

Better think twice before walking away from mortgage

by Ilyce_Glink

Q: My husband and I just had twins, and the house that we purchased two years ago is way too small now. We tried selling it privately but with the market today, the offers that we received were very low, about \$35,000 less than what is owed on our current mortgage.

I know that walking away from our current home would be irresponsible on our part, but we are not able to sell for what the house is worth. (It seems like we are not the only people having this problem.)

What are the legal and monetary consequences of walking away? We have done a lot of research on this and we are so confused about what to do. We do not want to walk away and then get hit with a \$25,000 judgment against us two years down the line demanding payment because when our house is auctioned off, or when the lender decides it wants its money.

We have also looked into selling our home through private investors and were told that they wouldn't even offer us \$200,000 for our house. But we have \$235,000 left on our mortgage. Any information that you can give us would be appreciated.

A: Congratulations on growing your family. It's unfortunate that you feel your house is too small for your growing family, but like many Americans, you're stuck in a position with no easy way to get out.

If you can't sell your home for at least the amount on your mortgage, then you have to be willing to come to the table with the missing money. In your case, that would be \$35,000 plus the expenses of selling your home, including the broker's commission, transfer stamps, moving costs and other fees.

You'll be in the hole maybe \$40,000 to \$45,000. Your loan agreements require you to make the lender whole, which means reaching into your pocket for those costs. If you can't do that, then you'd have to ask the lender to do a short sale.

A short sale means that the lender will accept whatever amount you get in the sale in full payment of the loan. The missing money, maybe \$35,000 or more in your case, could be forgiven, if the lender doesn't believe you actually have cash available (or can raise it somehow). One way would be to liquidate your 401(k) accounts or IRAs.

(In times past, you'd also have to pay tax on that missing money, which the IRS would see as income, and

which would push you into a higher tax bracket. The good news is that a recent change the tax code means the forgiven amount is no longer taxed.)

I don't know how small your house is, but even if it is just two bedrooms, I think it's foolish to try and leave now. You're just going to dig yourself into a serious financial hole from which you might never emerge.

Let's look at it: Once you sell your home in a short sale, you'll be broke and your credit will take a big hit. You won't be able to afford to buy a bigger home because you won't have any cash for a down payment and your credit might still be tarnished.

The way I see it, you have two choices: You can stay put and live cheaply, and hope that your neighborhood comes back in the next couple of years. Or you can rent out your home and find a larger house to rent until the market stabilizes.

And by the way, you're right about one thing: It's irresponsible to think you can dump your house and move on without having any serious financial repercussions from this act. Trust me: This move may haunt you for the next 10 years.

Please talk to a real estate attorney who can help walk you through the financial realities of a foreclosure or short sale.

Q: There are so many reports of problems with synthetic stucco, yet there are so many companies still selling this product.

Is this problem with the product only when installed over a framed house, causing moisture build-up versus installation over a concrete ICF insulated block house where there is no place for moisture build-up?

We are building new homes with ICF blocks and concrete and have had a good experience with them in the past. However, we have never used this synthetic stucco material for siding, and I am not looking to use any products with problems.

Please give me any feedback you can.

A: In general, synthetic stucco, also known as EIFS (exterior insulation finishing system), is a polymer-based product. It's a form of plastic that is essentially installed over specially designed board that goes over plywood or concrete bricks.

When I last reported on this issue, the basic problem with synthetic stucco was that moisture would get in through cracks in the exterior, either because the material would crack over time or because it was installed improperly.

Because synthetic stucco is a plastic, it traps the moisture between the exterior and the plywood, or even to the studs themselves. Eventually, mold would form and the house would basically rot from the inside out.

Homeowners living in states where it is hot and humid have had the biggest problems with synthetic stucco over time. However, there appear to have been fewer problems with synthetic stucco that is installed over concrete block, and it has been used successfully in commercial buildings.

The issue for you to determine is whether installing synthetic stucco over insulated concrete blocks would cause a problem for the home you're building

Some insulated concrete block home manufacturers indicated that either a traditional stucco or synthetic stucco may be applied over the blocks. Because of the negative public perception about synthetic stucco products, you might want to be careful before choosing to use this product.

Before you decide on any one product (there are several synthetic stucco manufacturers), I'd check it out thoroughly. Look for any manufacturers' reports on the product and then use the Internet to search out whether problems have been reported. A recent search on Google found 86,500 Web site links for "synthetic stucco," including several law firms that claim to specialize in product liability lawsuits.

But if you're not looking for problems in construction, you may want to consider other exterior finishes.
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