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The familiar voices of celebrity spokesmen speak reassuringly about a "government insured" reverse mortgage that ". . . will allow you to stay in your own home..." Much of what celebrity spokespersons say is true, but alas, incomplete. Despite the advertising rhetoric, a reverse mortgage is a loan. A loan that someone will eventually have to pay back. Like any loan or financial obligation, it can be a wise decision, or a bad one. Fail to meet the terms of the loan and you can lose your home.

For some, a reverse mortgage is a life raft. But it can be a life raft that might lead you into uncertain, and dangerous waters. With many "Baby Boomers" becoming eligible for reverse mortgages each year, many of whom may lack sufficient retirement resources, taking a realistic look at this financial option is important.

Even though there are independent lenders still active in the reverse mortgage marketplace, most reverse mortgages are offered through the FHA insured, Home Equity Conversion Mortgage

Reverse Mortgages in New Jersey: A Bridge Over Troubled Waters

You can lose your home to foreclosure if you do not pay your property taxes, your homeowner's insurance, and maintain your home in good condition, contrary to what potential borrowers may assume when watching a television commercial or reading print advertisements.

While a reverse mortgage may not affect your eligibility for Social Security or Medicare, but it may affect your eligibility for other, income-based programs such as Medicaid, SSI, SNAP (food stamps).

If a borrower were to leave their home for more than 12 months, perhaps to an assisted living facility, their home is no longer their principal residence and the loan is due and payable.

While counseling is a mandatory step for FHA endorsement, according to a New Jersey counselor we interviewed, the majority of these counseling sessions take place over the phone.

Since 2005, 1,251 New Jersey residents have lost their home to foreclosure (4.3% of all loans) of reverse mortgages. Ocean County leads the state in the number of foreclosures, while Sussex, Camden, Mercer, and Hunterdon have higher percentages of loans that have been foreclosed.

Single female borrowers have a significantly higher rate of foreclosure. In all New Jersey counties except for Sussex and Hunterdon, these borrowers constitute more than 50% of all foreclosures. In Mercer and Hudson counties, single female borrowers account for more than 70% of all foreclosures.

Although New Jersey government representatives have met with groups of senior citizens to urge caution in making financial decisions about products like reverse mortgages, compared

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collateral. Borrowers may take their funds in a variety of ways: as a lump sum of money (although special rules apply), as a line of credit, monthly installments over a specified number of years, monthly payments for life based on actuarial calculations. Borrowers may combine some of these modes of distribution.

Advertisements for reverse mortgages emphasize these benefits, often showing people in exotic travel destinations or talking about how they have paid off their credit cards or other bills, maintaining their lifestyle, or simply being able to retire. They also emphasize that you still own your own home and can stay in it. They often end with a pitch about seeing how much money you can receive. It is far easier for even a savvy borrower to find a calculator to determine how much they might be able to borrow than it is to find one that will show them how much it will cost.

Even though there are independent lenders still active in the reverse mortgage marketplace, most reverse mortgages are offered the FHA insured, Home Equity Conversion Mortgage (HECM) program administered by the Department of Housing and Urban Development. It is these reverse mortgages that are the focus of this brief.

How Much Do Reverse Mortgages Cost?

The costs of reverse mortgages have come down as demand has shrunk; yet they remain substantial. Some have argued that careful shopping might reduce them further. However, for illustrative purposes here is an estimate of the cost to initiate a reverse mortgage for 70 year old borrowers with a \$300,000 home and \$25,000 in remaining mortgage debt. It has been developed with the estimator on the National Reverse Mortgage Lenders Association web site:

<http://www.reversemortgage.org/about/reversemortgagecalculator.aspx>.

This example illustrates a monthly payout that the borrower cannot outlive. This example shows that the borrower could expect to receive \$9,799.44 per year for as long as they lived and

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occupied the house as their principal residence. To continue to receive this amount, the borrowers would have to pay their property taxes (let's say \$5,000), homeowner's insurance (let's say \$1,000), and to maintain their home in good condition (let's say \$1,500 per year---but remember if the roof or hvac system needs replacement, that can mean big dollars).

To see the results of this estimate, see the next page.

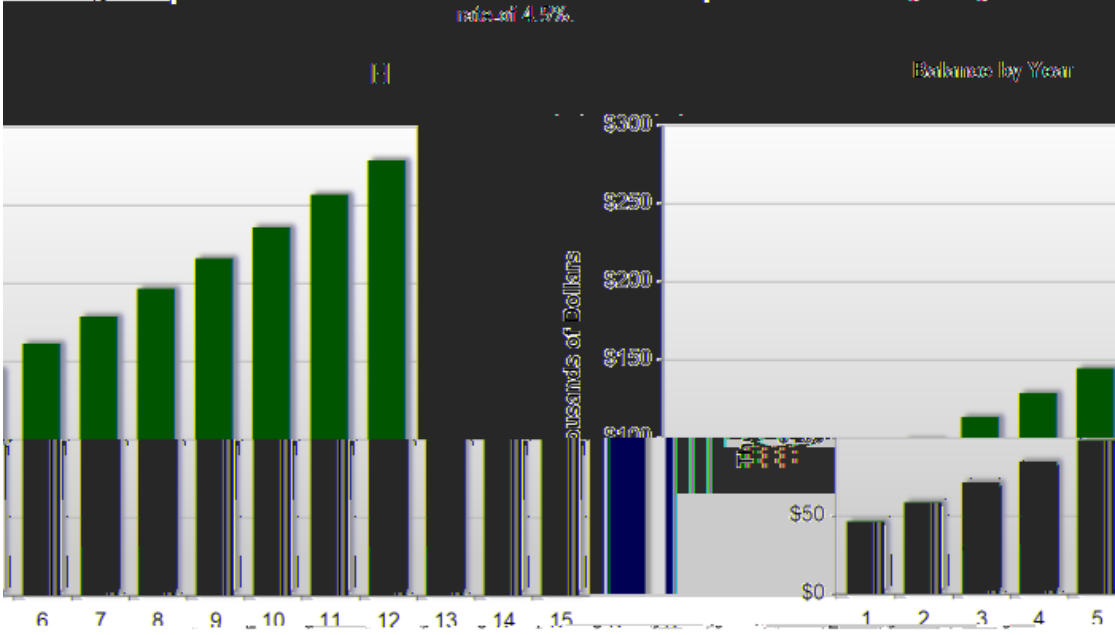
[See table on next page]

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Reverse Mortgages in New Jersey: A Bridge Over Troubled Waters

Your Reverse Mortgage Balance Could Be \$278,422.89 After 15 Years

This includes an initial lump sum advance of \$74,741.00, additional monthly advances of \$817.00, and an interest rate of 4.5%.



Results Summary	
Initial lump sum advance	\$74,741.00
Term	15 Years
Monthly loan advance	\$817.00 per month
Interest rate	4.5%
Initial mortgage balance	\$121,801.00
Total interest accumulated	\$96,621.89
Ending mortgage balance	\$278,422.89

Mortgage Balance By Year

Year	Advances	Interest	Balance
6			
7			
8			
9			
10			
11			
12			
13			
14			
15			

It is this compounding that is so difficult to visualize. If the borrowers' situation were to trigger a repayment obligation when they were 80 (year 10), they would owe \$178,431 and would, in all likelihood, have to sell their home in order to pay the loan.

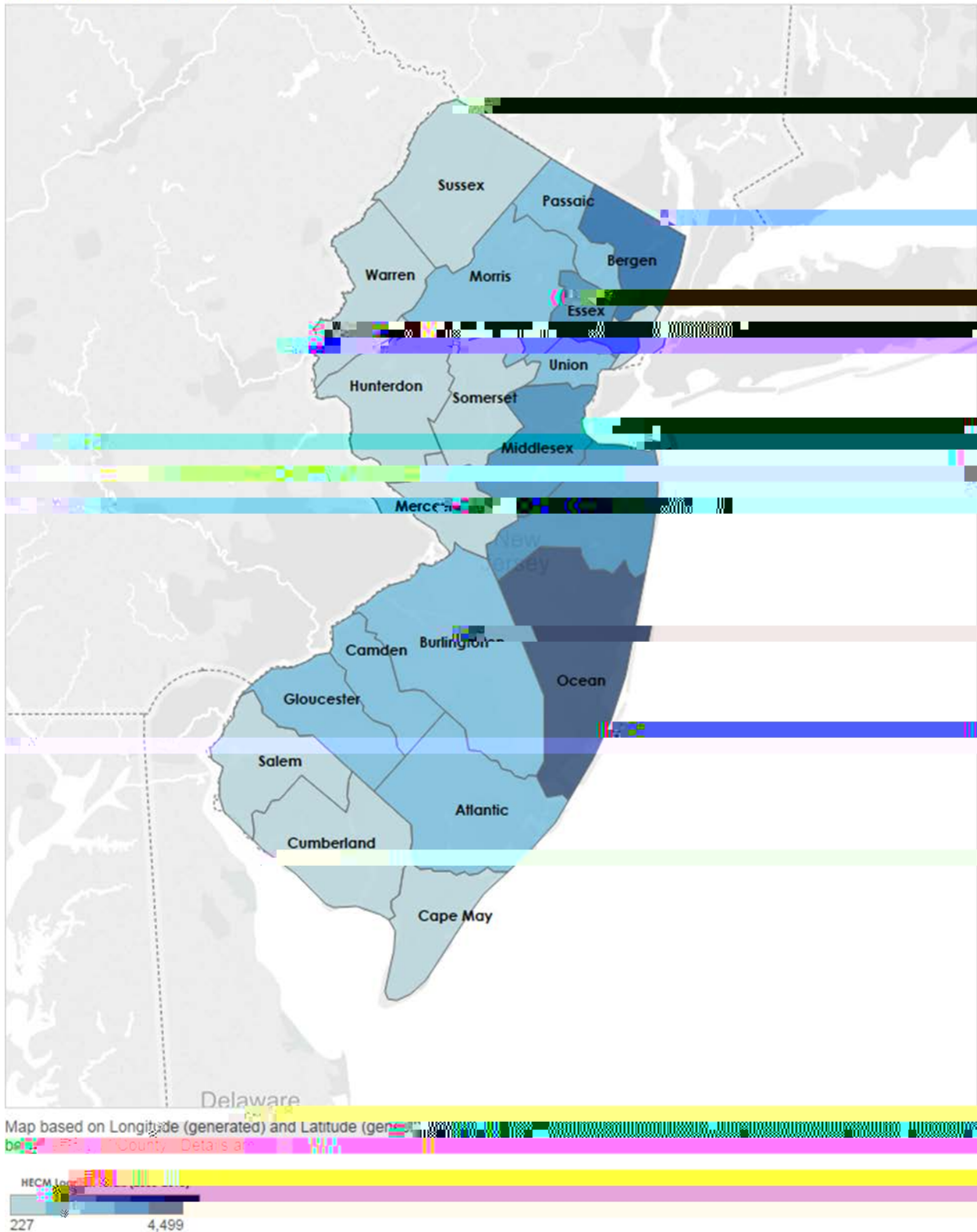
How Widespread are Reverse Mortgages in New Jersey?

Traditionally, reverse mortgages are only a fraction of the traditional mortgage market. New Jersey trends closely parallel national trends, with numbers rising to a peak in 2009 and beginning to fall off as the housing crisis dramatically impacted home values and program changes reduced the amounts that were available to some borrowers.

For the period 2005-2015 there have been 29,397 reverse mortgages "endorsed" by HUD and insured by the FHA. As the map on the next page suggests, there is substantial variation in the number of reverse mortgages across the state. Ocean County has far more than any other county (4,499) folled by Bergen (2861), Monmouth (2,325), Essex (2,229), and Middlesex (2,046). Salem County (227) has the fewest reverse mortgages during this period, followed by Hunterdon (359), Warren (370), Cumberland (462), and Sussex (557).

[See map on next page]

HECM Total Number of Loans 2005-2015



[HECM Total Numbers of Loans 2005-2015](#)

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What might explain these variations? In order to qualify for a HECM loan, borrowers must be at least 62 years old and live in the home as their principal residence. That would suggest that those counties with a higher percentage of qualified applicants might have more loans.

Just as reverse mortgage activity varies across the state, HUD data show that over time the amount New Jersey Residents have qualified to borrow in reverse mortgages has declined substantially.

The numbers reflect program changes, as well as the slow economic recovery in New Jersey, and

Reverse mortgage

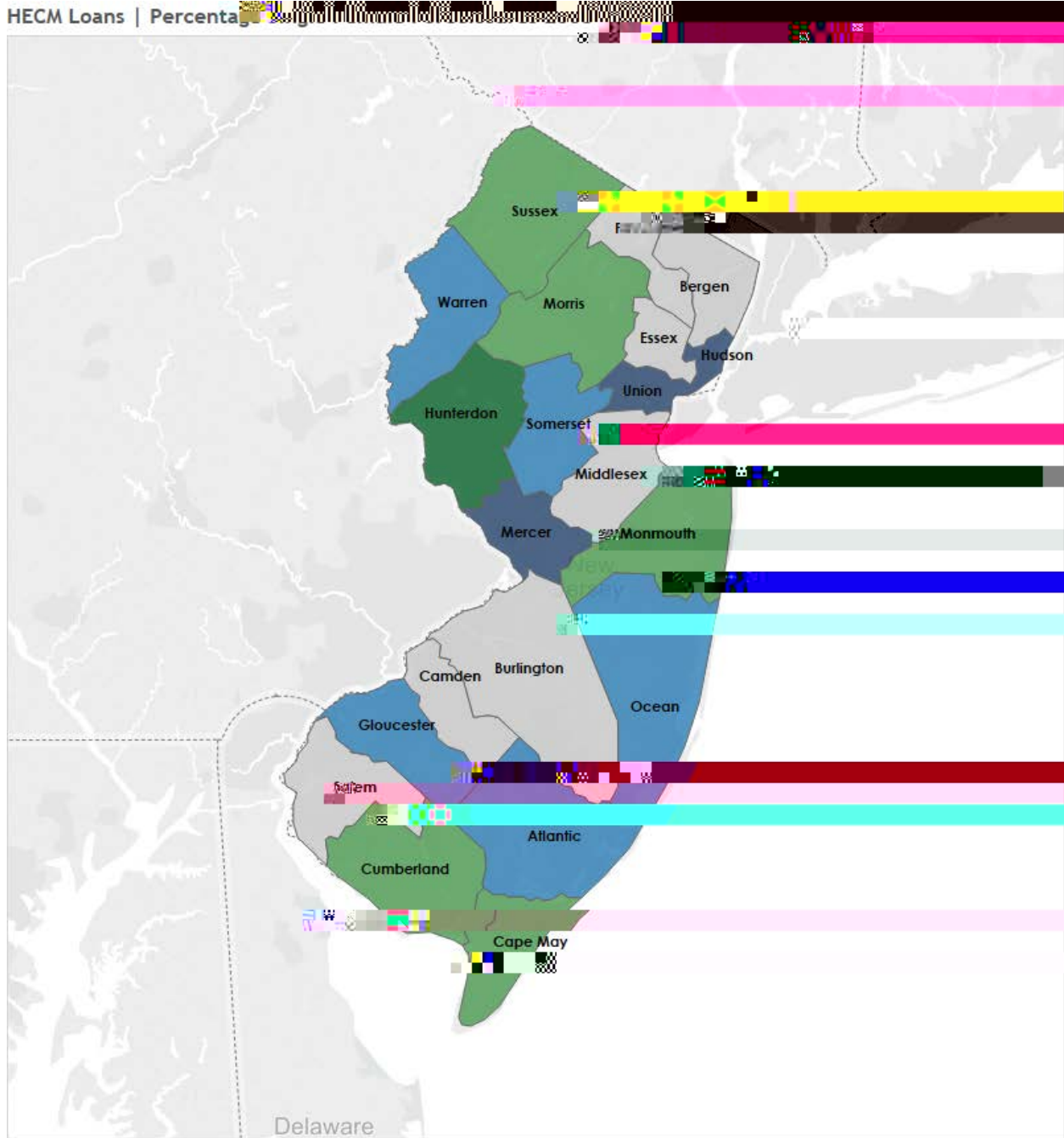
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which single female borrowers account for more than 60% of the county's foreclosures, and two (Mercer and Hudson) in which single female borrowers account for more than 70% of the county's foreclosures.

Even though reverse mortgages remain attractive to many borrowers, they are sometimes initiated with little detailed understanding. The material on the next page summarizes important information about HECM reverse mortgages and their place in New Jersey's economic landscape.

[See map on next page]

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Map based on Longitude (generated) and Latitude (generated). Color shows sum of Percentage of HECM Foreclosures that are Single Female Borrowers (2005-2013). The marks are labeled by County. Details are shown for State.



[HECM Loans | Percentage of Single Family Foreclosures 2005-2013](#)

When Considering a Reverse Mortgage, remember. . .

If I am 62 years or older and a homeowner, I qualify for an FHA insured Home Equity Conversion

Most reverse mortgages are now adjustable rate mortgages. While interest rates have been historically low since the collapse of the housing market, their adjustable character could potentially lead to problems should the interest rate environment change.

Although reverse mortgage borrowers pay substantial interest which compounds against the equity in their home, this interest is not tax deductible until the interest is paid, typically upon the death of the last remaining borrower.

Where Can I go to Get Further Information?

The most comprehensive study of reverse mortgages was published by the Consumer Financial Protection Bureau, a federal agency. See [Reverse Mortgages! A Report to Congress](#) (June 28, 2012) available at: <http://www.consumerfinance.gov/reports/reverse-mortgages-report/>

The CFPB also has published numerous pamphlets that help to clarify various aspects of the reverse mortgage process.

Potential Borrowers may wish to consult the resources available at the A/o(at)-6(:)TJ 0 16 0 Td ()TjC

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of Housing and Urban Development for their generous guidance and referrals. Ms. Sally Bené of HUD provided valuable information on issues related to loan servicing and foreclosures. Finally, Ms. Josephine Huang of HUD gave generously of her time to provide data on HECM mortgages in New Jersey.

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