

Walking Away From The House She Can Afford

by TAMARA KEITH



Enlarge

Tamara Keith/NPR

Heather Baker is walking away from her four-bedroom home in a Washington, D.C., suburb.

December 25, 2009

text size **A A A**

Many homeowners who are tens thousands of dollars underwater on their mortgages — meaning they owe more than the value of their homes — have decided it's just not worth it. Some, like Heather Baker, can even afford their payments, but they're walking away anyway.

Baker is done with being a homeowner. Last month, she stopped paying her mortgage.

"Who says that my American dream has to be a home with a white picket fence and all of that?" says Baker, sitting at her dining room table.

But that's not what she was saying three years ago when she bought her four-bedroom home in a distant suburb of Washington, D.C. Baker was about to turn 40 and felt like she needed to own.

"I was like, 'Wow, you know, I need to have a home. I need to be in a home,' " Baker says. "My birthday was in September. I purchased the house in August. So I got the house before I turned 40, but it wasn't a great investment."

A Bad Investment

She figures the house she bought for \$465,000 won't sell for more than \$225,000 now. That lower figure is what a house down the street went for earlier this year in a foreclosure auction. Like a lot of people, Baker bought her house with no money down. The mortgage broker she worked with told her she qualified for the loan based on her credit score alone.

"He was like, 'Go get whatever house you want. It doesn't matter.' And that's pretty much what I did, unfortunately," Baker says.

Starting to sound familiar? Baker's experience is a classic case of the mixed-up logic that ruled the housing boom. But there's a difference: Baker is solidly upper middle class. She has a good income and can actually afford her payments.

"I'm looking at the investment part of it," she says. "Not just, 'OK, yes, I can afford this house.' But I just don't see it as a good investment."

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Baker and two daughters plan to live in this house payment-free for the next several months. Then, before her foreclosure is finalized and her lenders kick her out, she'll move into a rented townhouse that's almost as big as her house. She'll pay hundreds less each month and cut her commute in half.

"I hate to sound cold and uncaring and contract-breaking, but I'm really OK with it," Baker says. "I'm actually looking forward to moving."

A Strategic Default

This is what's known as a strategic default. She's giving up her house as a business decision — not because she has to.

Walking around her neighborhood, Baker says she feels bad for her neighbors who bought high like she did and will be left with a foreclosed home on their block.

"But I'm not the first to do it. It happened right here in this house," she says, pointing to a two-story home with a satellite dish mounted on it.

Not being the first foreclosure on the street made her decision a whole lot easier.

"I hope that my neighbors would know that that had a lot of bearing on my situation," Baker says.

She isn't alone. A recent study from Experian-Oliver Wyman found that 17 percent of the mortgage defaults in 2008 were strategic.

"The majority of the people that call us this year, I would say, and even more so in the last few months, are people like her," says Jon Maddux, CEO of Youwalkaway.com.

For a fee, the company guides homeowners through the foreclosure process. Baker is one of the firm's clients.

"They've run the numbers," Maddux says. "They've done the math, and if they strategically default they are going to possibly have a better outcome in the end, financially."

But it's not always so simple.

"It's more than an economic decision. It's a contract," says Guy Cecala, publisher of *Inside Mortgage Finance*. "There are liabilities associated with defaulting on a loan."

He says in most states banks can come after homeowners for the losses caused by the default. And a foreclosure is a black mark on credit reports for seven to 10 years.

Baker knows all this — and she's still walking away.

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Recent First



Christopher Wallis (eumenides) wrote:

It occurred to me that I am familiar with the process for foreclosures and short-sales (not me, but friends). First, if you can't or won't continue repaying your loan, the property involved (car, house, etc) is usually surrendered to a third-party. The third-party handles the sale of the property, takes a cut, and sends a bill for any remaining debt. Sometimes the third-party buys the loan outright from the lender, and works out a new deal with the original borrower for repayment. Often, the lender (often not the issuer of the loan) settles for less than the original

value of the loan. The original borrower is then only responsible for the difference between the settlement amount and the price that the home sells for. Now heres the tricky part, legal action is very complicated if A) the lender won't settle, thus tying up the loan and house, B) the house doesn't sell, in which case the amount owed by the borrower cannot be determined, or C) the lender and/or issuer are already under an injunction while the legality of the original contract is determined in court. It could take years, and much more money than the value of the loan, to settle a case like Baker's. Or, the lender can take the settlement for what its worth.

December 26, 2009 2:28:21 AM PST

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david mcneil (davidmcneil) wrote:

Now that I've read the comments, I'm even more certain of my posted opinion. Too many people keep lining up like sheep to the slaughter believing the farmer who claims he is just giving a shave while he is about to cut your throat.

Mz Baker took a decision and that is her decision. If there are consequences, it is hers to bear... unless of course she can opt out again.

Its not always wise to do the things you are brainwashed to do. Brainwashers never do what they teach. If a ship is sinking I see no obligation to stay with it because I bought a ticket... especially when the captain is safely in retirement in Texas, leaving this mess to be cleaned up by someone who we are blaming instead of putting those really responsible for these malfeasances on trial.

As for D Scully, continue rebutting. You are sharp.

December 26, 2009 2:20:30 AM PST

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Christopher Wallis (eumenides) wrote:

Everyone knows, when you gamble the house always wins. Banks gamble, and banks are not the house. Forget your daytime TV morality about contracts and loans, the bank has a responsibility to conduct its business wisely, and in the last couple decades (at least) they have not.

December 26, 2009 2:13:39 AM PST

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Donna A (Donna_RN) wrote:

The story about this lady makes me angry. While she is not the Cause of the Financial mess - she is certainly Contributing to it!

I hope that the bank goes after her for the difference between what she borrowed- and what they (bank) are able to sell the house for.

That would be the Amount of Loss that she should be responsible for - for her First bad decision (buying the house).

I do not care if she wants to make poor financial decisions, but Her Actions are affecting Others. (her neighbors property values)

The article clearly states that she CAN afford her payments.

She will be CHEATING by living Rent / Mortgage Free until her foreclosure is final.

December 26, 2009 1:56:36 AM PST

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david mcneil (davidmcneil) wrote:

Is interesting how moralising and judgemental some of those posts are. Baker is just doing what has become standard operating procedure for practically every business and government entity. It is now the norm and the last to catch on is the consumer.

This lady has greater obligation to her children and its a wise financial decision that she took.

The point has been made about the contract credit card companies make, the promise that politicians make, the contract that your employer made and the contract that the insurance companies make. All are susceptible to be broken on a whim.

When things change my cc companies dont feel obligated to stick with the contract, neither should we. We just dont have the legal power and lobbyists that they do. But we should have a moral authority to protect ourselves against thieves.

I would trust this ladies judgement and just on this basis, i can't say I distrust her. Which of you moralisers is without fault?

To Ms Baker, "You go girl".

December 26, 2009 1:37:53 AM PST

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Some Guy (You_know) wrote:

Sorry but this whole story sounds fishy. Maybe NPR is getting scammed.

"Baker is solidly upper middle class. She has a good income and can actually afford her payments. "

Really?

What does she do for a living? If really upper middle class, then my guess is that she is a federal government employee in an administrative position, GS-14 or higher. Why don't you tell us what she does? Her employer might want to know of her financial shenanigans, especially if it is the federal government.

"Upper middle class" but bought a house with no money down? A nearly half million dollar house? Why? She had no savings despite an upper middle class income?

Baker is a client of some outfit that "ran the math for her" and told her to default? Why don't you reproduce this math on your web site so we all can see it?

December 26, 2009 1:26:12 AM PST

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Final Word (myfinalword) wrote:

LET ME TELL YOU ABOUT FINANCIAL RESPONSIBILITY... The housing bubble and economic collapse was partially caused (a LARGE partially) by banks failing to do due diligence on their loan-making, liar loans being the worst example, and by financial entities who outsmarted themselves by doing (or not doing) the mathematics of their own financial creations, SIVs & CDOs (& AIG) being the worst examples. Please explain to me the morality of why anyone who bought at the height of the bubble, who did due diligence like me, should now face a lifetime of indentured servitude to these same financial institutions?

My house was grossly overvalued when I bought it due to a bubble largely created, encouraged and denied the whole time by these financial institutions. It's now worth half what I owe them on it, and probably won't ever again be worth my original loan amount. And now these geniuses have been bailed out by the government, they're stalling and refusing loan modifications to the little people who now ALSO need help. Well, I'm no genius myself, but what I do know is this: I won't lose a single night of sleep by walking away.

December 26, 2009 12:54:17 AM PST

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D Scully (DScullyDScully) wrote:

euphony euphony (euphony69) wrote:

Though it looks bad lot of people will do the same. She did not do anything illegal. It may be unethical but how many middle calss people are willing to loose 200K and woory about ethics. Ethics are out question in capitalism
Even rich people in this country are unethical. Look at all those CEOs who bankrupted companies and still made tonnes of money.
She is just a tiny fish in the pond

In America, you only have to be moral and ethical if you are middle class or poor.

December 26, 2009 12:41:45 AM PST

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D Scully (DScullyDScully) wrote:

Lindsey Hanahan (lindseydh) wrote:

So the new norm is now "gee, I'm just going to let this house go even though I can afford it"?
???? ARE YOU KIDDING ME? Okay, it's a bad investment...so SELL IT AND TAKE THE LOSS. But what is this idea that no one is responsible for anything??? This woman is going to (a) ruin her credit rating, (b)make a choice that shows, as an African American, she would rather scam the system than simply take the loss, and (c)basically screw the neighborhood by adding a foreclosure when she could simply add the sale - which, while low, is not as damaging as the foreclosure. What an incredible disgrace.

And - HELLO - if she is a bright, middle class woman why on earth did she believe her obviously idiotic mortgage broker. GET A BRAIN! And an OUNCE of RESPONSIBILITY FOR

YOUR OWN CHOICES!!!!

What does being black have to do with anything? Maybe you should find a racial sensitivity class.

December 26, 2009 12:40:06 AM PST

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D Scully (DScullyDScully) wrote:

Jerry Capra (jc132), I might need you to explain about the "getting healthcare for free" thing. I've never heard anyone who thought that they were going to get free healthcare in America.

I've never heard anyone say that they thought that they were going to get healthcare without paying a premium. So...where do you get all of that stuff...or do you make it up as you go?

December 26, 2009 12:38:10 AM PST

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