

## real estate

### Should you feel guilty if you walk away?

More than 1 million homeowners chose to stop making mortgage payments and let their homes go into foreclosure last year. These are not people who couldn't afford to pay. As this trend grows, Americans struggle with whether this is a smart financial move or a moral failure.

By Melinda Fulmer of MSN Real Estate



Michelle Burton is ready to trade up. After more than five years of living in a Long Beach, Calif., neighborhood that she thinks is unsafe for her and her two sons, she has stopped making her [mortgage payments](#), started banking the money and is waiting until just before eviction to move.

"I don't want to stay in the area I'm in," says the 33-year-old nonprofit development director and single mother. "I could be renting a much better house in a better area for less or equal to what I'm paying now."

Walking away from a large [mortgage payment](#) and renting used to be a last resort for homeowners who were seriously ill or unemployed.

These days, with so many of the nation's homeowners underwater on their loans, that last resort is a more routine economic decision for even the most gainfully employed. This trend is sparking outrage, neighborhood upheaval and calls for government lending reform.

#### MSN Real Estate is social

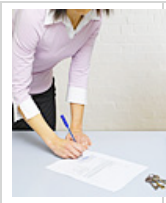
Check out our blog, 'Listed'  
Become a fan on Facebook  
Follow us on Twitter

**Video:** [Is it wise to walk away from a mortgage?](#)

"A lot of people are fearful. They are afraid it will damage their equity if their neighbor walks and it goes to auction," says Jon Maddux, CEO of [You Walk Away](#), an online service that coaches

borrowers — for a fee — on how to default with the least impact to their credit score and wallet. And those fears may be warranted, he says.

"But as more and more people do it, the sentiment is changing," says Maddux, who likens defaulting on a mortgage to breaking a cell-phone contract, albeit on a much larger scale.



**Bing: Search & decide**

- [Check your credit score](#)
- [Get free money for housing](#)
- [Find ways to refinance your home](#)

#### Walk away, live it up?

For better or worse, the stigma associated with foreclosure is fading: As many as 1 million people are estimated to have strategically defaulted on their houses last year, according to credit firm Experian and consulting firm Oliver Wyman. That's more than four times 2007's level and 70% more than the 588,000 in 2008.

That's due in large part to the sheer numbers of foreclosures, but the percentage of [strategic defaults](#) is also on the rise, say the study's authors.

"We've seen a marked increase in this kind of behavior," says Charles Chung, Experian senior vice president.

A study by Luigi Guiso, Paola Sapienza and Luigi Zingales published last July found that 81% of homeowners surveyed believe that defaulting on a mortgage is "immoral." But those who know someone who defaulted are 82% more likely to declare their intention to do so as well. The willingness to default increases with the proportion of foreclosures in the same ZIP code, becoming a sort of "contagion" that reduces the social stigma.

The payoffs for those who default can be significant. With a depressed rental market, many are going on to lease houses in their same neighborhood – or a better one — for hundreds less than they were paying on their mortgage.

Economists and real-estate analysts are calling this phenomenon a "stealth stimulus" that is putting more cash in some people's pockets for iPods, netbooks, beach vacations, concerts and dinners out.

#### More homeowners choose to walk away

[View more MSN videos](#) [Go to Nightly News](#)

“You have a lot of people saddled with mortgages they can’t afford,” says Christopher Thornberg, of Beacon Economics, a consulting firm specializing in real estate and the California economy. “Deleveraging is part of the process of getting back to a healthy economy. If you’re not making your mortgage payments, what else can you do with that money?”

And, of course, not having to pay your mortgage payment for the better part of a year (or until your bank moves to evict) frees up a lot more cash for daily living.

Louis Tondou, a client of You Walk Away in Richmond, Calif., stopped making his mortgage payments last June, but says he was advised he should be able to live in his house until about May, as the bank has yet to file a notice of sale.

“They should have been able to take possession Dec. 21, but nothing has been filed yet. I’m not sure if the bank is backlogged or what.”

**MSN Money:** [Check mortgage rates near historic lows](#)

Tondou, an airline mechanic who has been living off his disability settlement and working in auto shops sporadically, spent four months last year in the south of France, visiting his girlfriend and trying to find work. He could not have done that, he says, if he was using his limited funds paying his \$2,000 a month mortgage.

### A bitter pill

Hearing stories about your neighbors' upgraded lifestyle while they are not making mortgage payments or are paying less in rent can be hard to take, says Taylor Gang, a certified financial planner in South Florida, an area hard-hit by foreclosures.

“It makes you feel stupid for following the rules,” he says.

Ditto for tenants of foreclosed landlords who took rent payments, even as they didn’t pay their mortgage each month.

One real-estate message board respondent, “PMSoldier,” writes bitterly about relocating to Washington from Kansas and renting a house from a Mercedes-Benz-driving investment property owner who lived in a lakefront community.

After “PMSoldier” found something for his family to buy months later and asked her about breaking the lease, he was told that there would be none: The house was being put up for sale. The landlord had stopped paying her mortgage two months before he signed a lease, and it was now being put up for auction.

“The landlord has been collecting rent for eight months with no intention of paying the mortgage,” he says. “Does this seem fair?” ([Find out how renters can get relief from foreclosure.](#))

Indeed, that’s the view held by many affected by strategic defaults, largely because of the impact on their own property, or a struggling homeowners association.

“A lot of the moral condemnation is driven by people’s own self-interest,” says Brent T. White, an associate professor of law at the University of Arizona who put out a controversial paper last year that questioned why more of the nation’s 10 million to 15 million underwater homeowners aren’t strategically defaulting.

## related content

[Struggling for a loan modification](#)

[Sell at a loss or hang on?](#)

[What to know before you refinance](#)

[10 savvy homebuying tips for 2010](#)

[Which mortgage is right for you?](#)

[7 steps to a dirt-cheap mortgage](#)

[READ MORE ABOUT MORTGAGES AND LOANS](#)



Print



E-mail



Blog



Digg



Facebook



Newsvine

### Join the discussion!

Be the first to add a comment. To add a comment, please [sign-in](#)

FIND YOUR DREAM HOME OR APARTMENT

REAL-ESTATE VIDEOS

TODAY'S STAFF PICKS



REAL ESTATE  
The highest property taxes in America

[7 snack recipes for the big game](#)

---

[Heroes of past Super Bowls](#)

---

[Bing: 2010 Toyota Prius brakes](#)

---

[Haiti earthquake: How you can help](#)

---

from our partners

---

more on msn real estate

---

- [10 fast-growing U.S. cities](#)
- [How to find a safe neighborhood](#)
- [China's own real-estate bubble](#)
- [5 cities with the best gas prices](#)
- [Most expensive U.S. small towns](#)

---

Explore MSN Real Estate

- |                                   |                                     |                                      |                       |
|-----------------------------------|-------------------------------------|--------------------------------------|-----------------------|
| <a href="#">Buy &amp; Sell</a>    | <a href="#">Rent</a>                | <a href="#">Home &amp; Garden</a>    | <a href="#">Move</a>  |
| <a href="#">First-time Buyers</a> | <a href="#">Loans &amp; Finance</a> | <a href="#">Small Spaces</a>         | <a href="#">Tools</a> |
| <a href="#">Home Valuation</a>    | <a href="#">Foreclosures</a>        | <a href="#">Improve &amp; Repair</a> | <a href="#">Blog</a>  |



**MSN Real Estate is social**  
Follow us on Twitter and become a fan on Facebook.

[MSN privacy](#) [Legal](#) [Advertise](#) [RSS](#)

© 2010 Microsoft |