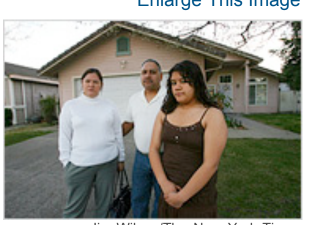
Facing Default, Some Walk Out on New Homes

By JOHN LELAND
Published: February 29, 2008

E-MAIL
PRINT
SINGLE PAGE
REPRINTS
SAVE
SHARE

When Raymond Zulueta went into default on his mortgage last year, he did what a lot of people do. He worried.

Enlarge This Image



Jim Wilson/The New York Times

Raymond Zulueta, with his wife, Josey and daughter, amber in front of their foreclosed home.

In a declining housing market, he owed more than the house was worth, and his mortgage payments, even on an interest-only loan, had shot up to $2,600, more than he could afford. "I was terrified," said Mr. Zulueta, who services automated teller machines for an armored car company in the San Francisco area.

Then in January he learned about a new company in San Diego called You Walk Away that does just what its name says. For $995, it helps people walk away from their homes, ceding them to the banks in foreclosure.

Last week he moved into a three-bedroom rental home for $1,200 a month, less than half the cost of his mortgage. The old house is now the lender's problem. "They took the negativity out of my life," Mr. Zulueta said of You Walk Away. "I was stressing over nothing."

You Walk Away is a small sign of broad changes in the way many Americans look at housing. In an era in which new types of loans allowed many home buyers to move in with little or no down payment, and to cash out any equity by refinancing, the meaning of homeownership and foreclosure have changed, economists and housing experts say.

Last year the median down payment on home purchases was 9 percent, down from 20 percent in 1989, according to a survey by the National Association of Realtors. Twenty-nine percent of buyers put no money down. For first-time home buyers, the median was 2 percent. And many borrowed more than the price of the home in order to cover closing costs.

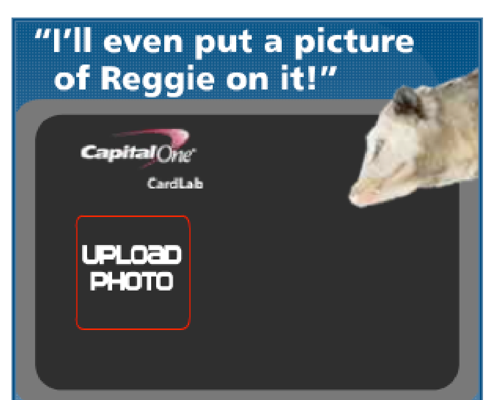
"I think I could make a case that some borrowers were 'renting' (with risk), rather than owning," Nicolas P. Retsinas, director of the Joint Center for Housing Studies at Harvard University, said in an e-mail message.

For some people, then, foreclosure becomes something akin to eviction — a traumatic event, and a blow to one's credit record, but not one that involves loss of life savings or

More Articles in US »

Politics E-Mail

Keep up with the 2008 presidential election with the daily Politics e-mail newsletter. See Sample
jonmaddux@mac.com Sign Up
Change E-mail Address | Privacy Policy



MOST POPULAR

E-MAILED | BLOGGED | SEARCHED

1. Gail Collins: Hillary, Buckeye Girl
2. Op-Ed Contributor: I'm Not Running for President, but ...
3. Findings: The Advantages of Closing a Few Doors
4. 1 in 100 U.S. Adults Behind Bars, New Study Says
5. He Listens. He Cares. He Isn't Real.
6. Personal Best: Does Weight Lifting Make a Better Athlete?
7. Maureen Dowd: Begrudging His Bedazzling
8. Skin Deep: Never Too Young for That First Pedicure
9. Louisiana Governor Pierces Business as Usual
10. Leadville Journal: Mine Water Poses Danger of a Toxic Gusher

Go to Complete List »

The New York Times MOVIES
nytimes.com/movies

event, and a blow to one's credit record, but not one that involves loss of life savings or of years spent scrimping to buy the home.

"There certainly appears to be more willingness on the part of borrowers to walk away from mortgages," said John Mechem, spokesman for the Mortgage Bankers Association, who noted that in the past, many would try to save their homes.

In recent months top executives from Bank of America, JPMorgan Chase and Wachovia have all described a new willingness by borrowers to walk away from mortgages.

Carrie Newhouse, a real estate agent who also works as a loss mitigation consultant for mortgage lenders in Minneapolis-St. Paul, said she saw many homeowners who looked at foreclosure as a first option, preferable to dealing with their lender. "I've had people say to me, 'My house isn't worth what I owe, why should I continue to make payments on it?' " Mrs. Newhouse said.

"You bought an adjustable rate mortgage and you're mad the bank is adjusting the rate," she said. "And sometimes the bank people who call these consumers aren't really nice. Not that the bank has the responsibility to be your friend, but a lot are just so uncooperative."

The same sorts of loans that drove the real estate boom now change the nature of foreclosure, giving borrowers incentives to walk away, said Todd Sinai, an associate professor of real estate at the Wharton School of Business at the University of Pennsylvania.

"There's a whole lot of people who would've been stuck as renters without these exotic loan products," Professor Sinai said. "Now it's like they can do their renting from the bank, and if house values go up, they become the owner. If they go down, you have the choice to give the house back to the bank. You aren't any worse off than renting, and you got a chance to do extremely well. If it's heads I win, tails the bank loses, it's worth the gamble."

In the boom market, homeowners took their winnings, withdrawing $800 billion in equity from their homes in 2005 alone, according to RGE Monitor, an online financial research firm.

Since the Depression, American government policy has encouraged homeownership as an absolute good. It protects people from increases in rent and allows them to build equity as they pay off their mortgages. And it creates stability in communities, because owners are invested in their neighbors.

But new types of loans like interest-only mortgages and cash-out refinance loans mean buyers do not pay down their mortgages. And adjustable rate mortgages, which accounted for 39 percent of mortgages written in 2006, expose owners to rent-like rises in their housing costs.

The value of homeownership, then, has increasingly shifted to the home's likelihood to rise in value, like any other investment. And when investments go bad, people tend to walk away.

1 | 2 | NEXT PAGE »

More Articles in US »

The most popular movies among readers.

A complete Oscar night wrap-up

Also in Movies:
- Oscar fashion from the red carpet
- The Carpetbagger's Oscar night blogging
- Scenes from the Oscars

ADVERTISEMENTS

Which movies made the 1,000 Best list?

The blog that covers all things Oscar

Which movies do the Critics recommend?

Watch A.O. Scott's video reviews of movies.

The New York Times STORE

"The Amazin's," 80-page Commemorative Newspaper and Box
Buy Now

Ads by Google what's this?

Comerica Local Banking
Open a New Account & Get $100 Visit Your Local Branch Today!
Comerica.com

Check Eligibility
Government Housing Grant Easy, Simple and Free!
www.MyGovernmentResources.com

Free Grant Kit- 2008
Get $20,000 In Hud Housing Grants. Never Repay, Today Only!
HudHousing.GrantInspector.com

Tips

To find reference information about the words used in this article, double-click on any word, phrase or name. A new window will open with a dictionary definition or encyclopedia entry.

Past Coverage

IN THE REGION | CONNECTICUT; Confronting a Wave of Foreclosures (February 24, 2008)
Confronting a Wave of Foreclosures (February 24, 2008)
IN THE REGION | CONNECTICUT; Confronting a Wave of Foreclosures (February 24, 2008)
Rescues for Homeowners in Debt Weighed (February 22, 2008)

Related Searches

Foreclosures Add Alert
Housing Add Alert
Mortgages Add Alert
Banks and Banking Add Alert

INSIDE NYTIMES.COM

OPINION »

Michael Bloomberg: I'm Not Running, but ...

ART & DESIGN »

Guggenheim's Provocative Director Steps Down

HOME & GARDEN »

A Refugee From Gangland

U.S. »

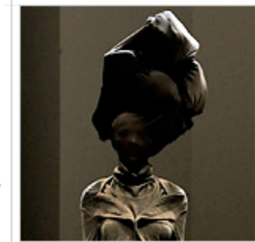
Mine Water Poses Danger of a Toxic Gusher

OPINION »

Editorial: New Jersey's Warning

The state's woes serve as a warning against using budget gimmickry to skirt fiscal troubles.

FASHION & STYLE »



They Come Bearing Mystique

Home | World | U.S. | N.Y. / Region | Business | Technology | Science | Health | Sports | Opinion | Arts | Style | Travel | Jobs | Real Estate | Automobiles | Back to Top

Copyright 2008 The New York Times Company | Privacy Policy | Search | Corrections | RSS | First Look | Help | Contact Us | Work for Us | Site Map