'Is Foreclosure Right for You?'

By KELLY BENNETT Voice Staff Writer

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Wednesday, Feb. 6, 2008 | If you're sick of paying your mortgage while your house loses value, just walk away.

Such unconventional advice could only follow one of the most bizarre housing booms in history, where lenders no longer required down payments or paycheck stubs. Then, mailboxes bulged with mortgage offers printed on glossy postcards, urging homeowners to refinance, to tap their newfound equity, to invest in a second or third home.

But that abandon-ship advice, phrased a variety of ways, isn't relegated to the societal fringes anymore. At least one company is gaining traction with its message to homeowners: "Is foreclosure right for you?" One of their shiniest claims tells underwater homeowners they may be able to stay in their house, payment-free, for eight months after going into foreclosure.

That company, San Diego-based You Walk Away LLC, has garnered national media attention, including a recent spot on Nightline on ABC News, to tout its $995 service, which fits homeowners "facing or considering foreclosure" with a set of legal information and services.

Their idea: It's sometimes better to deal with the fallout from foreclosure than keep paying the mortgage on a house that's worth nowhere close to its original price. They even affiliate themselves with a group they say can sometimes erase the foreclosure mark from credit reports.

And so foreclosure, the destination once reserved for people with no other choice, becomes just that -- a choice.

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But critics say the concept overlooks the spirit of the mortgage contract entirely. They say there are moral and economic implications -- up to the national level -- of painting foreclosure as anything other than a credit-marring disaster.

Co-founders Jon Maddux and Chad Ruyle say they got into the business to help people in foreclosure; their website launched Jan. 1. They claim they don't persuade clients one way or another.

"This is their last option, and we're just guiding them through that," Ruyle said. "We are not promoting people getting out of a contractual obligation."

In fact, Ruyle said, the penalty of foreclosure is actually one of those specific terms in the mortgage contract -- it clearly states if the borrower ceases to make payments, the bank will take the house back.

"We're playing by the lenders' rules," he said.

Ruyle and Maddux say they are trying to help people know what to expect in that eight-month period between when a homeowner might choose to quit making payments and when a bank repossesses the house.

Involved in the You Walk Away package is legal information about foreclosure, as well as a single meeting each with an independent attorney, a CPA to answer tax questions and a credit repair service that seeks to erase the foreclosure from homeowners' credit. So far, the partners have fielded "hundreds and hundreds" of interest calls and have signed up just fewer than 100 clients, they said.

They've even printed up postcards, reminiscent of those boom days, to alert homeowners to their service. Tricia Moore, a mortgage broker in Pacific Beach, received one of the cards in the mail recently.

"The postcards are coming," she said. "It's the same energy level, the same consumer bombardment from the old days. It's nuts."

People shouldn't get into or out of housing contracts just to make or avoid losing money, said Gabe del Rio, director of the Housing Opportunities Collaborative, a nonprofit consortium of homeownership and housing counseling groups.

"Housing prices have always gone up and fallen and gone back up again -- putting a timeline to it intelligently is impossible," del Rio said. "If you're buying a home for an investment, that's not the reason we recommend. It should be so that it's your home. Whether or not it has equity in it, it's actually pointless."

The up-and-down equity watching was far from the mind of one University City homeowner, who bought a one-bedroom condo there in May 2004. He financed it 100 percent, planning to stay in the unit for at least two years before selling and maybe moving up.

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But the market stopped ascending and his family grew and now the homeowner is weighing his options. He asked for his name to be withheld to avoid the stigma -- and potential legal implications -- while he contemplates foreclosure.

After buying the condo, he got married, and when his wife became pregnant a year ago, they knew the condo wouldn't be enough space. At that point, the unit would've sold for about $30,000 to $40,000 less than he'd paid. He decided to hang on to the unit and hope for a market turnaround. In the meantime, he moved out with his wife and baby, and they lease the condo to a tenant for about $1,000 a month less than they pay for the interest-only option on their monthly mortgage payment, while also paying their rent elsewhere.

Every once in a while, he checks online to see what comparable units are selling for. The value has dropped to about two-thirds of what he paid now, he estimated.

"This is so much beyond my worst expectations," he said. "I don't see it coming back anytime soon. Is it going to take five years, 10 years, just to get back to where it was then?"

He joins a growing group of people facing the leave-or-stay quandary.

"I want to honor what I signed," he said. "But I have to make a business decision that I have to make for my family. I don't completely understand all of my options yet."

It's that confused homeowner that Ruyle and Maddux hope find their service.

"We're giving them peace of mind through information," Ruyle said. "Knowing, OK, here's what's going to happen."

But del Rio said that information shouldn't cost any money. Much of it is available online, he said. And his consortium and dozens of foreclosure counselors have been helping San Diegans deal with their housing burdens.

He says groups like Just Walk Away are opportunistic and are glossing over a key truth: "foreclosure is the worst thing you could have on your credit," he said.

"They should say 'Just a Foreclosure,'" he said. "They're preying on people's bad situation, on someone's desperate situation. [Homeowners] are desperate for someone to come in who's not their lender and give them what they perceive to be help."

The businessmen don't dispute the information's availability online.

"You can find out the information if you work hard enough, but you're not guaranteed that the conclusions you come to are going to be correct," Ruyle said. "Part of it's experience, the experience we have -- there's info there that you can't just read about."

Maddux said they're partially saving people time and a headache -- he said they've heard from people who aren't sleeping because they're "searching Google until 3 in the morning."

"Anything that's out there, whether it's oil changes or what, you can do it yourself," he said. "But we have people crying to us on the phone -- a lot of people feel like they're alone in it. And we know how to help them see the light at the end of the tunnel."

Ruyle acknowledged the critics, largely in the region's robust housing blogosphere, who label them "just another scam on homeowners."

"We're certainly in a business for profit, but I don't think we're taking advantage of homeowners," he said. "We tried to come up with a price, and many will save many more times than that."

They've been involved in real estate in many forms, they said, from sales to finance to law. Now they've joined the cottage industry of businesses looking to cater to the needs of people stuck in the slump.

"We get e-mails from, I think, people who don't really know what's going on," Maddux said of the business's critics. "They just assume that we're perpetuating the problem with foreclosures and the economy. They're quick to judge.

"We're really not trying to judge people," he continued. "How do you make the best out of a bad situation?"

Please contact Kelly Bennett directly with your thoughts, ideas, personal stories or tips. Or send a letter to the editor.