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## MORTGAGES

# Home loan bargains are turning sour

South Florida's housing slowdown is starting to spell trouble for homeowners who took out exotic mortgages during the recent boom.

BY MONICA HATCHER AND MATTHEW HAGGMAN  
[mhatcher@MiamiHerald.com](mailto:mhatcher@MiamiHerald.com)

You've heard the pitches for home mortgages that just about anyone could get: 100 percent financing! No closing costs! One percent interest! Low, *loow* monthly payments!

A lot of South Floridians did indeed rush into these unconventional mortgages in search of a bargain. Now some are finding themselves trapped by monthly payments that are about to soar, even as the real estate market slumps.

The result: It's getting a lot harder for borrowers to make their payments. Mortgage delinquencies are already beginning to tick up, and more defaults down the line could dump homes for sale on a market that already has too many of them.

Cynthia Cariseo is struggling to make interest-only payments on an option adjustable-rate mortgage for the Dania Beach town house she bought last year.

Cariseo said her broker cited an interest rate of 3.4 percent -- but didn't tell her it applied only if she made a minimum monthly payment. The actual rate: 8.4 percent. And if she wants to refinance, she gets hit with an early payoff penalty of nearly \$8,000.

Cariseo put her vacation home in Mexico on sale last week, hoping to raise enough to pay off the mortgage. "I am stuck," Cariseo said. "My payments have gone up three or four times . . . I know I'm not the only one, but that doesn't make me feel any better."

## LOANS HAD A CATCH

The rising use of exotic mortgages is yet another legacy of South Florida's housing boom. Everyone wanted in, and some would-be homeowners -- encouraged by brokers and lenders -- jumped headfirst into huge debt.

In 2006 alone, more than 15 percent of new home loans in South Florida were what is known as "payment-option adjustable-rate." That meant borrowers could start off by paying just the interest on the loan, or sometimes even less.

But there was a double catch -- the interest rate spiked over time, and any unpaid interest got tacked on to the loan itself. The nasty result: a rising interest rate on a growing loan. After several years of payments, a borrower could easily end up owing not less, but more.

Some borrowers didn't realize the score. Others gambled that home values would rise quickly enough for them to refinance or sell if the going got rough.

Now the going is getting rough -- but home values aren't rising.

The number of Florida borrowers missing mortgage payments has inched up marginally by less than half a percentage point from the second quarter of last year, reports the Mortgage Bankers Association. That's still below national averages, partly because of a strong economy.

However, lenders say, higher payments are now just kicking in for those who bought during the boom -- along with steep insurance hikes and higher taxes from reassessment.

Alphoncia LaFrance, who owns Midas Lending in North Miami, said more customers are feeling the squeeze and wanting to refinance.

Audrey Robertson, mortgage lending manager for Dade County Federal Credit Union, also is seeing more customers who want out. Her firm plans a mailing to customers in the next few weeks advising them to check their mortgage papers for upcoming payment spikes. It is also offering to review mortgages for customers at no charge.

And Ana Valenti-Brisuela, a South Miami real estate broker who also does financial planning, said many homeowners are walking a tightrope, even though the number of foreclosures has yet to spike significantly.

"People will avoid foreclosure at whatever cost because it ruins your credit," she said. ``But some, especially those who bought at the peak of the market last year, are going to sell for \$50,000 or \$100,000 less than they bought for in order to save their credit."

## **UPSET BORROWERS**

These exotic mortgages were originally meant as a tool for only a sliver of home buyers, said Terry Claus, president of Home Financing Center in Miami. For example, they might work well for a wealthy businessman on commission who wants to pay small sums in some months but large payments in others.

But some brokers steered others into such loans because they are generally larger and generate higher commissions, said HomeBanc Vice President Sean Donahue.

"These products were offered as a way of getting into a property with very little money down and a very low monthly payment," Donahue said. ``But a lot of people were sold on the payments without full disclosure."

Julio Escobar, who lives in North Miami Beach, said he didn't know what he was getting into when he took out an option ARM. Escobar refinanced a \$204,000 loan a year and a half ago to reduce his monthly payment and cash out about \$15,000 in equity. His payment: \$1,000 a month.

When he refinanced *again* into a fixed-rate loan in September, his payment had risen to \$1,300 and, to his astonishment, his balance was \$211,000.

"I was throwing money away," Julio said. ``The broker we did the deal with didn't really explain all that, or maybe it was a mistake on both sides."

More borrowers are lodging complaints that their brokers didn't fully explain the loans, said Sharon Dawes, area financial manager for the state's Office of Financial Regulation. However, the state can't do much unless there's a

pattern of misrepresentation by a broker or mortgage company, she said.

## **MANY STILL JUMPING IN**

The real hikes are likely to arrive en masse by next summer, when payments go up for more people. The worst case is where borrowers go "upside-down" -- meaning they owe more than their property is worth. They could then have trouble refinancing or selling in a slower market, because either way they would lose money.

But despite the cooling housing market and the warnings from regulators and consumer groups, borrowers still flock to exotic loans.

Broker LaFrance said that over the past month, between 60 and 100 people have called her business asking about "the loans with the really low payments." More keep calling as they see the flashy ads.

"When I really explain it to them -- most of them don't want to do it," LaFrance said.

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