

Mortgage Default: What Would You Tell the Kids?

By [Jolie Solomon](#) | Feb 9, 2010 | [1 Comment](#)

The folks at [YouWalkAway.com](#) knew what they were doing when they chose a tag line-”Helping Thousands of Families Nationwide”-and homepage photo: smiling Mom and Dad, bouncing baby, a background of clapboard and greenery.

Translation: We’ll help you blow off your mortgage-and walk away from the guilt, too.

This is my favorite story line so far in the whole mortgage saga. And 2010 is shaping up to be the **Year of The Walk Away**. Technically, it’s called “strategic default.” But “walk away” is more evocative, carrying a distinct odor of shirkers, deadbeats, people who skip town, turn tail, bail on their long-term financial relationships.

And here’s the kicker: **It’s not a last resort!** These are people who can afford (easily or otherwise) to keep writing those checks. But they decide that this isn’t wise for their financial health. So they bow out and suffer the consequences: The bank takes the house and their credit takes the hit.

Whether you’re a walk-away, a wannabe, a conscientious objector, or a mere spectator, this is getting interesting. First, there’s the Rube Goldberg suspense factor. If lots of people up and default on their mortgages, will we see another downward price spiral? (Do price spirals ever travel upward?) Will more **ghost towns and ghost cul-de-sacs** pop up in Arizona, Michigan and California?

Or could a **homeowners’ revolt** push Washington to finally rethink its BOOB (Bail Out Only the Big) approach? Or inspire the banks to actually rewrite those millions of mortgages?

Then there’s the ethics debate. On one side, the scolds: ”What about the message they will send to their family and their kids and their friends?” asks the CEO of the Mortgage Bankers Association. If you walk away, you’re culpable for price spirals, there-goes-the-neighborhood dominoes and a general fraying of the moral fabric. Or, as [Stephen Colbert](#) put it, “a mortgage is a sacred obligation.”

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Walk-away advocates retort: If banks and businesses can default on their obligations and walk away unscathed (or with bonuses) don't tell us that individual mortgage-holders are, essentially, too small to fail. Blogger Martin Adelman parses the big defaulters' parsing: When Morgan Stanley gave back some property in order to get out of a loan, they called it an "orderly transition."

Academics such as Brent T. White, a University of Arizona law school professor, not only call for homeowners to take care of their financial health, but argues that walk-aways send an important political message. Or, as a Daily Kos blogger puts it, "Remember Burning Draft Cards? [Burn Your Mortgage.](#)"

This view may be gaining. MoneyWatch's [Jill Schlesinger](#) points out that her pro-walk-away comments on CNN some months ago provoked a slew of nasty emails, while a recent piece by [New York Times](#) writer Roger Lowenstein got positive pickup.

It will be interesting to see how politicians, pundits and propagandists of various stripes choose sides.

But if you're an individual making this decision, first check the laws in your state (search "no recourse"), then do the math. Start with these questions:

- How much are your mortgage payments?
- Are you underwater?
- If yes, is there oxygen in your future?
- If no, how much equity do you have?
- What are the [tax consequences](#)?
- Where are housing prices headed in your area?
- What housing options do you have?
- Will you need to borrow money for work or personal reasons in the near future? (Your credit rating will take a major hit.)

- Which is worse for your family, long term: default, bankruptcy, or decimating your retirement and college funds?

(For more analysis, click on FAQ at YouWalkAway.com.)

If you decide that default is smart *strategically*, then you can sit and ponder the ethics. If there were ever a case for situational ethics, I think this is it. And each case is different.

Acid test? Ask yourself "What will I tell the kids?" Or, if they're too young for such subtleties, download a number by Kelly Clarkson ("Just Walk Away"), Paul Simon ("50 Ways to Leave Your Lover") or a cover of the immortal "Walk Away Renee." And think about this: Is it ethical to treat yourself to some iTunes but decide to stiff your banker?

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Stacey L. Bradford covers personal finance with a focus on issues that affect families. Her first book, *The Wall Street Journal. Financial Guidebook for New Parents*, hits shelves June 2009. She was previously an associate editor at SmartMoney.com for more than 10 years.

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Jolie Solomon is sitting in for Stacey Bradford, who is on maternity leave. She has been a reporter, writer, or editor at many publications, including *The Wall Street Journal*, *Newsweek*, *Fortune*, *Small Business, More* and the late lamented *Cincinnati Post*.

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