

Strategic Foreclosure - Legal? Ethical? Moral?

Ok, so I'm having a hard time with this new term "Strategic Foreclosure" and my husband and I were discussing the 'ethical' vs. 'moral' issues. To me it's just more of the slippery slope in America of things that used to be unacceptable becoming acceptable (rationalized, moralized) - now some of these types of things over the years should have been more 'accepted' but what I see happening is, what my father calls, the salami theory - you start out with a whole salami, the kind in the butcher dept. with the string - everyone comes along and asks for a slice and pretty soon you're left holding just the string.

Strategic Foreclosure is when you walk away from your mortgage intentionally, not because you couldn't pay the taxes or mortgage. Why do this? Lots of reasons are cited:

- you want to buy a new home and can't sell the old so you just stop paying it's mortgage
- your mortgage is more than the value of the home and it isn't going to be higher than the mortgage again in a long time
- the house is just unsellable - despite lowering the price over and over
- you have no equity in it anyway
- you can't afford it anymore - it being the house and the lifestyle you want

And of course, every contract has an 'out' -right?

Some are arguing that we get out of contracts all the time so it's no big deal. In Ohio, you can lock in your natural gas rate. Say I do this but another supplier comes along with a better rate. I can get out of my contract with a penalty fee - and it may be worth it because I'll recoup the penalty fee in just a few months (or a month) with the lower price. No big deal - just a business transaction. If you decide to switch back to cable from Direct TV, no biggie, just pay the penalty.

And they then say this is just like a mortgage because people break contracts all the time. It is simply a business decision. You can stay, but if your neighbors are leaving, if the homes are getting foreclosed, then be prepared for the neighborhood to change - less affluent neighbors because the houses are cheaper, including yours by the way, renters vs. owners which means more turnover, buying/flipping, maybe even increase in crime.

But, I don't think a mortgage is the same as a cellphone, gas, tv contract which have early cancellation built into the policy itself. Of course, I wouldn't want my neighborhood going downhill while I stayed...so what is one to do? One the one hand, this is a clear-cut decision - I made a promise, I signed a covenant that was not written to be broken so I'm standing by my word, honor and integrity. On the other hand, one can argue it's not so clear.

Strategic Foreclosure is becoming socially acceptable, and I think we'll see a big increase in it which will have dramatic affects on housing, house prices and the economy overall. What do you think about "strategic foreclosure"?