

## **50% of Arizona Homes are Upside Down: Bankruptcy & the Housing Crisis**

**By John Skiba, Arizona Bankruptcy Attorney**

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Yesterday the [Arizona Republic](#) reported that Arizona has the second highest rate of homes where the owners owe more than the home is worth. Nearly 50% of Arizona's homes are not worth what is owed, and in Phoenix the number is 55%. The sad thing is, when I read that, my first thought was, "who are these 50% that have equity in their homes?" The article goes on to state that the average Arizona home owner has \$60,000 in negative equity! This, along with high unemployment and high [credit card debt](#) is forcing many people into [bankruptcy](#). So how can bankruptcy help with a house that is upside down? There are a couple of ways bankruptcy can help:

### **Eliminating Debt on Your Home through Chapter 13 Bankruptcy**

A large part of why homes are so far underwater is due to second mortgages or home equity lines of credit (HELOC) that people took out on their home when times were good. In certain circumstances these second mortgages or HELOCs can be eliminated entirely in your [Chapter 13 bankruptcy](#) case. Here is how it works: if the value of your home is worth less than what you owe on your first mortgage, then all remaining mortgages, HELOCs, or liens can be eliminated. For example, if your home is worth \$150,000, and you have a \$200,000 first mortgage and a \$45,000 HELOC, we can remove your HELOC completely through a Chapter 13 bankruptcy case. It is important to note that this option is not available in a [Chapter 7 bankruptcy](#).

### **Walking Away - Surrendering Your Home through Chapter 7 Bankruptcy**

For those of you who have experienced a decrease in pay, unemployment, or have simply decided that it makes no financial sense to stay in an upside down house any more, you can surrender your home through a [Chapter 7 bankruptcy](#). If you surrender your home through the [Chapter 7 bankruptcy](#) you will not be financially liable for any balance owed after the foreclosure sale takes place. Further, you will not be stuck with any 1099 tax liability.

If you have decided to let your house go back to the bank, and especially if you have other debt issues like credit card debt, a Chapter 7 bankruptcy likely will be the way to go to get the fresh start you are seeking.

If you are one of the 50%+ that are dealing with a home with negative equity and you would like to discuss your options, I offer a free consultation where we can discuss your bankruptcy and non-bankruptcy options. I can be reached at (480) 420-4028 or via email at [john@skibalaw.com](mailto:john@skibalaw.com).