ACORN
Financial Justice Center

Background

Al Ynigues, age 65, lives in Apple Valley, MN, a suburb of Minneapolis. Mr. Ynigues teaches music lessons, runs a recording studio, and repairs instruments. He grosses approximately $2,300 to $3,000 a month.

In September 2004 Mr. Ynigues purchased a home with an 80/20 deal: a first mortgage with a 2/28 ARM to cover 80% of the home's price and a second mortgage for 20% of the price instead of a downpayment. Both were subprime loans from New Century Mortgage.

Mr. Ynigues asked for a fixed rate loan, but was told shortly before closing that he would have an Adjustable Rate Mortgage (ARM). He did not understand what this meant, so the broker explained to him that an ARM could "go up a little" after a couple of years, but that he wouldn't have to worry about that, because they would refinance his loan into an even lower, fixed rate within the first six months. They did not tell him that if he refinanced during the first two years of the loan he would have to pay a prepayment penalty of over $4,000.

Mr. Ynigues remembers at the closing there were scores of papers to be signed, and that the title agent did not give him enough time to read the loan documents- they just flipped through the pages quickly and told him where to sign.

Loan Terms

The first mortgage was for $211,520 and included $8,199 in closing costs. In addition, the broker received a yield spread premium of $4,230.

The loan is a 2-year ARM with an initial interest rate of 6.9% and a maximum possible rate of 13.9%. The interest rate is based on the LIBOR rate plus a margin of 5.5%. At the time of the loan in September 2004, the LIBOR rate was 2.1%, but in October 2006 it was 5.3898%, making his fully indexed rate almost 11%.

On November 1, 2006 the rate changed for the first time. There is a cap that the rate can only go up 1.5% at each change date, so his rate went up to 8.4% and his payment increased from $1660 to $1868. The rate will go up again on May 1, 2007 to 9.9% and the payment will go to $2,135.

The second loan was for $52,000 and has a 9.3% interest rate and a monthly payment of $430.

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