

## When Should You Walk Away From Your Mortgage

Over on MSN Money, [Liz Pulliam Weston](#) wrote an article entitled, "[Are You Foolish to Pay Your Mortgage?](#)" I get asked this question all the time, is it worth it to keep my home? I'm passionate about this subject on behalf of my clients, whom I advise whether filing bankruptcy is in their best interests financially. What really caught my eye about this article was Law Professor Brent White's paper, "[Underwater and Not Walking Away: Shame, Fear and the Social Management of the Housing Crisis.](#)" I agree with Liz that this is a must read for the finer points and Liz certainly summarizes his points from her perspective that we all need to do our best to save our homes and we all must make the best of a bad situation and know when it's time to walk away from our mortgages.

The good news is that **California is a 'non-recourse' state**. This means that lender cannot pursue defaulting homeowners for deficiency judgments where they owe more than what the house is worth or what the lender might receive in a short sale or foreclosure sale. For Californian's this is good news too because their will be no income tax on the cancelled debt or capital gains taxes to be paid on the deficiency.

Knowing that we won't get taxed or sued after we walk away from our mortgages here in California should bring a sigh of relief, but when is it a good financial decision to walk away? Professor White says that when the net cost of homeownership becomes more expensive than the net cost of renting is when you should walk away. His article provides in-depth details and citations and even a hypothetical example of a couple who bought their home in 2006, at the height of the real estate boom. To make it easy, I've found a [housing cost calculator](#) on the internet that might help, but I wouldn't base any decision solely on this information.

I think the biggest challenge is to walk the imaginary road into the future and ask yourself whether you'll be better off in the long run. I suggest that if you can afford your mortgage payment now, even though you're home's value is less than what you owe, you may be better off in 20 years than if you had rented. Why? In 20 years you will likely have paid down your principal, or even paid off your mortgage and if you've been maintaining your home, you're maintenance costs will likely have dropped. If you rented for 20 years, you're still a renter and we all know the cost to rent will invariably rise over that time too.

I agree with Liz when she says to "**Get Help.**" Talk to your HUD Counselor, your tax professional and your local bankruptcy lawyer. The sooner, the better. Don't spend down any savings trying to save a sinking ship because you may end up in a worse financial situation.