



POSTED: MARCH 7, 2010



Think twice before walking away

BY SUSAN TOMPOR
FREE PRESS COLUMNIST

If murky water is rising around your mortgage, do you bail? Or keep treading and hope home prices rise before you drown?

Before you throw up your hands and walk away, here are some things to consider if you are underwater -- owing more on your place than it is worth.

First, figure out if you'll ever break even. If you love your neighborhood and the house is worth 10% less than you paid for it, remaining patient is likely to pay off.

But be warned that it could be decades before some housing prices are back to their heyday levels.

Keith Gumbinger, vice president of HSH Associates Financial Publishers, which publishes consumer loan information, gives an example of a buyer who put 5% down for a \$200,000 home in 2006. The home's value may have dropped about 30% by now.

Even if housing values started rising this year -- an unlikely scenario by most projections -- Gumbinger estimates that the homeowner finally could be above water by 2015.

But in five years, the owner still could have no equity in the home. Based on Gumbinger's estimates, the house would be worth about \$161,000, still well below the 2006 price.

If home values appreciate at 3% a year, he said, it could be 2022 before that home purchased for \$200,000 in 2006 can be sold for \$200,000. Can you wait around 12 years just to get back to the purchase price?

Federal loan modification or refinancing programs through the Making Home Affordable program can help some people wait out the housing slump. But the rules can be tough hurdles.

Under the program, for example, your first mortgage cannot exceed 125% of the current market value of the property. If your property is worth \$200,000 but you owe \$260,000 or more on your mortgage, you don't qualify. The loan on the property also must be guaranteed by Fannie Mae or Freddie Mac.

And you must have a job or be able to show that you can afford the new payments.

Kathy Conley, housing specialist for **GreenPath Debt Solutions** in Farmington Hills, said homeowners won't qualify for the Home Affordable Refinance Program if they've paid the mortgage late in the last 12 months.

Some rules relating to loan modifications also can stop you in your tracks.

Conley cited two: You must be able to document a hardship for the federal program. And the homeowner must show that more than 31% of each month's gross income is going toward the house for principal and interest, property taxes, insurance and any association fees.

Talking to a nonprofit housing counselor, such as **GreenPath**, can help. So can talking to your lender. If you are denied help through a federal program, there might be an in-house modification through your lender.

Walking away sounds so attractive -- I know. But throwing the keys in the ditch or the mail will have some troubling implications on your credit score, as well as possible legal ramifications. Also, how will you feel after giving up? How easy emotionally will it be to just walk away?

The trick in all this is to take the time to find a solution that truly rebuilds your financial foundation.

Contact SUSAN TOMPOR: 313-222-8876 or stompor@freepress.com