract claims. See Nava v. JP Morgan Chase, 2014 WL 6886071, at *2, n.1 (C.D. Cal. Nov. 25, 2014) (allowing borrower’s contract claim to move passed the pleading stage, but noting it was disinclined to find that servicer owed borrower a permanent modification because the TPP’s language merely stated that borrower’s TPP default “eliminate[d] the opportunity for a final loan modification”).

172 Oskoui v. J.P. Morgan Chase Bank, N.A., 851 F.3d 851, 858–59 (9th Cir. 2017) (whether or not it was intended as a HAMP offer, the TPP agreement stated that the servicer would send the borrower a modification agreement once she completed her trial plan). See also Dominguez v. Nationstar Mortg., LLC, No. 37-2013-00077183-CU-OR-CTL (Cal. Super. Ct. San Diego Cnty. Sept. 19, 2014) (finding that a proprietary modification “offered as a HAMP modification” could be viewed as a HAMP offer).


174 Morgan v. Aurora Loan Servs., LLC, 2014 WL 47939, at *4-5 (C.D. Cal. Jan. 6, 2014), aff’d, 646 F. App’x 546 (9th Cir. 2016). But see Beck, 2015 WL 519052, at *3 (declining to dismiss borrower’s contract claim without further discussion on the
As the above cases illustrate, the enforceability of a non-HAMP trial modification agreement – and whether it promises a permanent modification – will depend on the precise language of that particular agreement. Claims based on permanent proprietary modifications are easier to assert since these agreements contain no condition precedent triggering a servicer obligation, as trial period plans do.176

3. Promissory estoppel claims

Because promissory estoppel claims are exempt from the statute of frauds,177 borrowers often bring them when there is no written modification agreement. To state a claim, borrowers must show not only that the servicer promised a benefit (like postponing the sale,178 not reporting a default to a credit reporting agency,179 or offering a permanent modification180) and went back on that promise, but that

language in her proprietary TPP, noting that Morgan focused on the language in a HAMP TPP compared to the borrower’s FAA and WAG at issue).
175 See Pittell v. Ocwen Loan Servicing, LLC, No. 34-2013-00152086-CU-OR-GDS (Cal. Super. Ct. Sacramento Cnty. July 28, 2014) (distinguishing the proprietary agreement at issue with the situations in West and Corvello in three ways: 1) this borrower made only two of three TPP payments; 2) the TPP dictated that servicer “may” grant borrower a permanent modification upon TPP completion, not “will”; and 3) the proprietary agreement received no outside support from HAMP directives).
179 See, e.g., Cockrell v. Wells Fargo Bank, N.A., 2013 WL 3830048, at *4 (N.D. Cal. July 23, 2013) (finding a valid PE claim where servicer convinced borrower to go into default to qualify for a modification and promised to take no negative actions against borrower for doing so but then reported borrower to credit rating agencies).
180 See, e.g., Beltz v. Wells Fargo Home Mortg., 2017 WL 784910, at *8 (E.D. Cal. Mar. 1, 2017) (specific allegation that servicer promised borrower a modification at a two percent interest rate sufficiently concrete); McNeil v. Wells Fargo Bank, N.A.,
the borrower detrimentally relied on that promise. Some courts require borrowers to demonstrate specific changes in their actions to show reliance,\(^{181}\) while others take for granted that the borrowers would have acted differently absent servicer’s promise.\(^{182}\) If the claim is based  

\(^{181}\) See, e.g., Izsak v. Wells Fargo Bank, N.A., 2014 WL 1478711, at *2 (N.D. Cal. Apr. 14, 2014) (Borrower’s decision to become delinquent, in reliance on servicer’s promise it would not foreclose during modification evaluation, was enough to show detrimental reliance.); Rijhwani v. Wells Fargo Home Mortg., Inc., 2014 WL 890016, at *10-12 (N.D. Cal. Mar. 3, 2014) (Borrowers demonstrated detrimental reliance by not appearing at the actual foreclosure sale due to lack of notice, where they would have placed a “competitive bid.”); Copeland v. Ocwen Loan Servicing, LLC, 2014 WL 304976, at *6 (C.D. Cal. Jan. 3, 2014) (Borrowers demonstrated detrimental reliance by pointing to their signed short sale agreement, which they ultimately rejected in reliance on servicer’s promise that a modification was forthcoming.); Panaszewicz v. GMAC Mortg., LLC, 2013 WL 2252112, at *5 (N.D. Cal. May 22, 2013) (requiring a borrower to show pre-promise “preliminary steps” to address an impending foreclosure and then a post-promise change in their activity); Granadino v. Wells Fargo Bank, N.A., 236 Cal. App. 4th 411 (2015) (borrower may not rely on earlier statement that no sale is scheduled when Wells Fargo specifically told the borrower that sale was going forward); Jones v. Wachovia Bank, 230 Cal. App. 4th 935, 948-49 (2014) (finding that borrowers’ informal, unrealized plans to borrow reinstatement funds from a friend and/or seek a sale postponement insufficient to show detrimental reliance); Aceves v. U.S. Bank, N.A., 192 Cal. App. 4th 218, 222, 229-30 (2011) (finding that foregoing a Chapter 13 bankruptcy case was sufficiently detrimental).  

in a written TPP agreement (sometimes brought in conjunction with a breach of contract claim), the court may count the TPP payments themselves as reliance and injury. Even though a promissory estoppel claim may not, in most cases, be used to overturn a completed sale, if the lender promised to postpone a foreclosure sale, a Section 2924g(c) claim could be used to cancel the sale. This type of claim does not require a borrower to show detrimental reliance.

4. Breach of the covenant of good faith & fair dealing

Every contract contains an implied covenant of good faith and fair dealing, “meaning that neither party will do anything which will injure the right of the other to receive the contract’s benefits.” Advocates have been successful with these claims (sometimes brought alongside breach of contract claims), by asserting that servicers have frustrated borrowers’ realization of the benefits of their TPP or permanent

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184 See Aceves, 192 Cal. App. 4th at 231.

185 A trustee “shall postpone the sale in accordance with . . . [inter alia] . . . mutual agreement, whether oral or in writing, of any trustor and any beneficiary or any mortgagor and any mortgagee. CAL. CIV. CODE § 2924g(c)(1)(C) (2005). See Chan v. Chase Home Fin., 2012 WL 10638457, at *11 (C.D. Cal. June 18, 2012) (holding tender not required under 2924g(c) when servicer foreclosed after agreeing to postpone sale); Aharonoff v. Am. Home Mortg. Servicing, 2012 WL 1925568, at *4 (Cal. Ct. App. May 29, 2012) (allowing a 2924g(c) claim to cancel the sale when Wells Fargo representative conducted trustee sale despite promises to put the sale on hold).

187 See Aharonoff, 2012 WL 1925568 at *4 (allowing CC 2924g claim without requiring (or discussing) detrimental reliance).

modification agreements. Some borrowers have also succeeded on an implied covenant claim based on the deed of trust when the servicer encouraged them to default in order to receive a loan modification but failed to follow through on a modification. This type of claim may also succeed when the servicer interferes with the right to reinstate. Breach of the implied covenant claims based on the Deed of Trust that

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189 See, e.g., Curley v. Wells Fargo & Co., 2014 WL 7336462, at *5 (N.D. Cal. Dec. 23, 2014) (finding a viable good faith claim based on servicer’s failure to permanently modify after borrower complied with the TPP, frustrating borrower’s ability to benefit from the TPP agreement); Silkes v. Select Portfolio Servicing, 2014 WL 6992144, at *5 (Cal. Ct. App. Dec. 11, 2014) (finding a viable claim where servicer refused to accept modified payments and instead tripled borrower’s escrow payment, which was not agreed to in the modification); Blankenchip v. Citimortgage, Inc., 2014 WL 6835688, at *4-5 (E.D. Cal. Dec. 3, 2014) (valid claim where servicer foreclosed during TPP and before deadline to submit additional TPP documents); Henderson v. Ocwen Loan Servicing, 2014 WL 5461955, at *4 (N.D. Cal. Oct. 27, 2014) (servicer improperly refused borrower’s automated modified mortgage payments, lied about returning payments, and failed to correct an improper default.); Lanini v. JP Morgan Chase Bank, 2014 WL 1347365, at *6 (E.D. Cal. Apr. 4, 2014) (valid claim based on servicer offering borrowers a TPP knowing borrower’s property was too valuable to qualify for a permanent mod); Curley v. Wells Fargo & Co., 2014 WL 988618, at *5-8 (N.D. Cal. Mar. 10, 2014) (borrower’s good faith claim based on their TPP agreement survived summary judgment); Fleet v. Bank of Am., 229 Cal. App. 4th 1403, 1409-10 (2014) (allowing borrower’s good faith claim because servicer allegedly foreclosed before borrowers’ third and final TPP payment was due, frustrating borrowers’ ability to realize the benefits of that agreement); Bushell, 220 Cal. App. 4th at 929 (servicer frustrated borrower’s ability to benefit from a successful TPP agreement in finally receiving a permanent modification offer.).


191 See, e.g., Siqueiros v. Fed. Nat’l Mortg. Ass’n, 2014 WL 3015734, at *6-7 (C.D. Cal. June 27, 2014) (viable good faith and fair dealing claim based on servicer’s failure to provide borrower with an accurate reinstatement amount, frustrating her ability to benefit from the DOT by reinstating and avoiding foreclosure).
allege failure to engage in aspects of the loss mitigation process have not fared so well.  

C. Tort Claims

1. Negligence

Until very recently, servicers that mishandled modification applications were immune to negligence claims because, under normal circumstances, a lender does not owe a duty of care to a borrower.  

The decision in *Jolley v. Chase Home Finance, LLC*, was the first published opinion that started to undermine this general rule. The *Jolley* court proposed that the general no-duty rule may be outdated, citing HAMP, SB 1137, and HBOR, as indicative of an evolving public policy toward the creation of a duty. *Jolley* involved a construction loan, not a residential loan, but suggested it may be appropriate to impose a duty of care on banks, encouraging them to negotiate loan modifications with borrowers and to treat borrowers fairly in this process. "Courts should not rely mechanically on the ‘general rule’ that a duty of care does not exist, and the loan modification process itself can create a duty of care relationship."

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192 See, e.g., *Williams v. Wells Fargo Bank, N.A.*, 2017 WL 1374693, at *7-8 (N.D. Cal. Apr. 14, 2017) (granting MSJ because plaintiff failed to identify any provision of the Note or DOT addressing loan modifications or imposing an obligation on the servicer to “refrain from a ‘loan modification runaround’”); *Galang v. Wells Fargo Bank, N.A.*, 2017 WL 1210021, at *5 (N.D. Cal. Apr. 3, 2017) (dismissing claim based on alleged failures to contact borrower prior to foreclosure and allow borrower to review a denial because borrower had not identified any contractual provisions relating to such obligations).

193 See *Nymark v. Heart Fed. Sav. & Loan Ass’n*, 231 Cal. App. 3d 1089, 1096 (1991) ("[A] financial institution owes no duty of care to a borrower when the institution’s involvement in the loan transaction does not exceed the scope of its conventional role as a mere lender of money.").


195 *Id.* at 903; see also, e.g., *Harris v. Bank of Am.*, N.A., 2014 WL 1116356, at *13-14 (C.D. Cal. Mar. 17, 2014) (finding *Jolley* applicable, not distinguishable, because like *Jolley*, this case involved “ongoing loan servicing issues”); *Rowland v. JP Morgan Chase Bank, N.A.*, 2014 WL 992005, at *6-11 (N.D. Cal. Mar. 12, 2014) (denying motion to dismiss negligence claim and finding that the economic loss rule does not bar recovery); *Ware v. Bayview Loan Servicing, LLC*, 2013 WL 6247236, at *9 (S.D. Cal. Oct. 29, 2013) (denying motion to dismiss borrower’s negligence claim because servicer may owe a duty of care to maintain proper records and timely respond to modification applications); *McGarvey v. JP Morgan Chase Bank, N.A.*, 2013 WL 5597148, at *5-7 (E.D. Cal. Oct. 11, 2013) (deeming servicer’s solicitation of plaintiff-
In *Alvarez v. BAC Home Loans Servicing*, 228 Cal. App. 4th 941 (2014), a 2014 published decision, the Court of Appeal advanced this negligence theory further, applying it specifically to residential loans. The court found that even though a servicer is not obligated to initiate the modification process or to offer a modification, once it agrees to engage in that process with the borrower, it owes a duty of care not to mishandle the application or negligently conduct the modification process.\(^{196}\) Though most courts had previously failed to find a duty of care created by engaging in the modification process,\(^ {197}\) *Alvarez* significantly shifted the legal landscape on the negligence issue, and courts are now divided on this issue.\(^ {198}\)

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197 See, e.g., Benson v. Ocwen Loan Servicing, LLC, 562 F. App’x 567, 570 (9th Cir. 2014) (distinguishing *Jolley* as a construction loan case); Ragland v. U.S. Bank Nat’l Ass’n, 209 Cal. App. 4th 182, 207 (2012) (finding no duty because the issue of loan modification falls “within the scope of [servicer’s] conventional role as a lender of money”); cf. Kramer v. Bank of Am., N.A., 2014 WL 1577671, at *9 (E.D. Cal. Apr. 17, 2014) (“The Court recognizes a duty of care during the loan modification process upon a showing of either a promise that a modification would be granted or the successful completion of a trial period.”); Sun v. Wells Fargo, 2014 WL 1245299, at *4 (N.D. Cal. Mar. 25, 2014) (A duty may arise when a TPP or mod is offered, but the “mere engaging” in the modification process is a traditional money lending activity.);

Though *Alvarez* has been the main catalyst of change for negligence claims, the shift began even earlier than *Alvarez*, with the court’s decision in *Lueras v. BAC Home Loan Servicing, LP*, 221 Cal. App. 4th 49 (2013). Though that court declined to follow *Jolley* to find a general duty of care, it allowed borrower to amend her complaint to state a claim for negligent misrepresentation instead of negligence. It held that servicers owe a duty *not to misrepresent* the status of borrower’s loan modification application or of a foreclosure sale. Indeed, some courts had already started to apply this reasoning to negligence claims before *Alvarez* was decided.\(^{199}\)

Borrowers may of course also bring negligence claims outside of, or tangentially related to, the modification process. But there too,
borrowers must usually demonstrate that the servicer owed the borrower a duty of care and breached it.\textsuperscript{200} And though it is technically a rule of evidence, at least two courts have allowed advocates to allege claims under a negligence \textit{per se} theory.\textsuperscript{201}

If the servicer misleads the borrower during the loan modification process, the borrower may state a fraud or misrepresentation claim against the servicer,\textsuperscript{202} and possibly the servicer representatives.\textsuperscript{203} An


\textsuperscript{201} Weber v. PNC Bank, 2015 WL 269473, at *5-6 (E.D. Cal. Jan. 21, 2015) (finding a viable negligence claim based on a negligence \textit{per se} theory because borrowers are members of the class of people meant to be protected by HBOR's dual tracking statutes; and 2) borrowers need not prove servicer owed them a duty of care since the doctrine "borrowers' statutes to prove duty of care."); Leonard v. JP Morgan Chase, No. 34-2014-00105785-CU-OR-GDS (Cal. Super. Ct. Sacramento Cnty. Oct. 21, 2014) (reframing borrower's negligence \textit{per se} claim as a negligence claim and allowing it to survive servicer's demurrer).

\textsuperscript{202} See Khan v. ReconTrust Co., 81 F. Supp. 3d 867, 874-75 (N.D. Cal. 2015) (fraud claim based on completed TPP and servicer's withdrawal of permanent modification offer because it "did not receive" final income verification from borrower); Morris v. Residential Credit Solutions, Inc., 2015 WL 428114, at *5-10 (E.D. Cal. Feb. 2, 2015) (granting PI based on borrowers' fraud claim, which was rooted in servicer's dual tracking activity); Johnson v. Bank of Am., 2015 WL 351210, at *7 (N.D. Cal. Jan. 23, 2015) (Servicer misrepresented to borrower on five occasions that her applications were complete, only to later deny receipt of those applications, or reject the applications themselves due to missing documents.); Curley v. Wells Fargo & Co., 2014 WL 7363462, at *8 (N.D. Cal. Dec. 23, 2014) (Borrower alleged viable fraud claim where servicer falsely misrepresented it would refrain from foreclosing while
intentional wrongful foreclosure may also subject the lender to an intentional infliction of emotional distress claim, though such claims often fail, and borrowers have been more successful alleging emotional distress damages related to other types of claims.
2. Fraud and Negligent Misrepresentation

Claims for fraud or negligent misrepresentation hinge on a material misrepresentation of fact that causes harm to the plaintiff. In the loss mitigation context, this could include a misrepresentation that the servicer has contractual authority to modify the loan, a foreclosure sale has been canceled, that a loan modification application has been deemed complete and is under active review, or that a borrower is qualified for a loan modification and should refrain from taking other steps to cure the default and avoid foreclosure.

Examples of fraud and misrepresentation claims stated include (1) misrepresenting contractual authority for loan modification;\(^{206}\) (2) reneging on promise that the borrower qualified for and will receive loan modification;\(^{207}\) (3) foreclosure will not take place during loan modification review;\(^{208}\) (4) falsely stating that loan modification application was complete.\(^{209}\)

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\(^{208}\) Morris v. Residential Credit Solutions, Inc., 2015 WL 428114, at *5-10 (E.D. Cal. Feb. 2, 2015) (granting PI based on borrowers' fraud claim, which was rooted in servicer's dual tracking activity); Curley v. Wells Fargo & Co., 2014 WL 7336462, at *8 (N.D. Cal. Dec. 23, 2014) (Borrower alleged viable fraud claim where servicer falsely misrepresented it would refrain from foreclosing while borrower was TPP-compliant.); Medrano v. Caliber Home Loans, 2014 WL 7236925, at *9 (C.D. Cal. Dec. 19, 2014) (finding a viable fraudulent misrepresentation claim and rejecting argument that borrower cannot satisfy justifiable reliance without checking county property records for rescission of sale to confirm servicer's misrepresentation that no foreclosure would occur); Blankenchip v. Citimortgage, Inc., 2014 WL 6835688, at *6 (E.D. Cal. Dec. 3, 2014) (denying servicer's MTD borrower's fraud claim where borrowers pled that servicer never intended to permanently modify their mortgage and simply “lured” them into the TPP to extract more money, citing servicer's foreclosure before the deadline for filing additional documents expired.); Copeland v. Ocwen Loan Servicing, LLC, 2014 WL 304976, at *5-6 (C.D. Cal. Jan. 3, 2014) (allowing fraud when NTS was served on the borrower even though a SPOC told the borrower no action will be taken in 60 days); Fleet v. Bank of Am., 229 Cal. App. 4th 1403, 1410 (2014) (finding a valid promissory fraud claim based on servicer's grant of a TPP and promise not to foreclose, and borrowers' reliance on that promise and
If the servicer misleads the borrower during the loan modification process, the borrower may state a fraud or misrepresentation claim against the servicer, and possibly the servicer representatives. An intentionally wrongful foreclosure may also subject the lender to an intentional infliction of emotional distress claim, though borrowers have been somewhat more successful in alleging emotional distress damages related to other types of claims.

agreement in making the payments and improving the property); West v. JP Morgan Chase Bank, 214 Cal. App. 4th 780, 793-94 (2013) (same).


210 See Khan v. ReconTrust Co., 81 F. Supp. 3d 867, 874-75 (N.D. Cal. 2015) (fraud claim based on completed TPP and servicer’s withdrawal of permanent modification offer because it “did not receive” final income verification from borrower); Morris v. Residential Credit Solutions, Inc., 2015 WL 428114, at *5-10 (E.D. Cal. Feb. 2, 2015) (granting PI based on borrowers’ fraud claim, which was rooted in servicer’s dual tracking activity); Johnson v. Bank of Am., 2015 WL 351210, at *7 (N.D. Cal. Jan. 23, 2015) (Servicer misrepresented to borrower on five occasions that her applications were complete, only to later deny receipt of those applications, or reject the applications themselves due to missing documents.); Curley v. Wells Fargo & Co., 2014 WL 736462, at *8 (N.D. Cal. Dec. 23, 2014) (Borrower alleged viable fraud claim where servicer falsely misrepresented it would refrain from foreclosing while borrower was TPP-compliant.); Medrano v. Caliber Home Loans, 2014 WL 7236925, at *9 (C.D. Cal. Dec. 19, 2014) (finding borrower was not required to double-check county property records to confirm servicer’s misrepresentation that no foreclosure would occur, and a viable fraudulent misrepresentation claim); Blankenchip v. Citimortgage, Inc., 2014 WL 6835688, at *6 (E.D. Cal. Dec. 3, 2014) (denying servicer’s MTD fraud claim where borrowers pled that servicer never intended to permanently modify their mortgage and simply “lured” them into the TPP to extract more money); Fleet v. Bank of Am., 229 Cal. App. 4th 1403, 1410 (2014) (finding a valid promissory fraud claim based on servicer’s grant of a TPP and promise not to foreclose, and borrowers’ reliance on that promise and agreement in making the payments and improving the property); Rufini v. CitiMortgage, Inc., 227 Cal. App. 4th 299, 308-09 (2014) (valid negligent misrepresentation claim based on servicer’s falsely assuring borrowers they qualified for a modification while simultaneously foreclosing); Bushell v. JP Morgan Chase Bank, N.A., 220 Cal. App. 4th 915, 930-31 (2013) (valid fraud claim based on TPP and servicer’s false promise to permanently modify); West v. JP Morgan Chase Bank, 214 Cal. App. 4th 780, 793-94 (2013) (same). But see Fairbanks v. Bank of Am., N.A., 2014 WL 954264, at *2-3 (Cal. Ct. App. Mar. 12, 2014) (distinguishing West as applying to a written TPP agreement, and finding borrowers here failed to allege their fraud claim, based on a verbal TPP, with specificity).

211 See, e.g., Copeland v. Ocwen Loan Servicing, LLC, 2014 WL 304976, at *5-6 (C.D. Cal. Jan. 3, 2014) (allowing borrower to impose fraud liability on a SPOC); Fleet, 229 Cal. App. 4th at 1411-12 (borrowers successfully alleged a fraud claim against servicer representatives who assured borrowers their TPP payments were received and credited, and that a foreclosure sale would not occur).

212 See Smith v. JP Morgan Chase, 2014 WL 6886030, at *4 (C.D. Cal. Nov. 26, 2014) (IIED claim upheld where servicer treated account as delinquent when borrower was
The complaint also must provide factual support for the assertion that statements at issue were misrepresentations of fact, rather than merely concluding that the representations were false.\textsuperscript{214}

Another difficult element of these claims is showing that the plaintiff justifiably relied on the misrepresentations. Justifiable reliance may be refuted if the lender can point to evidence that should have aroused suspicion or disbelief in the plaintiff regarding the accuracy of the misrepresentations.\textsuperscript{215} For example, one court found a lack of justifiable reliance on statements that a borrower’s loan was “in underwriting” and “under review” and that a foreclosure would not proceed where the complaint also contained allegations that the application had been denied prior to foreclosure, the file was closed, and the plaintiff had “actual knowledge” of the scheduled foreclosure sale. The court found that these alleged facts rendered it unjustifiable for plaintiff to forego taking the actions “she deemed necessary to avoid the foreclosure sale” because the plaintiff “was on notice of problems to frustrate the notion of her justifiable reliance.”\textsuperscript{216}

Finally, another challenge to these types of claims is the heightened pleading standard to state fraud claims, at least in federal court. Recall that these claims must be pled with particularity, not just plausibility. One example of this is that in a fraud claim against a corporation, a plaintiff must “allege the names of the persons who made the allegedly fraudulent representations, their authority to speak, to whom they spoke, what they said or wrote, and when it was current on her mortgage, continued with foreclosure after admitting its error, and then forced borrower to pay $20,000 she did not owe to stop the wrongful foreclosure); Ragland v. U.S. Bank Nat’l Ass’n, 209 Cal. App. 4th 182, 203-05 (2012).\textsuperscript{213} See, e.g., Izsak v. Wells Fargo Bank, N.A., 2014 WL 1478711, at *4 (N.D. Cal. Apr. 14, 2014) (allowing borrower’s promissory estoppel claim, which alleged severe emotional distress as part of her damages, to survive servicer’s motion to dismiss); Rowland v. JP Morgan Chase Bank, N.A., 2014 WL 992005, at *9 (N.D. Cal. Mar. 12, 2014) (allowing borrower to claim emotional distress damages related to her negligence claim, invoking an exception to the economic loss doctrine); Barber v. CitiMortgage, 2014 WL 321934, at *4 (C.D. Cal. Jan. 2, 2014) (allowing borrower to allege emotional distress as part of her damages to her breach of contract claim); Goodman v. Wells Fargo Bank, N.A., 2014 WL 334222, at *3 (Cal. Ct. App. Jan. 30, 2014) (same).\textsuperscript{214}

\textsuperscript{214} Khan v. CitiMortgage Inc., 975 F. Supp. 2d 1127, 1141 (E.D. Cal. 2013).

\textsuperscript{215} Id.

\textsuperscript{216} Id.
said or written.” California state courts, on the other hand, have allowed plaintiffs to proceed without specific details if the information is in the possession of the servicer.  

### 3. Intentional Infliction of Emotional Distress

A claim for intentional infliction of emotional distress (IIED) can be difficult to plead, as it requires some pretty extreme facts. The elements of the tort of intentional infliction of emotional distress are:

1. **[E]xtreme and outrageous conduct by the defendant with the intention of causing, or reckless disregard of the probability of causing, emotional distress;**
2. **the plaintiff's suffering severe or extreme emotional distress;**
3. **and actual and proximate causation of the emotional distress by the defendant's outrageous conduct.** Conduct to be outrageous must be so extreme as to exceed all bounds of that usually tolerated in a civilized community.

A number of California courts have held that the act of foreclosing on a home (absent other circumstances) is not the kind of extreme conduct that supports an intentional infliction of emotional distress claim.  

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218 See Miles v. Deutsche Bank Nat'l Tr. Co., 236 Cal. App. 4th 394 (2015) (explaining that “in an era of electronic signing, it is often unrealistic to expect plaintiffs to know the who-and-the-what authority when mortgage servicers themselves may not actually know the who-and-the-what authority”); West v. JP Morgan Chase Bank, N.A., 214 Cal. App. 4th 780, 793 (2013) (holding that “identification of the Chase Bank employees who spoke with West on those dates is or should be within Chase Bank's knowledge”); Boschma v. Home Loan Center, Inc. 198 Cal. App. 4th 230, 248 (2011) (“While the precise identities of the employees responsible ... are not specified in the loan instrument, defendants possess the superior knowledge of who was responsible for crafting these loan documents.”).
220 See Mendaros v. JPMorgan Chase Bank, Nat'l Ass'n, 2017 WL 2352143, at *7 (N.D. Cal. May 31, 2017) (allegations of wrongful foreclosure are insufficient to constitute ‘outrageous conduct’); Harvey G. Ottovich Revocable Living Trust Dated May 12, 2006 v. Wash. Mut., Inc., 2010 WL 3769459 (N.D. Cal. Sept. 22, 2010); Mehta v. Wells Fargo Bank, N.A., 737 F. Supp. 2d 1185, 1204 (S.D. Cal. 2010) (“The fact that one of Defendant Wells Fargo's employees allegedly stated that the sale would not occur but the house was sold anyway is not outrageous as that word is used in this context”).
Without other aggravating circumstances showing outrageousness, an intentional infliction of emotional distress claim will fail. However, the court in Ragland found that an intentional, unlawful foreclosure conducted in bad faith could be outrageous enough to sustain a claim for IIED. Post-foreclosure lockouts may also serve as a basis for an IIED claim.

D. UCL Claims

California’s Unfair Competition Law (UCL) provides another opportunity for borrowers to obtain restitution or to stop or postpone a foreclosure if they can show the servicer engaged in an unlawful, unfair, or fraudulent practice.

Unlawful prong claims are based on a violation of an underlying statute, but may be brought regardless of whether that underlying statute provides a private right of action. An “unlawful” UCL claim may also be based on statutory violations with a private right of

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222 Ragland v. U.S. Bank Nat. Ass’n, 209 Cal. App. 4th 182, 204-05 (2012) (comparing an unlawful foreclosure to the deliberate, unlawful eviction that supported a claim for IIED in Spinks v. Equity Residential Briarwood Apartments, 171 Cal. App. 4th 1004, 1045 (2009)); see also Smith v. JP Morgan Chase, 2014 WL 6886030, at *4 (C.D. Cal. Nov. 26, 2014) (IIED claim upheld where servicer put borrower into default though she was current on her mortgage, continued with foreclosure after admitting its error, and then forced borrower to pay $20,000 she did not owe to stop the wrongful foreclosure); Rowen v. Bank of Am., N.A., 2013 WL 1182947 (C.D. Cal. Mar. 18, 2013) (allowing IIED claim when servicer conducted foreclosure after admitting mistake with account that led to the default and then proceeded to assure the borrower that she was not in default).
224 CAL. BUS. & PROF. CODE § 17203 (2004). For a full explanation of UCL claims and available remedies in the foreclosure context, see CEB, supra note 29, § 12.27.
225 See CAL. BUS. & PROF. CODE § 17200 (2012). Conduct can be unlawful, or unfair, or fraudulent to be liable under the UCL. See West v. JP Morgan Chase Bank, 214 Cal. App. 4th 780, 805 (2013) (The statute was written “in the disjunctive . . . establish[ing] three varieties of unfair competition . . . ”).
action, and even common law causes of action. In addition, because UCL’s remedies are cumulative to existing remedies, an unlawful prong claim might provide injunctive relief for HBOR violations even after the trustee’s deed is recorded. Such post-sale relief is unavailable under HBOR’s statutory remedies. Additionally, advocates should be able to use the UCL to enforce the RESPA servicing rules that became effective January 10, 2014, to obtain pre-sale injunctive relief.

The unfair prong of the UCL makes unlawful practices that violate legislatively stated public policy, even if the practice is not technically prohibited by statute. It also prohibits practices that are “immoral, unethical, [or] oppressive.” For example, even though HBOR did not become effective until 2013, courts have held pre-2013

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229 See CAL. BUS. & PROF. CODE § 17205 (2012) (UCL remedies cumulative to those provided under existing law); CAL. CIV. CODE §§ 2924.12(h), 2924.19(g) (2013) (HBOR remedies are cumulative). The UCL would not, however, provide relief if the servicer corrected its HBOR violation before the deed was recorded. See, e.g., Jent v. N. Tr. Corp., 2014 WL 172542, at *5 (E.D. Cal. Jan. 15, 2014) (HBOR’s “safe harbor” provision, relieving servicers from HBOR liability if they correct their errors before a trustee’s deed upon sale is recorded, was fulfilled here, extinguishing the derivative UCL “unlawful” claim.).


231 See supra section I.D.


dual tracking unfair under the UCL. A borrower may also bring an “unfair” claim by alleging that a servicer’s conduct or statement was misleading. A servicer’s failure to honor a prior servicer’s loan modification after servicing transfer can also be an unfair practice.

The fraudulent prong of the UCL prohibits fraudulent practices that are likely to deceive the public. For example, courts have allowed UCL fraudulent claims against banks that offered TPPs that did not comply with HAMP guidelines, that induced borrowers to make TPP payments by promising permanent modifications and then

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234 See Ware v. Bayview Loan Servicing, LLC, 2013 WL 6247236, at *6-7 (S.D. Cal. Oct. 29, 2013) (finding a valid “unfair” UCL claim based on borrower’s 2010 loan modification application and servicer’s 2013 foreclosure activity); Cabrera v. Countrywide Fin., 2012 WL 5372116, at *7 (N.D. Cal. Oct. 30, 2012) (upholding borrower’s unfair prong claim because, “although the public policy was not codified until 2012, it certainly existed in 2011 as part the general public policy against foreclosures that were occurring without giving homeowners adequate opportunities to correct their deficiencies”); Majd v. Bank of Am., 243 Cal. App. 4th 1293, 1302-04 (2015); Jolley v. Chase Home Fin., LLC., 213 Cal. App. 4th 872, 907-08 (2012) (“[W]hile dual tracking may not have been forbidden by statute at the time, the new legislation and its legislative history may still contribute to its being considered ‘unfair’ for purposes of the UCL.”).

235 See, e.g., Zuniga v. Bank of America, N.A., 2014 WL 7156403, at *8 (C.D. Cal. Dec. 9, 2014) (adopting a three-factor test and finding servicer’s verbal offer of a modification and subsequent foreclosure unfair because: 1) loss of property and loss of an opportunity to modify constitutes substantial injury; 2) dual tracking practices contribute nothing positive to consumers or to competition; and 3) other reasonable consumers could not have avoided being dual tracked in this situation, regardless of borrower’s responsibility for her default); Perez, 2014 WL 2609656, at *9 (finding servicer’s misrepresentations and possible concealment of borrower’s application status led to a deliberately drawn-out and unsuccessful modification process, resulting in harm to the borrower that outweighed the utility of servicer’s actions); Canas v. Citimortgage, Inc., 2013 WL 3353877, at *5-6 (C.D. Cal. July 2, 2013) (Servicer’s promise of a permanent modification was misleading because after inducing the borrower to make TPP payments, no modification was forthcoming.); Majd v. Bank of Am., 243 Cal. App. 4th 1293, 1304 (2015) (UCL claim stated when servicer “false asserted plaintiff had failed to provide the required documentation” that the servicer requested.); Luera v. Bank of Am., 221 Cal. App. 4th 49, 84 (2013) (UCL claim stated when servicer “[f]alsely representing that ... [plaintiff] did not qualify for HAMP modification when, in fact ... [plaintiff] did qualify for a HAMP modification.”). See Lewis v. Bank of Am., N.A., 2013 WL 7118066, at *3 (C.D. Cal. Dec. 18, 2013).


not offering them, and that misrepresented their fee posting method and misapplied service charges to mortgage accounts. One court even found a lender’s pursuit of foreclosure without any apparent authority to foreclose a business practice likely to deceive the public and a valid fraudulent-prong UCL claim.

Because of Proposition 64, a borrower bringing a UCL claim must show: (1) lost money or property that is (2) directly caused by the unfair competition. Courts have found the initiation of foreclosure proceedings to constitute lost property interest but have demanded that the loss be directly caused by the wrongful conduct, not simply

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239 Oskoui v. J.P. Morgan Chase Bank, N.A., 851 F.3d 851, 857 (9th Cir. 2017) (inducing borrower to make trial plan payments when she was not eligible for a modification meets “fraudulent” and “unfair” prongs of the UCL); McGarvey v. JP Morgan Chase Bank, N.A., 2013 WL 5597148, at *9-10 (E.D. Cal. Oct. 11, 2013) (finding that “a reasonable consumer” would be confused by servicer’s offering of a TPP agreement and then failure to modify because plaintiff was not “borrower” on DOT); Gaudin v. Saxon Mortg. Servs., Inc., 297 F.R.D. 417 (N.D. Cal. 2013) (Servicer’s systemic practice of denying modifications based on certain criteria, after a borrower complied with a TPP, could deceive the public.); Canas, 2013 WL 3353877, at *6 (“[M]embers of the public would likely be deceived by Defendant’s assurances concerning a permanent loan modification.”).


244 See Nava v. JP Morgan Chase, 2014 WL 6886071, at *3 (C.D. Cal. Nov. 25, 2014) (finding servicer’s TPP, and its failure to comply with it, directly led to borrower’s injury); Roche v. Bank of Am., Nat’l Ass’n, 2013 WL 3450016, at *9 (S.D. Cal. July 9, 2013) (denying servicer’s motion to dismiss borrower’s UCL claim because borrower was able to show that servicer’s conduct interfered with borrower’s attempt to “bring his payments back to status quo”); Pestana, 2014 WL 2616840, at *5-7 (finding
the borrower’s monetary default or other actions. Courts have accepted and rejected other sources of economic loss, but there does not appear to be a consistent pattern in this regard.

servicer’s inducement of borrower to become delinquent directly led to late fees and penalties associated with missed mortgage payments and adequate UCL standing); cf. Peterson v. Wells Fargo Bank, N.A., 2014 WL 3418870, at *7 (N.D. Cal. July 11, 2014) (finding borrowers may allege “causation more generally” at the pleading stage and plead property improvements as damages caused by servicer’s false assurances a modification would be forthcoming); Boessenecker v. JP Morgan Chase Bank, 2013 WL 3856242, at *3 (N.D. Cal. July 24, 2013) (giving UCL standing to a borrower based on servicer providing them with inaccurate loan information, preventing them from refinancing their mortgage with favorable interest rates).

245 See Hernandez v. Specialized Loan Servicing, 2015 WL 350223, at *8 (C.D. Cal. Jan. 22, 2015) (finding borrower’s growing loan and clouded title were directly caused by borrower’s default, absent an allegation that servicer instructed borrower to become delinquent on her mortgage); Rahbarian v. JP Morgan Chase, 2014 WL 5823103, at *10-11 (E.D. Cal. Nov. 10, 2014) (imminent sale was caused by borrower’s default, not servicer’s actions); Sholiay v. Fed. Nat’l Mortg. Ass’n, 2013 WL 3773896, at *7 (E.D. Cal. July 17, 2013) (refusing the borrower standing because he could not show how he could have prevented the foreclosure sale without a modification that servicer was not obligated to provide); Luera v. BAC Home Loan Servicing, LP, 221 Cal. App. 4th 49, 83 (2013) (Foreclosure sale constituted economic injury, but borrowers failed to allege sale was caused by something other than their default. The court granted leave to amend to allege servicer’s misrepresentations led to unexpected sale.); Jenkins v. JP Morgan Chase Bank, N.A., 216 Cal. App. 4th 497, 520-23 (2013) (finding a “diminishment of a future property interest” sufficient economic injury and yet finding no standing because the foreclosure stemmed from debtor’s default, not because of alleged wrongful practices); see also Segura v. Wells Fargo Bank, N.A., 2014 WL 4798890, at *8-9 (C.D. Cal. Sept. 26, 2014) (distinguishing between damage caused by borrowers’ default and damage caused by servicer’s mishandling of borrowers’ modification application, the latter of which formed the basis for UCL standing because it affected borrowers’ property interest and/or their ability to lower their mortgage payments).

246 See, e.g., Johnson v. PNC Mortg., 2014 WL 6629585, at *8 (N.D. Cal. Nov. 21, 2014) (Borrowers failed to allege UCL standing where their rejection of servicer’s original modification offer—not servicer’s SPOC violations—led to borrower’s acceptance of a financially worse loss mitigation plan.).

247 See, e.g., Johnson v. PNC Mortgage, 80 F. Supp. 3d 980, 988-89 (N.D. Cal. 2015) (accepting borrower’s assertion that inflated modified payments—due to servicer’s use of an improper income figure in calculating their modification—constituted an economic injury); Esquivel v. Bank of Am., N.A., 2013 WL 5781679, at *4-5 (E.D. Cal. Oct. 25, 2013) (Servicer’s failure to honor an FHA-HAMP modification agreement led to borrower’s needless acceptance of a second HUD lien on their home and incorrect credit reporting, leading directly to economic damages.).

248 See, e.g., Hernandez v. Specialized Loan Servicing, 2015 WL 350223, at *8 (C.D. Cal. Jan. 22, 2015) (damaged credit and time/resources spent applying for modifications do not constitute economic damages for UCL standing); Bullwinkle v. U.S. Bank, N.A., 2013 WL 5718451, at *2 (N.D. Cal. Oct. 21, 2013) (Loan payments paid to the “wrong” entity were nevertheless owed to the “correct” entity, so borrower was “not actually . . . deprived of any money;” legal fees are not considered a loss for
E. ECOA Notice Claims

Borrowers have brought claims under the Equal Credit Opportunity Act (ECOA), alleging servicers: (1) failed to provide a timely written notice that borrowers were denied a loan modification; or (2) failed to provide a sufficient statement of reasons for taking adverse action. If the borrower submits a complete application, servicers must give the borrower a written denial within 30 days regardless of borrower’s membership in a protected class. Several courts have ruled that the notice requirement applies regardless of borrower’s default status, but recent cases have generally agreed that a borrower in default is not entitled to a written denial within 39 days. To bring an adverse action claim, borrowers must also demonstrate they were current on their mortgage, but courts have

purposes of UCL standing; a ruined credit score does not grant UCL standing.); Gerbery v. Wells Fargo Bank, N.A., 2013 WL 3946065, *7 (S.D. Cal. July 31, 2013) (rejecting the risk of foreclosure, forgone opportunities to refinance, and attorney and expert fees as bases for UCL standing); Lueras, 221 Cal. App. 4th at 81-83 (Time and effort spent collecting modification documentation is de minimis effort and insufficient for UCL standing.).

249 15 U.S.C.A. § 1691(d)(1)-(2) (West 2013) (“Within thirty days . . . after receipt of a completed application for credit, a creditor shall notify the applicant of its action on the application,” and “[e]ach applicant against whom adverse action is taken shall be entitled to a statement of reasons for such action from the creditor.”).


254 See Rockridge Tr. v. Wells Fargo Bank, N.A., 985 F. Supp. 2d 1110, 1139-41 (N.D. Cal. 2013) (denying a modification while the borrower is in default is not an “adverse
differed on whether the borrower must be current at the time of application or at the time of denial.255

F. Liability after Servicing Transfer

If a transferee servicer refuses to honor a loan modification agreement the borrower has with the previous servicer, courts have allowed the borrower to hold the current servicer liable.256 Even if the

255 Compare Davis v. CitiMortgage, Inc., 2011 WL 891209, at *2-3 (E.D. Mich. Mar. 11, 2011) (dismissing an ECOA claim because the borrower was not current on the original mortgage when her permanent modification was denied, even though she made all TPP payments and was current at time of application), with Murfitt v. Bank of Am., N.A., 2013 WL 7098636, at *6 (C.D. Cal. Oct. 22, 2013) ( borrower stated an ECOA claim when the borrower was current when applying for loan modification);

borrower only entered into a TPP with the original servicer, courts have found liability so long as the borrowers have complied with the terms of the TPP.257

III. Litigation Issues

A. Obtaining Injunctive Relief

Because HBOR’s enforcement provisions do not allow borrowers to undo completed foreclosure sales, it is critical to seek preliminary injunctive relief before the sale occurs. Under HBOR, borrowers may obtain injunctive relief to stop an impending sale,258 but a borrower may only recover actual economic damages post-sale.259

257 Geake v. JP Morgan Chase Bank, N.A., 2015 WL 331104, at *7-9 (C.D. Cal. Jan. 23, 2015) (holding that by complying with a TPP agreement made with his original servicer, the borrower has pled a viable breach of contract claim against the new servicer); see also Tirabassi v. Chase Home Fin., LLC, 2015 WL 1402016, at *4-6 (C.D. Cal. Mar. 24, 2015) (holding the borrower has sufficiently alleged equitable estoppel to preclude the servicers’ reliance on the statute of frauds defense for the borrower’s breach of implied contract claims); Mendonca v. Caliber Home Loan, Inc., 2015 WL 1566847, at *1 (C.D. Cal. Apr. 6, 2015) (denying the new servicer’s motion for summary judgment when the servicer refused to acknowledge the existence of the TPP agreement between borrower and the original servicer); cf. Lansburg v. Fed. Home Loan Mortg. Corp., 607 F. App’x 738, 738 (9th Cir. 2015) (remanding to district court to determine whether new servicer is contractually obligated to offer a permanent loan modification if the borrower complies with the terms of a TPP entered into with the original servicer).

258 Shupe v. Nationstar Mortg. LLC, 2017 WL 431083, at *3 (E.D. Cal. Jan. 31, 2017) (finding that injunctive relief was not available because there was no foreclosure sale scheduled and most recent Notice of Trustee’s Sale had been rescinded).

259 See CAL. CIV. CODE §§ 2924.12 & 2924.19 (2013) (describing relief available against large and small servicers, respectively). Each statute provides for treble actual damages or $50,000 in statutory damages if borrower can show servicer’s conduct was willful. Id; Cornejo v. Ocwen Loan Servicing, LLC, No. 1:15-cv-00993 (E.D. Cal. Oct. 21, 2016) (awarding $39,642 in economic damages); see also Banks v. JP Morgan Chase, 2014 WL 6476139, at *9 (C.D. Cal. Nov. 19, 2014) (rejecting servicer’s MTD borrower’s SPOC and CC 2924.10 claims for failure to allege actual economic damages where borrower alleged the violations were intentional and could recover statutory damages). However, at least one court has recognized that a borrower may be able to bring an equitable wrongful foreclosure claim based on dual tracking violations after the foreclosure sale but before the trustee’s deed is recorded. See Bingham v. Ocwen Loan Servicing, LLC, 2014 WL 1494005, at *6-7 (N.D. Cal. Apr. 16, 2014). The Bingham court seemed unclear on what type of relief should be available, but acknowledged that some type of relief should be available to borrowers in this situation.
A borrower only needs to meet a low bar to obtain a TRO in state court in order to determine whether there is sufficient evidence to support a temporary order to maintain the status quo. To obtain a preliminary injunction in state court, a borrower must show (1) a likelihood of prevailing on the merits and (2) that she will be more harmed by the sale than the servicer will be by postponing the sale.

In the Ninth Circuit, plaintiffs must show only “serious questions going to the merits[,] . . . [that] the balance of hardships tips sharply in [their] favor,” that they will suffer irreparable harm, and that the injunction is in the public interest. In federal court, an identical standard governs the issuance of a temporary restraining order. In both state and federal court, the loss of one’s home is considered irreparable harm.

Both state and federal courts have enjoined pending foreclosure sales when the servicer violated HBOR. Courts have also granted preliminary injunctions in non-HBOR cases.

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260 Landmark Holding Group v. Super. Ct., 193 Cal. App. 3d 525, 528 (1987) (“All that is determined is whether the TRO is necessary to maintain the status quo pending the noticed hearing on the application for preliminary injunction.”).

261 White v. Davis, 30 Cal. 4th 528, 554 (2003).

262 Alliance for the Wild Rockies v. Cottrell, 632 F.3d 1127, 1135 (9th Cir. 2011). Generally, federal courts have held that delaying a foreclosure sale, to enable borrowers to bring valid HBOR claims, is in the public interest. See Shaw v. Specialized Loan Servicing, LLC, 2014 WL 3362359, at *8 (C.D. Cal. July 9, 2014) (The public interest is served by allowing homeowners “the opportunity to pursue what appear to be valid claims before they are evicted from their homes.”).

263 See Stuhlbarg Int’l Sales Co. v. John D. Brush & Co., 240 F.3d 832, 839 n.7 (9th Cir. 2001).

264 CAL. CIV. CODE § 3387 (2012); Sundance Land Corp. v. Cmty. First Fed. Sav. & Loan Ass’n, 840 F.2d 653, 661 (9th Cir. 1988). The harm, however, must also be “likely and immediate,” which some courts have found not the case where a servicer postpones a foreclosure sale to review borrowers for a loan modification. See, e.g., Cooksey v. Select Portfolio Servicing, Inc., 2014 WL 4662015, at *8-9 (E.D. Cal. Sept. 17, 2014) (denying borrowers’ motion for a preliminary injunction).

B. Bona Fide Purchasers

When a bona fide purchaser (BFP) buys a property at trustee sale, the recitals in the trustee deed become conclusive, and it can be very difficult to set aside a foreclosure sale. However, if the challenge to the foreclosure goes to the authority to foreclose, or if the sale was void, then even a sale to a BFP may be overturned. In one post-foreclosure case, the court issued a preliminary injunction against enforcement of the writ of possession, and in an HBOR case, the court granted a TRO to prevent servicer from selling the home to a BFP.

C. Tender & Bond Requirements

See generally discussion supra section I.


See CAL. CIV. CODE § 2924(c).


Nguyen v. Trojan Capital Improvements, 2015 WL 268919, at *3 (C.D. Cal. Jan. 16, 2015) (Servicer sold the home without notice to borrower after removing the case to federal court, which dissolved the existing TRO. The federal district court granted a new TRO, finding that borrower will “be permanently denied an opportunity to determine whether his rights were violated, and whether he is entitled to obtain a loan modification” if the home was sold to a BFP.).
To set aside a foreclosure sale, a borrower must generally “tender” (offer and be able to pay) the amount due on their loan.\(^{271}\) This is especially true when the challenge is premised on a procedural defect in the foreclosure notices.\(^{272}\) However, tender is not required if it would be inequitable.\(^{273}\) In addition, courts have excused the tender requirement when (1) the sale is void (e.g., the trustee conducted the sale without legal authority);\(^{274}\) (2) if the loan was reinstated;\(^{275}\) (3) if the borrower was current on their loan modification;\(^{276}\) (4) if the

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\(^{273}\) See, e.g., Bingham v. Ocwen Loan Servicing, LLC, 2014 WL 1494005, at *6-7 (N.D. Cal. Apr. 16, 2014) (finding tender inequitable where it was unclear if injunctive relief or damages were available to borrowers); Moya v. CitiMortgage, Inc., 2014 WL 1344677, at *5 (S.D. Cal. Mar. 28, 2014) (finding tender inequitable where servicer accepted borrower's TPP payments and foreclosed anyway); Humboldt Sav. Bank v. McCleverty, 161 Cal. 285, 291 (1911); Fonteno v. Wells Fargo Bank, 228 Cal. App. 4th 1358, 1368-69 (2014) (finding it would be inequitable to require tender where the circumstances being litigated—servicer’s failure to comply with HUD’s rules governing FHA loans—show that borrowers were unable to tender the amount due on their loan); Lona, 202 Cal. App. 4th at 113 (outlining all the reasons for not requiring tender, including when it would be unfair to the borrower).


\(^{276}\) Blankenchip v. Citimortgage, Inc., 2014 WL 6835688, at *7 (E.D. Cal. Dec. 3, 2014) (Borrowers were TPP-compliant when servicer foreclosed.); Harris v. Bank of Am., N.A., 2014 WL 1116356, at *7 (C.D. Cal. Mar. 17, 2014) (Borrowers were compliant with their permanent loan modification agreement when servicer
borrower is challenging the validity of the underlying debt; and (5) if the sale has not yet occurred.

Courts have also been reluctant to require tender for statutory causes of action. In *Mabry v. Superior Court*, the court considered tender in a claim under former Civil Code Section 2923.5. The Legislature, the court reasoned, intended borrowers to enforce those outreach requirements, and requiring tender would financially bar many claims. Several federal and state courts have rejected servicers’ tender arguments in HBOR cases. More recently in

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279 Mabry v. Superior Court, 185 Cal. App. 4th 208, 213 (2010). HBOR amended the previous § 2923.5 and bifurcated it to apply to large and small servicers. See CAL. CIV. CODE §§ 2923.55 and 2923.5 (2013), respectively, and section I.A.

280 See *Mabry*, 185 Cal. App. 4th at 210-13 (“[I]t would defeat the purpose of the statute to require the borrower to tender the full amount of the indebtedness prior to any enforcement of the right to . . . be contacted prior to the notice of default.” (emphasis in original)). Tender was also inequitable here because borrowers sought to postpone, not to completely avoid, a foreclosure sale. *Id.* at 232.

Valbuena v. Ocwen Loan Servicing, the California Court of Appeal held that tender is not required to state a HBOR dual tracking claim.\textsuperscript{282}

Advocates moving for TROs or preliminary injunctions should prepare for disputes over the amount of bond. In the foreclosure context, the bond amount is discretionary\textsuperscript{283} and can be waived for indigent plaintiffs.\textsuperscript{284} Courts consider a variety of factors in determining bond amounts. Some use fair market rent of comparable property,\textsuperscript{285} the prior mortgage payment,\textsuperscript{286} the modified mortgage payment,\textsuperscript{287} or the amount of foreseeable damages incurred by a bank

\begin{footnotesize}
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  \item See Fed.R.Civ.P. 65(c) (“The court may issue a preliminary injunction or a temporary restraining order only if the movant gives security \textit{in an amount that the court considers proper . . .}” (emphasis added)); Cal. Civ. Proc. Code § 529(a) (1994) (leaving the undertaking amount up to the court).
  \item See Mazed v. JP Morgan Chase Bank, 471 F. App’x 754, 755 (9th Cir. 2012) (District court did not abuse its discretion by setting the bond at borrower’s modified mortgage payment.); Shaw v. Specialized Loan Servicing, LLC, 2014 WL 3362359, at *9 (C.D. Cal. July 9, 2014) (setting bond at borrower’s first, pre-HBOR modified loan
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in delaying a foreclosure sale.\textsuperscript{288} Others have deemed the deed of trust sufficient security and chose not to impose a separate, monetary bond.\textsuperscript{289} Some courts set extremely low, one-time bonds.\textsuperscript{290} Advocates


arguing against a bond should reassure the court that the bank’s interests are preserved in the deed of trust and unharmed by a mere postponement of foreclosure. In any event, the court should not set the bond at the unpaid amount of the loan or the entire amount of arrearages.

**D. Judicial Notice**

During litigation over whether the servicer complied with former Section 2923.5, servicers often request judicial notice of the NOD declaration to demonstrate compliance with the statute’s contact and due diligence requirements. Most courts have declined to grant judicial notice of the truth of the declaration and limited judicial notice to only the declaration’s existence and legal effect. Courts are more inclined to take judicial notice if the truth of the declaration’s contents is undisputed.

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292 See Bever v. Cal-Western Reconveyance Corp., 2013 WL 5493422, at *5 (E.D. Cal. Oct. 2, 2013) (rejecting servicer’s request for the full amount due on the loan as “tantamount to requiring tender” and “excessive”); Flaherty, 2013 WL 29392, at *8 (finding the total amount of arrearages an inappropriate gauge of a bank’s foreseeable damages).

293 Servicers must declare that they have contacted the borrower to discuss foreclosure alternatives, or that they fulfilled due diligence requirements. CAL. CIV. CODE §§ 2923.5(b), 2923.55(c) (2013) (applying to small and large servicers, respectively). See discussion supra, section I.A.


E. Attorney’s Fees

Prior to HBOR’s enactment, loan documents were the only avenue to attorney’s fees.296 Now, HBOR statutes explicitly allow for attorney’s fees, even if the borrower obtained only injunctive relief.297 Until the Monterossa decision by the Court of Appeal in 2015, advocates had mixed success convincing courts that “injunctive relief” includes TROs and preliminary injunctions, as opposed to permanent injunctions.298 Monterossa dramatically shifted the fee recovery legal landscape by holding attorney’s fees available to the borrower after obtaining a preliminary injunction.299 After Monterossa, at least one court has awarded attorney’s fees after a TRO stopped a foreclosure sale and the


297 “A court may award a prevailing borrower reasonable attorney’s fees and costs in an action brought pursuant to this section. A borrower shall be deemed to have prevailed for purposes of this subdivision if the borrower obtained injunctive relief or was awarded damages pursuant to this section.” CAL. CIV. CODE § 2924.12(i) (2013), (emphasis added); § 2924.19(h) (same).

298 Compare Pearson v. Green Tree Servicing, LLC, 2014 WL 6657506, at *4 (N.D. Cal. Nov. 21, 2014) (borrower is “prevailing party” based on issuance of PI which led to servicer’s voluntary rescission of dual-tracked NOD); Ingargiola v. Indymac Mortg. Servs., No. CV1303617 (Cal. Super. Ct. Marin Cnty. May 21, 2014) (finding that HBOR’s statutory scheme allows interim fee awards because most HBOR cases are not fully tried), and Roh v. Citibank, No. SCV-253446 (Cal. Super. Ct. Sonoma Cnty Jan. 21, 2014) (awarding attorney’s fees following preliminary injunction because the statute does not distinguish between a preliminary injunction and a permanent injunction), with Sese v. Wells Fargo Bank, N.A., No. 34-2013-00144287-CU-WE-GDS (Cal. Super. Ct. Sacramento Cnty. Sept. 3, 2013) (denying borrower’s motion for attorney fees because a preliminary injunction is “merely a provisional or auxiliary remedy to preserve the status quo until final judgment”); see also Le v. Bank Of N.Y. Mellon, 152 F. Supp. 3d 1200, 1214-15 (N.D. Cal. 2015) (borrower could be considered prevailing party when expiration of notice of trustee sale rendered HBOR claims moot); Pearson v. Green Tree Servicing, LLC, 2015 WL 632457, at *4-6 (N.D. Cal. Feb. 13, 2015) (granting borrower’s attorney’s fees motion (see prior Pearson case, cited above) for work performed until the NTS was rescinded, and for the work on the attorney’s fees motion itself. Any work performed after the NTS was rescinded was not awarded attorney’s fees because the rescission “remedied” the HBOR violation under CC 2924.12.).

servicer voluntarily postponed the sale in response to a preliminary injunction motion.  

A bare request for attorney’s fees in a TRO application without any citation to authority or specificity regarding the amount claimed, however, risks denial.

Recently, some servicers have aggressively pursued attorney’s fees based on deeds of trust clauses and borrower’s HBOR claims, even after borrowers voluntarily dismiss their cases. Courts have generally rejected this argument, finding HBOR claims are “on a contract” and therefore subject to Civil Code Section 1717 requirements, which include the existence of a prevailing party. Since voluntarily dismissing an action prevents any party from prevailing, courts have denied servicers’ motions for attorney’s fees in these situations.

F. Federal Preemption

Some state laws may be preempted by federal banking laws such as the Home Owner Loan Act (HOLA) and National Banking Act (NBA). HOLA regulates federal savings associations, the NBA, national banks. State statutes face field preemption under HOLA; the NBA only subjects them to conflict preemption.

When the subject of the litigation is a national bank’s misconduct, NBA preemption standards should apply, even if the loan was originated by a federal savings association. Some national banks, especially Wells Fargo, regularly assert a HOLA preemption defense where the loan at issue originated with a federal savings association (FSA or FSB). In Wells Fargo’s case, the FSA was World Savings Bank, which it acquired early in the financial crisis. Wells argues that HOLA preemption attaches to the loan and insulates Wells Fargo from HBOR liability, regardless of its own conduct as a national bank. Up

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305 See Aguayo v. U.S. Bank, 653 F.3d 912, 919, 921 (9th Cir. 2011).
306 Id. at 922.
until early 2014, most federal courts generally accepted this argument without independent analysis. The tide turned in early 2014, however; most (though not all) courts now hold that national banks and other servicers who are not savings associations cannot invoke HOLA preemption as a shield against liability for their own conduct.

Courts applying a proper preemption analysis have found former Section 2923.5 not preempted by the NBA. Under a HOLA preemption analysis, state courts have also upheld the statute, but it has not fared as well in federal courts. Few courts have considered

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310 See Mabry v. Superior Court, 185 Cal. App. 4th 208, 218-19 (2010) (finding the former CC 2923.5 not preempted under HOLA); Ragland v. U.S. Bank Nat’l Ass’n, 209 Cal. App. 4th 182, 201-02 (2012) (State laws like CC 2923.5, which deal with foreclosure, have traditionally escaped preemption.).

NBA and HOLA preemption of HBOR specifically, but the federal courts that have, for the most part, determined HBOR is preempted by HOLA, but not by the NBA. Importantly, the Dodd-Frank Wall Street Reform and Consumer Protection Act amended HOLA in 2011 to adopt the NBA’s less strict conflict preemption analysis. Conflict preemption will apply to federal savings associations for conduct occurring in 2011 and beyond. However, the new preemption standard does not affect the application of state law to contracts entered into before July 2010.

Courts have been reluctant to find state tort law claims preempted by HOLA, especially if the laws are based in a general duty not to defraud.


McFarland v. JP Morgan Chase Bank, 2014 WL 1705968, at *6-7 (C.D. Cal. Apr. 28, 2014) (finding that the HOLA and NBA preemption analyses are not equivalent, and that the NBA does not preempt HBOR).

See 12 U.S.C. § 1465(a) (2012) (“Any determination by a court . . . regarding the relation of State law to [federal savings associations] shall be made in accordance with the laws and legal standards applicable to national banks regarding the preemption of State law.”).


12 U.S.C. § 5553 (2010); see Williams, 2014 WL 1566857, at *10 (declining to extend the Dodd-Frank Act to a loan originated before July 2010 (when the law went into effect) and finding borrower’s HBOR claims therefore preempted by HOLA); Deschaine v. IndyMac Mortg. Servs., 2014 WL 281112, at *8 (E.D. Cal. Jan. 23, 2014) (same).

See, e.g., Sun v. Wells Fargo, 2014 WL 1245299, at *2-4 (N.D. Cal. Mar. 25, 2014) (HOLA preempts HBOR claims, but not common law causes of action); Sarkar v. World Savings FSB, 2014 WL 457901, at *2-3 (N.D. Cal. Jan. 31, 2014) (finding borrower’s authority to foreclose claims and her fraud based claims not preempted by HOLA because any effect on lending is only incidental); Cheung v. Wells Fargo Bank,
G. Removal from State Court

1. Bases for Federal Jurisdiction

Federal courts are given jurisdiction by statute. Federal question jurisdiction and diversity jurisdiction are the two most common bases for federal jurisdiction. These two bases for jurisdiction are reviewed below.

Congress can also grant jurisdiction to federally-charted corporations if the charter expressly authorizes such jurisdiction or contains a “sued and be sued” clause that specifically mentions federal court.\(^{318}\) For example, cases involving Freddie Mac are subject to federal question jurisdiction by statute.\(^{319}\) At least in the Ninth Circuit and pending Supreme Court review, federal jurisdiction also exists in any case where Fannie Mae is a party.\(^{320}\)

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Federal Question Jurisdiction

Federal question jurisdiction exists in any case involving a federal claim. For example, if the suit is brought on a RESPA or an ECOA claim, then the plaintiff may choose to file in federal court because the claim based on federal law gives rise to federal question jurisdiction.

When a defendant removes a complaint based on federal question jurisdiction, the plaintiff wishing to stay in state court may amend the complaint to remove the federal claim. In that case, the amended complaint supersedes the original pleading in determining federal jurisdiction.  

Diversity Jurisdiction

While some cases are removed to federal court through federal question jurisdiction, most removals in foreclosure cases are based on diversity jurisdiction. Diversity jurisdiction requires (1) complete diversity of citizenship between plaintiffs and defendants and (2) more than $75,000 of amount in controversy.

Complete Diversity of Citizenship

Complete diversity of citizenship is required for diversity jurisdiction. In other words, each plaintiff must have a different citizenship from each defendant. A natural person’s citizenship is determined by the person’s domicile, the place where he or she resides with the intention to remain or to return. Simply alleging the person’s residence is insufficient; citizenship must be alleged. Complete

321 See Arco Env’t Remediation, L.L.C. v. Dep’t of Health & Environmental Quality of Montana, 213 F.3d 1108 (9th Cir. 2000); Wellness Cnty-Natl v. Wellness House, 70 F.3d 46, 49 (7th Cir. 1995) (no federal question jurisdiction where original complaint alleged both federal and state claims and amended complaint only stated state law claims but insufficient amount in controversy for diversity jurisdiction); Farmer v. Ocwen Loan Servicing, LLC, 2010 WL 653098 (E.D. Cal. Feb. 22, 2010).
322 Pullman Co. v. Jenkins, 305 U.S. 534, 541 (1939) (In controversy primarily between citizens of different states, even one properly joined defendant defeats diversity jurisdiction.).
323 See Kanter v. Warner-Lambert Co., 265 F.3d 853, 857 (9th Cir. 2001) (“A person residing in a given state is not necessarily domiciled there, and thus is not necessarily a citizen of that state.”); Dyer v. Wells Fargo Bank, N.A., 2015 WL
diversity is destroyed even if only one properly joined defendant shares common citizenship with a plaintiff.

National banks are deemed to a citizen of the state where their main offices are located as designated in their articles of association. Mortgage servicers with national bank charters are generally not California citizens and therefore diverse from California plaintiffs. Except OneWest and Recontrust, most national banks’ designated main offices are outside of California.

Adding a California foreclosure trustee as a defendant may defeat complete diversity. Courts have wrestled with jurisdictional questions involving California trustees, including the effect of a Civil Code § 2924l declaration of nonmonetary status (DNS). Civil Code § 2924l permits a trustee to file a declaration of non-monetary status if it is named in an action concerning a deed of trust, and it has a reasonable belief that it has been named solely in its capacity as trustee, and not as a result of any wrongful acts or omissions in the performance of its duties. If no objection is served within 15 days, the trustee is not required to participate in the action and is not subject to any damages award. The objection period is extended by five days if the notice was served by mail.

As long as the period for objections passed before removal, some district courts recognize defendants who filed a declaration of non-monetary status without objection as nominal parties. When

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324 See, e.g., Rouse v. Wachovia Mortg., FSB, 747 F.3d 707 (9th Cir. 2014) (holding that because Wells Fargo’s articles of association identifies South Dakota as its main office, Wells Fargo is citizen of South Dakota despite principal place of business in California).
326 CAL. CIV. CODE § 2924l(a).
327 CAL. CIV. CODE § 2924l(e).
329 See, e.g., Jenkins v. Bank of Am., N.A., 2015 WL 331114 (C.D. Cal. Jan. 26, 2015) (listing cases); Chancellor v. OneWest Bank, 2012 WL 3834951, at *2 (N.D. Cal. Sept. 4, 2012) (concluding that a defendant trustee was “no longer considered a party to this action” where it filed a declaration of non-monetary status in Alameda Superior
removal is filed less than 15 days after the filing of the declaration, courts will consider the trustee’s citizenship when evaluating jurisdiction. Other courts, however, declined to give any effect to the declaration of non-monetary status, even when the declaration was unopposed for the full 15-day period before removal, because the declaration is a state law procedural mechanism with no parallel in federal law. For these latter courts, the trustee has nominal status.
only if the complaint states no substantive claims against the trustee.332

Amount in Controversy

Even with diverse parties, the amount in controversy must also exceed $75,000 for diversity jurisdiction to exist. In cases seeking an injunction against a foreclosure sale, courts have often counted the entire value of the home in the amount in controversy. Some recent decisions, however, have declined to include the entire amount of the loan when the borrower only seeks a temporary injunction. In Olmos v. Residential Credit Solutions, Inc., the court held that when seeking an injunction to halt foreclosure until his loan modification application can be processed, a borrower has not put the value of the home at issue.333 At most, he has put the amount it would cost servicer to evaluate his application and any lost interest on the loan during the evaluation.334 Other courts have also declined to value the injunctive relief as the entire amount of the loan.335 In an action to enforce a loan modification agreement, one court found that the difference in


334 Id.; see also Tripp v. Nationstar Mortg. LLC, 2017 WL 354848, at *3 (C.D. Cal. Jan. 24, 2017) (loan balance or property value are not accurate measures of the amount in controversy when borrower alleges harm from servicer’s failure to complete review of loan modification application and seeks a temporary injunction).

payments owed by the borrower under the original loan terms and those that would be owed under the modified loan terms was the proper measure of the amount controversy.\textsuperscript{336}

2. Remand Considerations

In deciding whether to move to remand a removed case, counsel should consider the differences between the two forums.\textsuperscript{337} For example, plaintiff’s counsel may prefer state court out of familiarity with state court rules and local practices. Unanimous jury verdicts are required in federal court,\textsuperscript{338} whereas only a $\frac{3}{4}$ verdict is required in state court.\textsuperscript{339} The jury will also be selected from different jury pools due to the larger geographic draw of a federal district court. Federal courts may also be more inclined to grant summary judgment or summary adjudication on selected issues.\textsuperscript{340} In rare cases, the forum choice can even affect substantive law, such as when the Ninth Circuit and the California Court of Appeal disagree over interpretation of a statute.\textsuperscript{341}

H. Interaction with Bankruptcy Proceedings

Defendants in HBOR and other foreclosure cases often attempt to defend against a borrower’s claims by invoking the preclusive effect of past or pending proceedings in bankruptcy.\textsuperscript{342} For example, the

\textsuperscript{337} See generally James M. Wagstaffe et. al, Rutter Group Practice Guide: Federal Civil Procedure Before Trial, Ch. 2D (2015) for a comprehensive review of these considerations.
\textsuperscript{338} FED. R. CIV. P. 48.
\textsuperscript{340} Wagstaffe et al., supra note 315, § 2:2172.
\textsuperscript{341} Compare King v. California, 784 F.2d 910, 913 (9th Cir. 1986) (holding a consumer loses right to rescind under TILA when the loan was subsequently refinanced) with Pacific Shore Funding v. Lozo, 138 Cal. App. 4th 1342 (2006) (holding rescission is available following refinancing and declining to follow King).
\textsuperscript{342} See, e.g., Dvorin v. Polymathic Properties, Inc., No. B269193, 2017 WL 993158, at *4 (Cal. Ct. App. Mar. 15, 2017) (dismissing claims that borrower had listed as an asset in bankruptcy case and that the bankruptcy trustee had not abandoned on the ground that the claims were property of the bankruptcy estate and plaintiff was therefore not a real party in interest); see also Sundquist v. Bank of Am., N.A., No, C070291, 2013 WL 4773000, at *16 (Cal. Ct. App. Sept. 5, 2013) (affirming dismissal
Ninth Circuit affirmed dismissal of a wrongful foreclosure claim on the ground that the plaintiff had not disclosed the claim as an asset in a Chapter 7 bankruptcy case filed after the claim arose. In other cases, however, courts have found that the mere failure to schedule claims against a servicer or lender in a bankruptcy does not necessarily require dismissal.

While bankruptcy can be a trap for the unwary homeowner, bankruptcy courts have also served as a friendly forum for some claims related to wrongful foreclosures. In one recent case, an outraged bankruptcy court entered a multimillion dollar award for actual and punitive damages against Bank of America for multiple and egregious violations of the automatic stay.

Depending on the particular facts, bankruptcy court may also provide advocates with an opportunity to challenge a servicer’s accounting and demonstrate that a borrower either isn’t in default at all or that the delinquent amounts claimed by the servicer are incorrect. Advocates who are unfamiliar with bankruptcy law and
procedures are encouraged to consult and/or even co-counsel with bankruptcy experts in pursuing such claims.

For a more in-depth discussion of the interactions between mortgage servicing, foreclosure and bankruptcy, see Chapter 2, Section 2.4 of National Consumer Law Center, *Foreclosures and Mortgage Servicing* (8th ed. 2014), updated at www.nclc.org/library.

**Conclusion**

We hope that this guide will help California advocates advance consumer-friendly interpretations of HBOR and related laws, regulations and common law theories in order to provide strong protections for homeowners across the state and prevent as many unnecessary foreclosures as possible.
Recent Cases of Note

Bankruptcy Court Blasts Bank of America for Proceeding with Foreclosure Activity in Violation of Automatic Stay

After having their wrongful foreclosure damages claim dismissed in state court on jurisdictional grounds, Erik and Renee Sundquist were vindicated in bankruptcy court when the judge order Bank of America to pay them $1 million in actual damages, including emotional distress damages, $5 million in punitive damages and another $30-40 million in punitive damages to be directed to two non-profit consumer advocacy organizations and California’s five public law schools.

The bankruptcy court found that Bank of America had foreclosed on the Sundquists’ home in violation of the automatic stay and then proceeded to violate the automatic stay further by harassing the Sundquists, filing an eviction action, forcing them to move out of their home, failing to inform them of a rescission of the foreclosure sale, allowing removal of appliances and other items from the home, failing to pay homeowners association dues or maintain the property and denying responsibility for all of these acts. The court relied on state law tort principles regarding causation in assessing damages and carefully analyzed the punitive damages issue before setting the award.

Not surprisingly, Bank of America quickly filed a notice of appeal and motion to amend the court’s findings of fact and the judgment. We will provide an update on the case when available.
Court Rejects Jury Verdict against Ocwen in HBOR Case

As discussed in the prior issue of this Newsletter, a federal jury in Bakersfield, California awarded borrowers Frank and Dora Cornejo $40,000 in economic and statutory damages and $300,000 in economic distress damages after finding that defendant Ocwen had foreclosed on the borrowers while they had a complete loan modification application pending, in violation of HBOR. Ocwen moved for a new trial, which the magistrate judge granted. According to the opinion, the evidence at trial showed that Ocwen proceeded with a foreclosure sale after receiving what turned out to be a complete loan modification application slightly less than 24 hours before the scheduled sale. In a detailed opinion focused primarily on the borrowers’ repeated delays in submitting a loan modification application and doubts about their credibility, the court rejected the jury’s verdict and granted the motion for a new trial. Although HBOR does not contain any deadline for a borrower to submit a loan modification, in granting the motion, the court held that “for the law to make any sense, it must allow [a servicer] a minimum amount of time to verify that the documents provided constituted the entirety of those requested and that the information contained therein was facially complete.”
Legislative and Regulatory Update

HBOR Sunset Alert: Several important HBOR provisions are scheduled to sunset as of January 1, 2018. Because SB 1150 (the “Survivor Bill of Rights”) incorporates by reference many HBOR provisions, this fast-approaching sunset date will also affect the rights of successors-in-interest facing foreclosure. Advocates are lobbying for an extension, but it is unclear what the outcome of those efforts will be. As things currently stand, these are the provisions scheduled to sunset:

- **Communications**
  - Pre-NOD communications re. SCRA and loan/account information
  - Post-NOD outreach
  - Notice acknowledging application within 5 days of receipt
  - Notice of postponement of foreclosure sale date
  - NPV inputs and investor information in denial notice will only be available upon request

- **Important aspects of dual-tracking restrictions**
  - Right of appeal
  - Dual-tracking protections after denial notice is provided

- **Other provisions**
  - Provisions re. subsequent applications
  - Requirement that servicers provide borrowers with copies of fully executed agreements
  - Requirement that servicers rescind any pending Notice of Default upon completion of a foreclosure alternative
  - Prohibitions loss mitigation charges and certain late fees
  - Transferee servicer obligations

Federal Regulations: Amendments to RESPA mortgage servicing rules announced in August 2016 and published in the Federal Register in October 2016 will go into effect in coming months. Most of the amendments will go into effect on October 19, 2017, including the removal of the “one bite at the apple” rule, changes to rules regarding communications with borrowers in bankruptcy and an added requirement that servicers provide a timely, written notice of complete application to borrowers. Amendments covering successors-in-interest, including provisions applying dual-tracking protections to verified successors, go into effect on March 19, 2018. The amendments as published in the Federal Register are available at:


GSE Flex Modifications: Some servicers of Fannie Mae and Freddie Mac loans have already begun reviewing borrowers for the new Flex Modification and phased out all other prior modification options. All servicers of GSE loans must complete this process and start using the Flex Modification only by October 1, 2017.

For details of the Flex Modification program, see:

Fannie Mae Lender Letter LL-2016-06
Freddie Mac Bulletin 2016-22 and 2017-01

HAMP Deadline: For borrowers still under review for HAMP or in a HAMP trial plan, December 1, 2017, is the latest possible effective date for a HAMP or for completion of a HAFA short sale or HAFA Deed-in-Lieu transaction.

December 1, 2017, is also the latest possible date for submitting a new escalation to MHA Help or the HAMP Solutions Center.