

More homeowners mailing keys to lenders instead of payments

Owing more than home is worth, recent buyers walk away

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Instead of mailing in their monthly mortgage payment, a growing number of homeowners are sending lenders their keys.

As housing prices fall and rates on some mortgage loans rise, more homeowners are walking away from their homes, according to housing-market watchers.

These typically are people who can afford their mortgage but don't want to pay on a loan that is more than their house is worth. They'll live with the stigma or credit ding from a foreclosure just to get out from under their loan.

The growing trend, called "jingle mail," is pushing up foreclosures and alarming market watchers, particularly in metropolitan Phoenix, where home prices have dropped 18 percent in the past year.

Foreclosures across metropolitan Phoenix climbed to a record 2,365 in March, according to the real-estate data firm Information Market. That is more than quadruple the number from a year ago.

Joan Shaffer is turning in the keys of the north Phoenix Tatum Ranch home she bought with her daughter in late 2005. They put nothing down on the home, took out a loan that let them pay less than they owed each month and now their loan is \$200,000 more than the house is worth.

"We paid \$585,000. It was the peak of the market, but no one told us," said Shaffer, a real-estate agent from Colorado. "We would probably have to spend the next 20 years trying to get right on the mortgage. That's crazy."

Assessing trend

The mortgage industry is struggling to estimate how many homes are going into foreclosure because of people who don't want to pay, rather than because of people who can't afford to pay.

Industry estimates and anecdotes suggest the figure is climbing in the Valley because so many people who bought during the peak are now upside down in their mortgages.

Real-estate agents are hearing it more often from people who can't sell. Mortgage lenders are reporting getting more jingle mail, and now there are businesses advising homeowners how to walk away.

"Even if someone put 5 to 10 percent down but bought in the Valley during '05 or '06, they are likely upside down now," said Brett Barry of the north Phoenix office of Realty Executives. "I don't advise people to walk away, but how do you convince someone to keep paying when they owe so much more than their home is worth? They can't sell, and their lender isn't going to forgive \$100,000 in principal. It's not good."

Investors started the walk-away trend, but it has spread to the typical homeowner.

Housing analyst RL Brown said he is hearing about young families who bought during the peak and are now walking away from houses as the interest rates on their loans reset and payments increase.

"Instead of calling it a foreclosure, these couples are saying, 'We're giving it back to the bank,' and then moving a couple of blocks away and renting a home for half their mortgage payment," he said. "These people are finding it easier to walk away."

Businesses are popping up that guide homeowners on the best way to walk away from their mortgage. One firm, Youwalkaway.com, tells unhappy homeowners to ask themselves these questions: Are you stressed out about your mortgage payments? Do you have little or no equity in your home? What if you could live payment-free for up to eight months and walk away without owing a penny?

Avoiding bankruptcy

For the first time, homeowners seem to be more willing to let their houses go into foreclosure to stave off bankruptcy.

In the past, homeowners would file for bankruptcy to keep their houses. Now, mortgage delinquencies have climbed faster and higher than late payments on credit-card and car loans. Economists say that is a sign people are more concerned about their credit than their home.

"Homes have gone from being a place to live to a disposable investment for some," said Jay Butler, director of realty studies at Arizona State University's Polytechnic campus. "It used to be that paying the mortgage was the top priority. Now, it's keeping the credit cards."

He said one reason is some homeowners think that with all the foreclosures, there will be programs to help them when they buy again.

It usually takes three years of perfect credit payments after a bankruptcy before someone's credit score is high enough to buy a home. Recently, people could buy a home again two years after a foreclosure.

Also, the Mortgage Forgiveness Debt Relief Act of 2007 took some of the penalty away from a homeowner filing for foreclosure. Before the act, if a bank sold a foreclosed home for less than the mortgage and forgave the rest of the debt, the borrower had to pay tax on the difference. Now, the Internal Revenue Service is forgiving the difference.

Lenders push back

But now as the number of people walking away is climbing, lenders are working on ways to punish those homeowners.

Earlier this week, mortgage giant Fannie Mae said homeowners who stop making payments and then send their keys back to lenders months later will not be able to get another mortgage through that firm for five years. Freddie Mac also is going after walk-away borrowers, mortgage lenders say.

Neighbors of the people who walk away are already being punished by lower home values due to the foreclosure.

"People should hang in there as long as they can, ask for help and try to work with their lender," said Margie O'Campo De Castillo of Arizona Dream Realty. "Foreclosures are dragging down our housing market, and unnecessary foreclosures are selfish and unfair to the homeowners struggling to pay."