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# Borrowers Abandon Mortgages as Prices Drop

**By RUTH SIMON and SCOTT PATTERSON**
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As home prices plummet, growing numbers of borrowers are winding up owing more on their homes than the homes are worth, raising concerns that a new group of homeowners -- those who can afford to pay their mortgages but have decided not to -- are starting to walk away from their homes.

Typically borrowers who turn in their keys are those who have run into financial trouble or need to relocate but can't sell their homes. But mortgage-industry executives and consumer counselors say they are starting to see people who aren't in dire financial straits defaulting on their mortgages because they don't want to pay for properties that have negative equity.

Many are speculators who had planned to quickly flip the home, but others appear to be homeowners who had second thoughts about their purchase.

"It may not be a big thing yet, and hopefully it won't be," says David Berson, chief economist for mortgage insurer PMI Mortgage Group Inc., of Walnut Creek, Calif. But if it turns out to be a significant trend, he says, it means that "delinquencies and defaults could be higher than the industry is estimating."

Some borrowers feel they have no good alternative. A tight credit market has made it tough for would-be sellers to find buyers or for borrowers looking to lower their mortgage costs to refinance.

Other borrowers are walking away in frustration because they can't arrange a workout with their lenders, says D.J. Enga, director of outreach services for Auriton Solutions, which counsels homeowners nationwide. Mr. Enga expects that 10% to 15% of the roughly 4,000 callers counseled this month by Auriton, of St. Paul, Minn., will walk away from their mortgages.

Sgt. First Class Nicklaus Skaggs is among those looking to walk way. Mr. Skaggs bought his home in April 2005 shortly after returning to California from a one-year tour of duty in Baghdad.

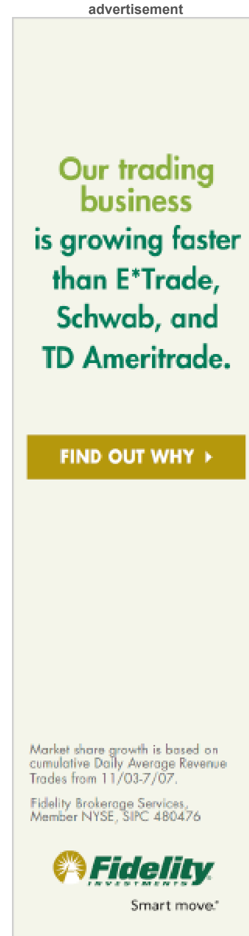
The $455,000 three-bedroom home he and his wife purchased in Vacaville, about one hour northeast of San Francisco, is worth an estimated $285,000 today, well below the $453,000 he owes on his mortgage. The monthly mortgage payment, which jumped after its interest rate increased, is now $4,000, up from $2,980 when he bought the house.

Mr. Skaggs expects to be redeployed to Iraq again later this year. But he can't sell his home, since there are few buyers, and he can't refinance because lenders require a large down payment he doesn't have. Now, the 18-year Army veteran has decided to walk away from his mortgage. He hopes in a few years lenders see his decision as a unique situation created by the housing meltdown. "I don't think that house is going to recover in value any time soon," said the 40-year-old. "I'd just be throwing the money away."

A rise in the number of people choosing to default on their mortgages would represent a significant departure from past behavior of American homeowners, who during past housing downturns tended to walk away only as a last resort, often because they couldn't afford to pay because of unemployment, illness, divorce or other life-altering changes that reduce income. And even then, the number of people who walked away was relatively small. During the oil bust in the Houston area during the 1980s and in California during the early 1990s, for instance, there was a brief spate of people sending in their keys to their lenders.

What's different now, analysts and economists say, is that home prices have fallen so far so quickly that some homeowners in weak markets are concluding that house prices won't recover





anytime soon, and therefore they are throwing good money after bad. Also, many borrowers who bought in recent years have put down little if any equity. "If they haven't lived in [the home] very long and haven't put any cash in it, it's a lot easier to walk away," says Chris Mayer, director of the Milstein Center for Real Estate at Columbia Business School. He also notes that new homeowners may not have strong ties to the community.

Some borrowers, says Mary Kelsch, senior director at Fitch Inc., are less willing to make the sacrifices needed to stay in their homes, given the current environment. "It's a change of mind-set" she says. They are "looking more at their home as an investment that has lost its appreciation potential and don't really want to continue to pay."

Some in the industry want to toughen the consequences for borrowers who walk away. Executives at Fannie Mae say they are working to create harsher penalties for people who walk away from mortgages, and they plan to pursue some borrowers in court. They also want to extend the amount of time between when borrowers default and when they become eligible again for a Fannie Mae-backed loan.

"Of course, we will make exceptions for extenuating circumstances, like divorce or death," says Mike Quinn, a Fannie Mae executive. "But who we are trying to get are the people who can afford to make payments but have decided not to."

Goldman Sachs economists estimate that as much as $3 trillion in mortgages could be underwater by the end of the year, leaving 30% of the country's outstanding mortgages in negative equity. Since there is roughly $1 trillion in subprime mortgages outstanding, that means a large amount of better-quality mortgages, such as prime and Alt-A -- a category between prime and subprime -- will be attached to negative equity.

"The focus has been on the [interest rate] resets," said Goldman Sachs economist Andrew Tilton. "But if you're in a deep enough negative-equity position, defaulting has its own kind of logic."

In the Phoenix area, where home prices were off 15% in the fourth-quarter when compared with a year ago, accountant Steven Ulrich says several of his clients have recently said they plan to walk away. One client's home is now worth $100,000 less than the mortgage and the other is $60,000 underwater.



## COMPANIES

Dow Jones, Reuters

Fannie Mae (FNM)

| | |
|---|---|
| PRICE | 27.90 |
| CHANGE | 0.63 |
| | 4:01p.m. |

* At Market Close

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"It surprised me," said Mr. Ulrich, who works at The Focus Group in Scottsdale. "I'd never had people doing that before, if they had to it was something they were forced into. But these people are choosing it as a strategy, and I think it's going to be happening a lot more."

Some financial advisers are even encouraging homeowners who are upside down to consider foreclosure, which they see as a purely financial decision with limited negative consequences. YouWalkAway.com, a Web site started in January that offers foreclosure counseling to homeowners, advises that borrowers who default on one mortgage can typically get another mortgage between two and four years after a foreclosure. Then, "before you know it, you will have this behind you and a fresh start!" the site says.

A foreclosure will stay as a "strong negative" on your credit report for as long as seven years, though the impact on a borrower's credit score declines over time, says Mike Campbell, chief operating officer of Fair Isaac Corp., maker of the popular FICO credit score.

"Every single person we talk to either owes 100% [of their equity] or is upside down anywhere from $10,000 to $300,000," says John Maddux, co-founder of YouWalkAway.com, which charges borrowers about $1,000 for advice. Mr. Maddux says the site has received more than 190,000 visits and about 20% of their clients are investors.

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