

# Think carefully before you walk away from an upside down mortgage

Is your mortgage upside down?

With the drop in value of homes around New Hampshire, it may seem like an enticing move to get out from underneath paying the mortgage on a home that is now worth much less than when you bought it -- especially when the same amount of money could now buy a bigger or newer home!

But, don't make a move before contemplating the reasons that made becoming a home owner attractive in the first place. Many home owners don't just purchase a home based on its value relative to other homes; they select a home for its layout and location to schools and other amenities that meet individual or family needs. These considerations are important because fundamental reasons for purchasing a house are often related to setting down roots, raising a family and becoming part of community -- not making a financial investment.

So before making the decision to walk away, here are some things to consider:

- *Do you know the value of your home?* Financially speaking, the decline in home values reported by the national media doesn't necessarily apply to all properties. For example, in at least five states values have declined by more than 20%. Values in New Hampshire for the same period have dropped only 15%, roughly to what they were in 2003. Further, home values in individual neighborhoods may not have decreased much despite the statewide average reported.

Don't forget: the real estate market is dynamic. Values increase, fall and rise again. As the housing market recovers, homes may again experience return in value.

There are, of course, other values associated with home ownership such as having a safe, stable environment in which to raise a family.

- *Are you able to make your current mortgage payment?* If you are, it may make sense to ride out the current housing situation. Each month, part of your mortgage payment goes toward reducing your principal balance. Depending on how long you have had your mortgage, the principal reduction should begin to comprise more of your total monthly payment and build equity over time.
- *Do you have the right to stop paying back a loan?* If you have ever purchased a new vehicle, you already understand what it means to owe on an asset that is worth less than the price you paid. However, if you stopped making the car payments, the lender would take the car, sell it and potentially seek from you any balance still owed. The same process happens with a house when you default on the loan payments.

While you technically have the right to stop paying back the loan, actually doing so means you will lose any equity you have built. And, most importantly, you and your family will lose your home.

- *Do you understand the impact walking away from a home loan will have on your credit rating?* When you stop making your payments, financial institutions transmit this information to credit reporting agencies and it becomes part of your credit record that, in turn, affects your credit score.

Your credit score is used by many institutions to make lending decisions. Buying another house, renting an apartment, purchasing or leasing a car, or securing a credit card may

become more difficult with a lower credit score. Further, some companies use credit reports as part of their hiring process and insurance companies often use credit reports to determine rates. So, a lower credit score can have far-reaching consequences.

While walking away from an upside down mortgage may seem like a good idea for short-term financial reasons, just remember that you are also choosing to walk away from your home.

If you are concerned about your mortgage, consider checking to see if you are eligible for resources available through the federal Making Home Affordable program. Visit [www.makinghomeaffordable.gov](http://www.makinghomeaffordable.gov) to see if you qualify. As with any important financial decision, it is also helpful to consult with a professional. A great resource for New Hampshire home owners is [www.homehelpnh.org](http://www.homehelpnh.org). This website can help you find a free home ownership counselor in your area, and it provides additional resources to assist you with making decisions about your mortgage.

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