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Thursday, Jun. 19, 2008

Ditch This House

By Barbara Kiviat

Nearly 9% of all U.S. mortgages--or 4.8 million loans--are past due or in some stage of foreclosure. So when a company claims to offer distressed homeowners both relief from their mortgages and revenge against the bankers who saddled them with too much debt ("Give the lenders back their own headaches"), there are plenty of people eager to hear more. For \$695, the Walk Away Plan promises to extract homeowners from the agony of mortgages they can no longer afford or from houses now worth far less than the amount they owe. A similarly named outfit called You Walk Away croons on its website, "Before you know it, you will have this behind you and a fresh start!" Walking away is a popular phrase these days among real estate pros and ex--mortgage brokers looking to capitalize on slumping home prices and rising delinquencies. It sounds so liberating, but what does it mean? That foreclosure can be a good thing?

Much like homes with similar exteriors, walk-away companies can look very different on the inside. Some use the phrase to reel in the desperate and then help them try to save their homes (what a concept), while others don't do much more than hand-holding through the foreclosure process--guidance that's given elsewhere for free. The whole idea of walking away is troubling to consumer advocates, who worry that these firms are whitewashing the fact that foreclosure is a traumatic experience--both financially and emotionally--that takes years to recover from.

The Walk Away Plan sounded pretty good to Paula Bond. A bookkeeper at a battered Florida construction company, she first heard about the plan on TV at 3 a.m., not long after her salary was cut in February by \$100 a week and she realized she couldn't keep making her mortgage payments. Selling the house was hardly an option. Properties on her block were going for \$135,000; two years ago, she'd paid \$188,000. She had phoned her bank and tried to renegotiate the terms of her loan. "Every time I called," she says, "they gave me another number to call." She grew frustrated. Then she

panicked.

When she called the Walk Away Plan's toll-free number, she thought losing her home was inevitable. But Paul Helbert, who started the company last fall as an extension of his real estate--investing business, drafted a letter explaining her situation--an appeal based on the fact that banks, deluged with loans going awry, would like to avoid foreclosure too, since it can cost tens of thousands of dollars in legal and rehab fees to repossess and sell a house. "We wrote a beautiful distress letter together," says Helbert. "We told her story." He was eventually able to talk the bank into reducing Bond's interest rate enough to save her \$460 a month. So far, Helbert has helped keep about a third of his clients from losing their homes. (It probably doesn't hurt that he has an employee whose main job is sitting on hold all day with lenders.) The other two-thirds are a testament to the fact that many people took out loans they couldn't afford in the first place and that banks are up for hearing a good case--but not rolling over.

There's a problem, though, with Helbert's whole operation: a nonprofit housing counselor might have gotten Bond the same result without charging her hundreds of dollars. In fact, many of the flashiest benefits these new walk-away companies advertise are ones homeowners can procure on their own. Are you willing to pay someone to force the bank to stop harassing you with phone calls? O.K., but you can achieve the same result for the cost of a stamp by sending a letter citing the Fair Debt Collection Practices Act, which says lenders can call only if they're taking a specific action against you. How about hiring someone to make the bank give you thousands of dollars in moving expenses during foreclosure? Sounds grand, but a homeowner can lock in this money--it's called "cash for keys"--just as easily as a company representing him by promising not to trash the house on his way out.

Of course, to make these kinds of deals, people have to know they exist. And as the system of nonprofit housing counselors has been flooded, many agencies have been forced to triage homeowners: less urgent cases go to the back of the line.

Which helps explain why the financially distraught are searching high and low for help. Larry Stopczynski, a retired auto engineer in Michigan, has seen the value of his home drop by more than \$100,000; he now owes more in mortgage payments than the house is worth. So two months ago, he paid Short Refi Me \$1,495 to try to get his banks to agree to be paid off by a new mortgage, based on a current appraisal. If it works, Stopczynski will also pay the San Diego company 1% of the new-loan value--and he'll get to stay in his home. "I wasn't getting past square one with the banks," he says. "I figured it was worth the gamble." And a gamble it truly is. The only surefire way to get out of a crushing mortgage is to stop mailing in checks and incite the bank to foreclose. Hence Short Refi

Me's sister program, Home Free Me, which walks foreclosees through the process for \$897.

Housing counselors wince at these kinds of companies, the ones that tell people it's O.K. to simply "walk away." For \$995, You Walk Away sends its Walk Away Protection Plan & Kit, which explains the laws regarding foreclosure, debt collection and bankruptcy. It's a nice compilation but nothing you couldn't find online. Customers also get one consultation with an attorney, a tax evaluation and, for an extra \$39 a month, a "credit repair" service--but pretty much the only thing it can do is erase inaccuracies in your credit report. What is real--and what is very much downplayed by these outfits--is how completely a foreclosure wrecks your finances. Near term, you might get slammed with a massive tax bill, since forgiven debt can be subject to income tax. Long term, car loans and--you guessed it--home loans will be much harder to come by. How's that for walking away? "This is the American Dream ended in disaster," says Odette Williamson, a foreclosure lawyer at the National Consumer Law Center.

But You Walk Away does at least walk you through walking away. That's why Jim Lowry, a San Francisco--based maintenance manager, is pretty happy with the firm, even though it doesn't talk to his bank or do any other legwork for him as he tries to find a buyer before the bank repossesses his daughter's house. Lowry had talked to some other real estate types, but it wasn't until a phone conversation with a You Walk Away "advocate" that he felt he had a handle on the situation. "I'm not worried anymore. I know what's going to happen," he says. "Peace of mind is the main thing." And there are plenty of people willing to sell it to him.

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