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Moral crisis: Pay, or walk away?

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Stephen Price is a Fort Myers banker who abhors the idea of taking a property for nonpayment of a mortgage.

But now, he's finding half of his foreclosures involve borrowers who could have paid but "just didn't want to."

Then there's Don Gillions, who stopped making payments on his Cape Coral house and moved out only after trying twice to make a deal with the mortgage holder, writing in a letter "we want to pay everything that is owed."

He calls the out-of-area lender, who he said ignored him, "stupid and greedy."

Both are dealing with issues of integrity. And the issue of "walking away" from a mortgage is one of the most visible of our hard times.

"A considerable contributor to the recession is the integrity issue," said Price, CEO of Florida Community Banks. "People who walked off from their mortgages."

That integrity issue lurks behind the pain, grief, anger, big financial losses and assaults on families and businesses that characterize the deep and deepening recession.

As we wrestle with the economy, we wrestle with the question: What is right and what is wrong?

Do hard times make doing the right thing more difficult for people caught up in the falling stock market, the lost jobs that are growing monthly and a Lee County mortgage foreclosure record that is the highest in the nation?

Amid all this are seemingly simple moral questions made complicated not only by desperate situations, but also by the complexity of high finance.

Is it ethical to walk away from a mortgage, dumping the house valued at less than what is owed back on the bank?

Is it right for banks to refuse to negotiate before foreclosing on a family home?

Professional ethicists, teachers of morality, bankers and people in distress have differing views, but they often end up at the same villain: greed.

Price said the people who walk away from a mortgage escalated the widespread decline in real estate prices.

"The value of that house went down so the people quit paying. Had people decided not to bail on loans they could pay, I don't think the economy would be as bad as it is. Home values would stay at higher levels and foreclosures would be as high as they are," he said.

"There definitely is a moral decline in America," he continued. "Not just a moral decline, but greed - the emphasis on wealth. There is a real push toward the belief that everyone is entitled to some kind of wealth, so people are not afraid to go into debt.

"They don't make enough money to pay back that debt, so they adopt the 'greater fool theory' - the belief that the greater fool would come along and bail you out."

He cited as examples the real estate speculators who bought property at high prices, figuring a "greater fool" would come along and pay even more.

Price believes the 50 percent of his delinquent borrowers who walk away are those with whom he tried to work out a solution. They decline, he said, because "there is no stigma attached to it anymore."

"When I started, people's word was worth something," he said. "You've got to be very careful making a character loan today."

Gillions, 53, and now living in a rented home with his family in Fort Myers, said the greed of his lender resulted in a "courthouse steps" sale of the house for $150,000. He paid $368,000 for the house in 2006.

Gillions is self-employed and the recession hit his storage business, so he decided he needed to get rid of the house in September 2007. He tried to deal with the lender before being late on a single payment. Last summer, he tried again. His payments, taxes and utilities totaled $4,400 a month.

"Are we supposed to spend $50,000 a year on housing expenses, year after year, on a $368,000 loan on a place that was worth $150,000?" he asked rhetorically.

Gillions said he has saved $50,000 since moving out.

The "walk away" mentality has become big business for Jon Maddux, CEO of a Web site called just that: walkaway.com.

In a year, he has sold 3,000 contracts at $995 each helping people walk away from their mortgages.

A key sales point is that he promises the person can live in the home rent free - i.e., without making payments - while it goes through the foreclosure process. In Florida, that could be as long as 18 months.

"We are selling peace of mind for people who are in tremendous need," said Maddux, who has headquarters in California. "They are scared out of their mind that the sheriff is going to come; that they may have to move in the

middle of the night so as not be embarrassed before the neighbors."
He said his version of a "walkaway" is a "structured, civilized way."
Maddux acknowledges that the name of his Web site is controversial.
"Some people love it; some people hate it," he said.
"Some people say it is not responsible, but I say it is the responsible way," he said.
Mahlon Hetrick, founder and president of Christian Financial Counseling in Fort Myers, tends to agree that walking away is sometimes the only way.
"Banks were making loans they shouldn't be making to people who couldn't afford to buy a house," he said.
"I feel both parties are guilty. I feel the lender is more at fault. They should know the market and should not make loans to people who can't afford them. Shall we say the bottom line is greed?"
Hence, he said, people need to walk away "when they don't have an option."
Hetrick, who counsels people on managing personal finances three days a week in his downtown Fort Myers office, said the rampant use of credit cards started the downward trend. People had so much credit card and car payment debt that they couldn't afford a house down payment. The lenders, greedy to make loans, relaxed standards.
Hetrick said he counseled one couple, both 69, who had $121,000 in credit card debt.
"There is no way they could pay them off in their lifetime," he said.
Fort Myers lawyer Kevin Jursinski, too, believes it is often in a borrower's interest to give the house back, but has devised a program to do it in what he describes as "an ethical and businesslike way."
"There is a lot of drama in this," he said. "It is emotional. People will sit in my office and just cry, even investors. Since 1981, I have never seen such a sad situation.
"So, let's get rid of the drama. Do it in a business-like way. Give the property back to the lender right away when it is in good condition. Sometimes we can work a deal and the people can stay in the house. That is a win-win."
Lenders, unlike Price who always was willing to work with a borrower, are just beginning to work out ways to keep the borrower in the house and paying a mortgage, maybe with lower interest or lower payments, Jursinski said.
"It really makes no sense not to try to resolve and modify the mortgage," said Jursinski, adding that a lot of them can't because the mortgage has been sold to a pool of investors and that deal won't permit changes.
"My clients want to honor their agreement, but they just can't," he said. "Our plan is get the house back to the lender and let's negotiate what they can pay."
With all those forces at work, it comes down to Price, the banker who has people walking away from their agreement to pay their mortgage, and Gillions, who tried to find a right way to solve his dilemma.
"The first line of an agreement says, 'I promise to pay ...'" Price said. "If they don't do that, they breech that promise. That is an integrity issue."
"We tried to make a deal and eventually pay it off," Gillions said. "It became a bad business deal."
Everybody, said Jursinski, is getting hurt.
"The victim of this is all of us," he said. "We all are collaterally damaged; the people who own property, who have 401(k)s, who work in the United States. We all are hurt."
· Stephen Price, Fort Myers banker
"When I started, people's word was worth something. You've got to be very careful making a character loan today."
