



Why Homeowners 'Walk Away' From Their Mortgages

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Posted By: Mark Koba | Senior Editor
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Wayne Bryant and his wife have just stopped paying the mortgage on their home in northern California, even though they can afford to pay. The reason? Because, Bryant says, the value of the house is less than what they owe.

"We are 45-50 percent under water," claims the 61-year-old Bryant, who works in airport management. "At this point we are 20 years away from being even. We're walking away because it's a good business decision."

Bryant bought his home three bedroom townhouse in 2006 for \$582,000 and says it's worth about \$315,000 now. He says he has never missed a payment on any of the homes or cars he's bought over the years. But that's changed.

"I thought about the moral hazard," Bryant admits. "But look at what's going on. Big banks are not helping anyone out. Big investors are walking away from debts. I'm angry how the system works. There's no way I'm going to feel guilty about this."

Analysts say Bryant is joining an increasing number of homeowners across the county who are "walking away" or making a 'strategic default' on their mortgage payments.

"About 25 percent of mortgage defaults across the country are the strategic kind," says Greg McBride, senior financial analyst for Bankrate.com. "That not a small number."

And it appears to be a growing option for homeowners.

"It's somewhat substantial," says Bob Walters, chief economist at Quicken Loans. "We are talking about it more in the industry and it's becoming more accepted among homeowners."

Lenders and Backlog of Mortgage Problems

What's helping make walk aways more acceptable is a lack of fear. If homeowners like Bryant don't dread the banks coming after them, there's a reason, says Jon Maddux CEO of the web site YouWalkAway.com that, for a fee, advises homeowners on strategic defaults.

"Banks are backlogged with paperwork on foreclosures and short sales," Maddux says. "And a lot of lenders are not really eager to take the property back because there's no housing market right now. There's no rush to go after delinquent payments."

While Bryant says frustration and anger with the system are driving him to skip his payments, not everyone is walking away because of outrage.

"I stopped getting child support payments and that meant the end of paying my mortgage," says Jayme Protich, a divorced mother of two college age children from Tallmadge, Ohio. "I tried working with the lender but they never got back to me. Not once."

Protich, who used Maddux's service, stopped making her \$1,300 monthly payments in early 2009 on the three bedroom, two car garage home she and her ex-husband built 16 years ago. She tried selling the house after her divorce but got no offers. Even when the house was listed at the price of the mortgage, \$215,000.

After living in the home for months and not making payments, Protich eventually had to move into an apartment. But any break in not paying the mortgage went to covering college fees for her children.

"The bank finally took over the house after a sheriff's sale," says Protich, who works at a local food service distribution company and has a second job in the summer at a local golf course. "I didn't want to do this, not pay my mortgage. But with my two kids, I didn't have much choice."

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Consequences of Defaults

Choice or not, walking away from a mortgage payment can have serious consequences. There's the loss of the house and a bad credit rating. And depending on the state, lenders can target delinquent homeowners by going after back payments if the law allows.

Homeowners could also owe back taxes on a forgiven debt. And if homeowners have a second mortgage, they might be liable for all of those payments if they've stopped.

But those threats aren't enough to keep some people paying. "I'll get a clean credit rating eventually," says Bryant who admits he has 'fairly large' retirement portfolio. "I'm planning to build another home and by that time I should be fine."

As the numbers of walk aways climb, so do the forces creating them. It's estimated that 4.5 million homeowners owed more on their loans than the house was worth by the end of 2009. That number is expected to climb to 5 million in 2010 along with the number of foreclosures—which some estimates put at 4 million by the end of this year.

Dire predictions aside, the housing market is stumbling along and there are some signs of improvement. Home prices in Southern California, one of the hardest areas hit in the housing bust, rose 8.6 percent in January of this year, compared to the same time in 2009. And some parts of the country are actually seeing a **decline in foreclosures**, at least for now.

Housing Conditions Creating Walk Aways?

For those skipping out on their mortgage payments, Bankrate's McBride says they should honor the contract they signed. "Sure home values go down, but homeowners made a deal," says McBride. "You don't see new cars left abandoned on the road side after they leave the dealer and their value is less."

But unless the economy improves, and specifically more people find work, it's going to be hard to see housing get even close to where it once was—and more strategic defaults might be on the way.

"I think it's going to take a long time for housing to see some daylight," says Johnny Martinelli, a broker and owner of Levy Mart Real Estate in Norman, Oklahoma. "I see interest rates going up soon and with a bad job picture, I think it will be years before home prices come back."

For those who can't wait years for a housing recovery, not paying the mortgage seems like the only option. But having to vacate a house that was once a home leaves a range of emotions.

"I felt hurt and anger and had lots of sleepless nights," says Protich who had never missed a payment before. "I kept thinking about my neighbors and how nice they were. I feel relieved I don't have to pay the mortgage but I'm so disappointed that I got no help. I really didn't want to do this."

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