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Reverse Mortgages in New Jersey: A Bridge Over Troubled Waters

February 2016

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Policy Brief

This is a first in a series of brief introductions to policy issues that may affect the citizens of New Jersey. The goal of these briefs are to educate the public and to alert New Jersey policy makers, both in Washington and Trenton. The briefs are not intended to be a comprehensive research project. Rather, a broad overview of an issue, often based on information or reports that already exist, but which may have gone unnoticed.

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 (HECM) program administered by the Department of Housing and Urban Development. It is these reverse mortgages that are the primary focus of this brief.

Key Findings

- 29,397 HECM reverse mortgages have been approved for New Jersey residents since 2005
- Ocean County leads all other New Jersey counties in the number of reverse mortgages by a significant margin.

- 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

to other states, New Jersey has been particularly silent on legislation that might protect borrowers. A document provided by the National Council of State Legislatures shows that between 2000 and 2014, the only bill that has been signed into law prohibits the funding pre-need funeral arrangements through proceeds from reverse mortgages.(AB 3517/SB 2397 signed by the Governor 1/16/10)

- In an email communication, a spokesperson for the New Jersey Department of Banking and Insurance indicated that it had received less than 10 complaints (a total of 32) per year since 2008. Most were against the products and sales practices of private (i.e., non-HECM) reverse mortgage companies. None had resulted in enforcement action.
- According to a database maintained by the Consumer Financial Protection Bureau, there have been 55 complaints about reverse mortgages in New Jersey since 2012. They fell into these categories:
    - Application process 14%
    - Loan Modification, Collection, Foreclosure 19%
    - Loan Servicing, Payments, Escrow Account 43%
    - Settlement Process and Costs 10%

What is a Reverse Mortgage?

A reverse mortgage is loan that enables those who own their homes to tap a portion of the equity or value of the home for a variety of purposes from paying medical bills to simply enjoying more income in retirement. Unlike a traditional home equity loan, the homeowner makes no monthly payments. Instead, a person who owns their home can receive a portion of the equity they have built up over the years. The amount they are eligible to receive depends upon a number of factors including the age of the borrower and the value of the home. The amount the borrower receives will be reduced by the amount of any existing loans or mortgages that use the house as 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 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]

NRMLA Calculator Results

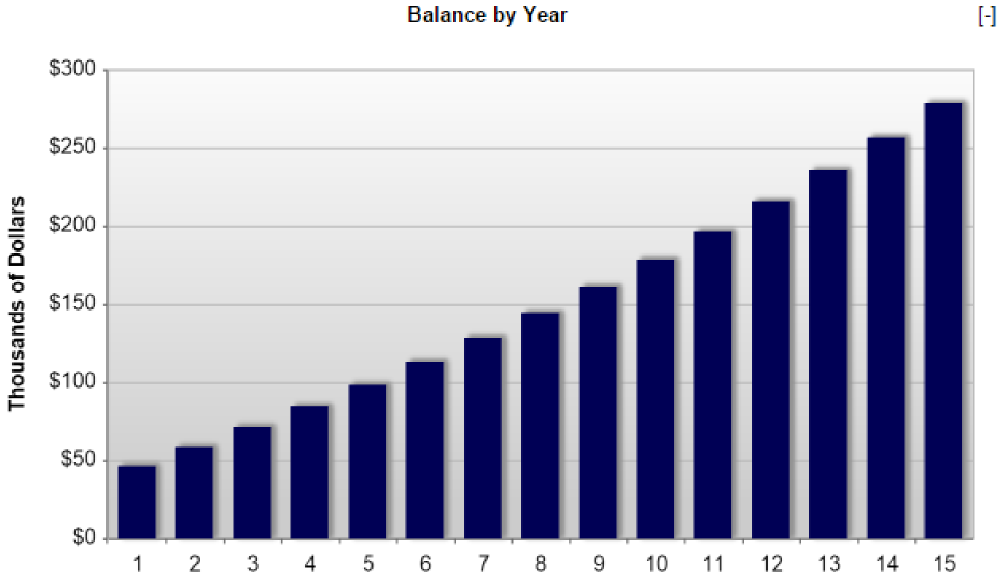
Interest Adjusts	HECM LIBOR Monthly
Interest rate index	0.422%
Plus lender's margin	2.500%
Initial loan interest rate	**2.922%**
Plus mortgage insurance	1.25%
Initial total loan rate	**4.172%**
Initial creditline growth rate	4.253%
Lifetime cap on loan rate	12.922%
HECM Expected Rate	4.670%
Monthly Service Fee	$0.00
Value of the home	**$300,000**
Home value limit	$625,500
Lesser of limit or home value	$300,000
Loan principal limit	$172,800
Less Service fee set-aside	$0
Available principal limit	**$172,800**
Less Financed Items	
Loan origination fee	$5,000
Mortgage insurance	$1,500
Other closing costs	$3,241.00
Net Principal Limit	$163,059
Less current debt payoff	$25,000
Less Lump-Sum Cash	$0.00
Fixed-Rate Unusable Funds	--
Less Selected Creditline	$0.00
Available in First Year	$0
Left for monthly advance	$138,059
Monthly Advance	$816.62
No more lien payments	+0.00
Increase in monthly cash	$816.62
Monthly Term	Tenure
Total Fees & Costs	**$9,741**

Reverse mortgages are not the only way of extracting resources from your home's equity. Traditional home equity loans or lines of credit are obvious alternatives. The attraction of a reverse mortgage is that unlike these alternatives there are no monthly payments. Rather, a balance of amount owed against the home's equity accrues through compounding. **But, this does not mean the money does not have to be repaid. It simply postpones the repayment.**

Using a different calculator, this one from: http://www.mortgagecalculator.org/calcs/ReverseMortgage.html, we can track the amount due on the loan over time. This is the reverse mortgage equivalent of an amortization schedule for a traditional mortgages.

[See table on next page]

Your Reverse Mortgage Balance Could Be $278,422.89 After 15 Years.
This includes an initial lump sum advance of $34,741.00, additional advances of $817.00 per month and an interest rate of 4.5%.



Results Summary	
Lump sum advance	$34,741.00
Years	15
Monthly loan advance	$817.00 per month
Interest rate	4.5%
Total payments you will have received	$181,801.00
Total interest accumulated	$96,621.89
Ending mortgage balance	$278,422.89

Mortgage Balance By Year

Year	Advances	Interest	Balance
Start	$34,741.00		$34,741.00
1	$9,804.00	$1,838.29	$46,383.29
2	$9,804.00	$2,373.15	$58,560.44
3	$9,804.00	$2,932.57	$71,297.01
4	$9,804.00	$3,517.67	$84,618.68
5	$9,804.00	$4,129.66	$98,552.34
6	$9,804.00	$4,769.78	$113,126.12
7	$9,804.00	$5,439.30	$128,369.42
8	$9,804.00	$6,139.57	$144,312.99
9	$9,804.00	$6,871.98	$160,988.97
10	$9,804.00	$7,638.09	$178,431.06
11	$9,804.00	$8,439.37	$196,674.43
12	$9,804.00	$9,277.48	$215,755.91
13	$9,804.00	$10,154.08	$235,713.99
14	$9,804.00	$11,070.95	$256,588.94
15	$9,804.00	$12,029.95	$278,422.89

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.

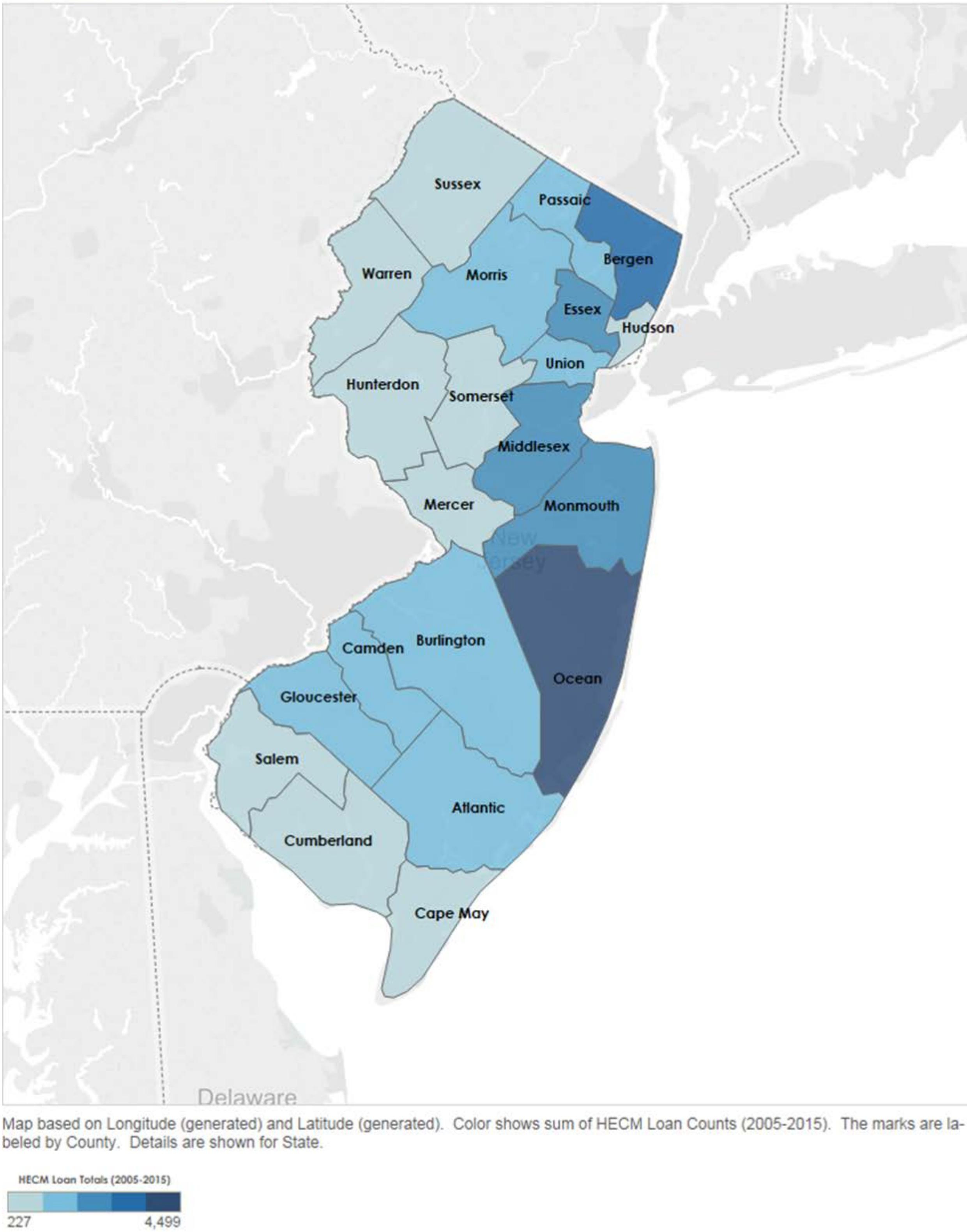
How Widespread are Reverse Mortgages in New Jersey?

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

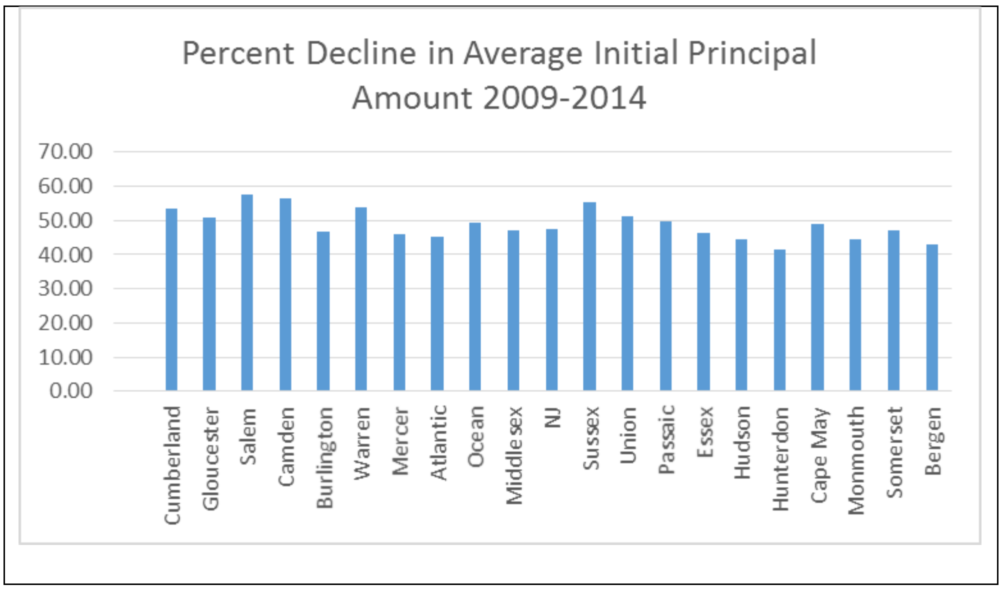


Map based on Longitude (generated) and Latitude (generated). Color shows sum of HECM Loan Counts (2005-2015). The marks are labeled by County. Details are shown for State.

[HECM Total Numbers of Loans 2005-2015]

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 the impact of Hurricane Sandy.

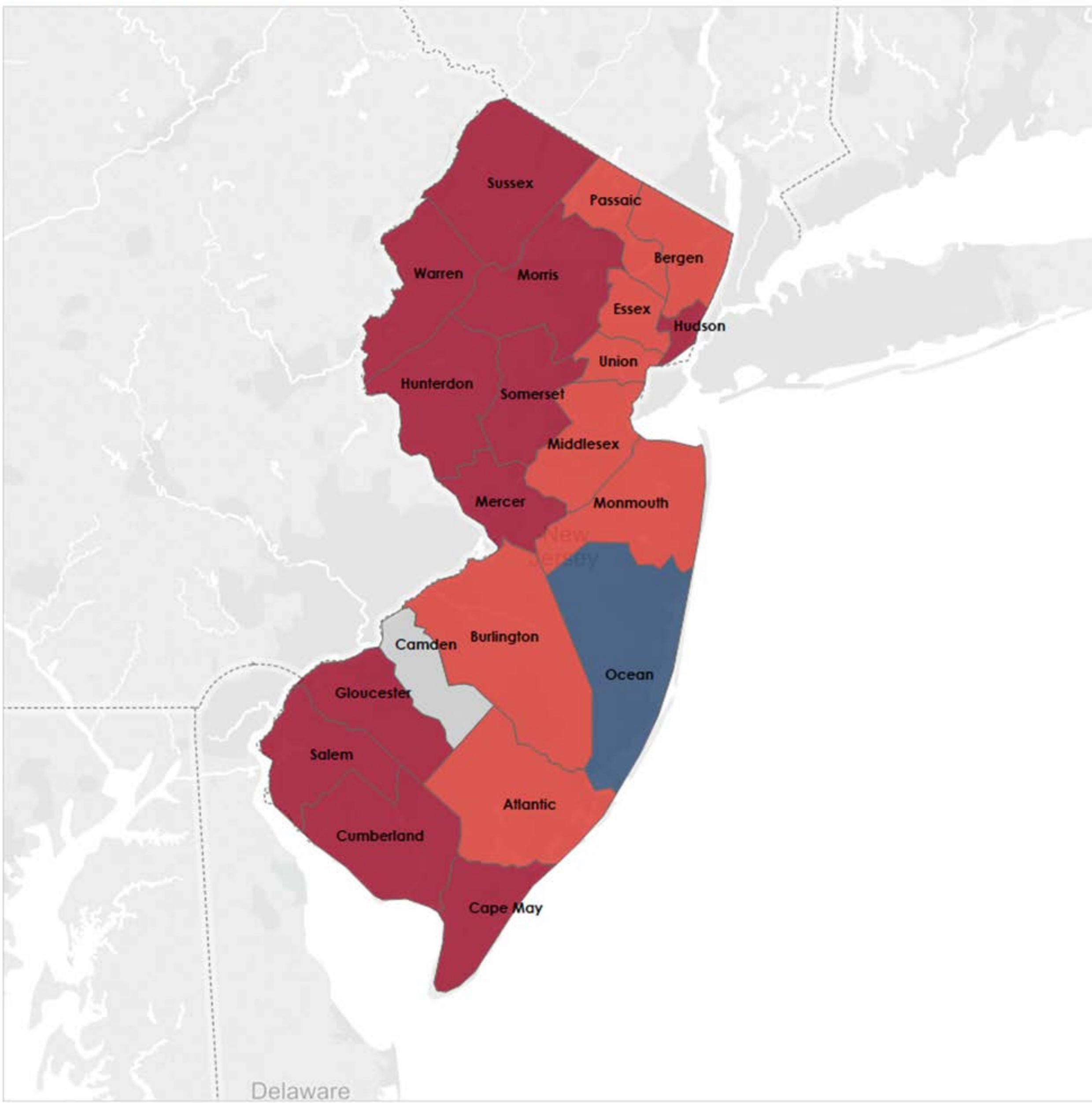


The chart above shows that for the state as a whole, the amount that holders of reverse mortgages could borrow (known as the initial principal limit) has declined nearly 50% since 2009. Even these reduced figures do not necessarily portray the amount available to individual borrowers. They could be further reduced by paying off an existing mortgage and/or covering closing costs. This could have significant consequences for the individual borrower. Depending upon individual circumstances, it could mean that the borrower could run out of money just when they need it the most.

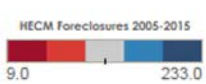
Can I Lose My Home with a Reverse Mortgage?

Contrary to the language of many advertisements, borrowers of reverse mortgages can and do lose their homes to foreclosure.

HECM Foreclosures 2005-2015



Map based on Longitude (generated) and Latitude (generated). Color shows sum of HECM Foreclosures (2005-2015). The marks are labeled by County. Details are shown for State.



HECM Foreclosures 2005-2015

Reverse mortgage borrowers are required to continue to pay their property taxes, keep their homeowner's insurance up to date, and maintain their home. Failure to meet these conditions may result in foreclosure. As with traditional mortgages, lenders may try to work with borrowers to restructure their loans, but that is not always a possibility.

Since 2005, 1251 New Jersey homeowners (4.3% of all loans) have lost their home to foreclosure of a reverse mortgage. This number includes only those with FHA insured HECM mortgages. Non-insured mortgages may push this number higher. Ocean County with the highest number of reverse mortgages also leads the state in total number of foreclosures, but Sussex, Camden, Mercer, and Hunterdon all have higher percentages of loans that have been foreclosed.

Gender and Foreclosure

The Department of Housing and Urban Development breaks down borrowers into four categories: single male, single female, joint borrowers, and those who refuse to provide information on gender.

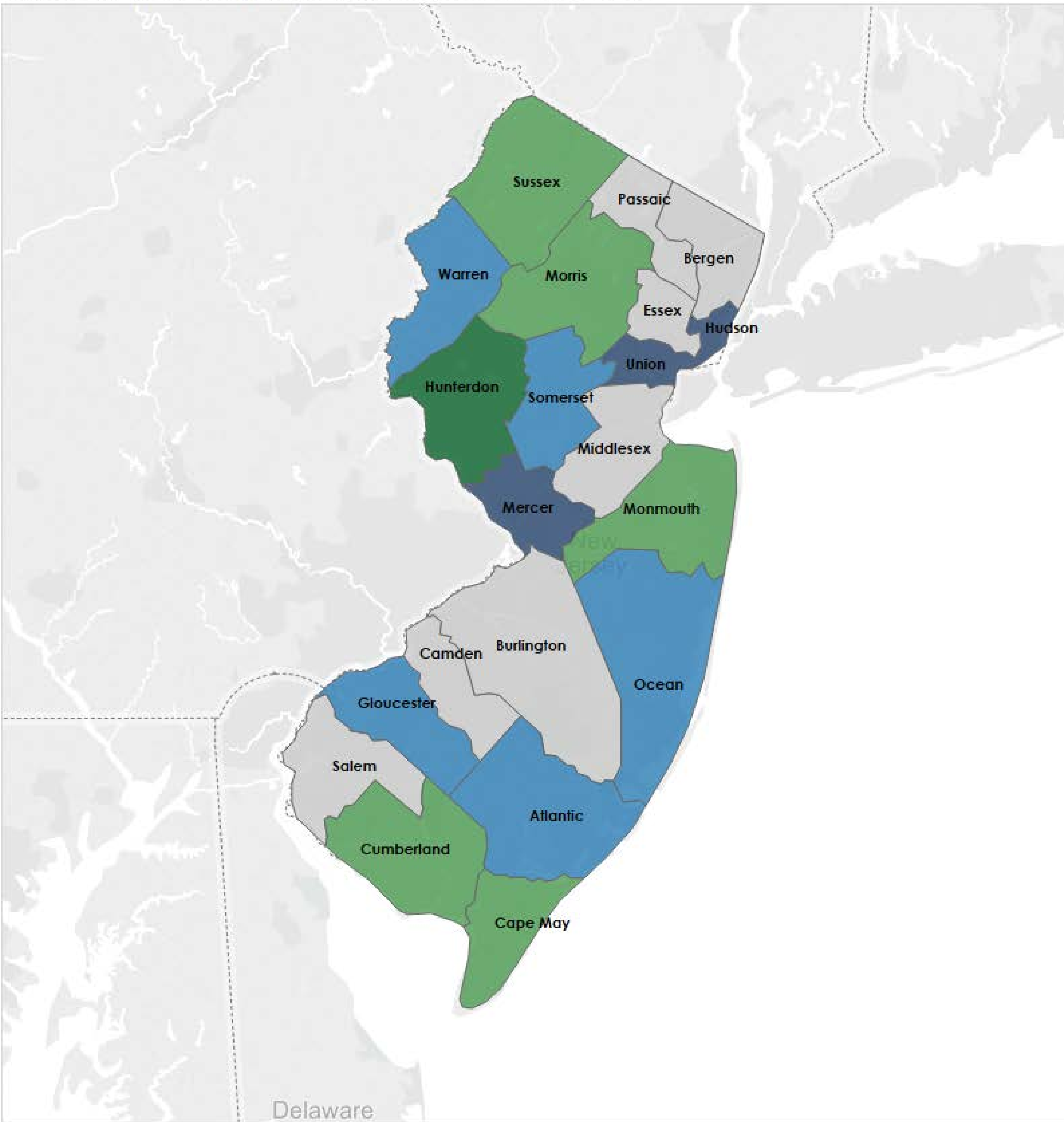
As noted above, the New Jersey foreclosure rate for the period 2005-2015 is 4.3%. If we break down total foreclosures by type of borrower, however, a more dramatic picture appears. HUD was able to supply data on foreclosures by type of borrower for 2005-2013. These data show that single female borrowers account for 59% of the foreclosures, single males for 22% of the foreclosures, and joint borrowers for 18% of the foreclosures. While there is a relatively small difference between the foreclosures of single males and joint borrowers, *single female borrowers account for almost three times the number of foreclosures when compared to single males.*

When we break the data down by county (see the map below) there are only two counties (Hunterdon and Sussex) in which single female borrowers account for less than half of the county's foreclosures. There are six counties (Atlantic, Ocean, Warren, Somerset, Gloucester, and Union) in 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.

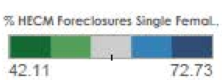
Even though reverse mortgages remain attractive to many borrowers, they are sometimes initiated with little detailed understanding. The material on the next page summarizes important information about HECM reverse mortgages and their place in New Jersey's economic landscape.

[See map on next page]

HECM Loans | Percentage Single Female Foreclosures 2005-2013



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 Mortgage (reverse mortgage)

- Yes, but under current regulations not all will qualify. Your ability to financially meet the conditions of the loan will be assessed before a loan is offered.
- Yes, but taking out a reverse mortgage at such at age 62 could, depending on how you choose to receive the money, potentially put you at risk of running out of money just when you need it the most.

My reverse mortgage is guaranteed by the government.

- Only those reverse mortgages offered under the Home Equity Conversion Mortgages (HECM) have government sponsored insurance.
- You are only protected as long as you are in compliance with the terms of the loan. If you default on the loan, the insurance protects, the lender, not you.

Proceeds from a reverse mortgage are tax free

- Yes, but you must continue to pay your property taxes, otherwise you may face foreclosure.

You no longer have to make mortgage payments

- Yes, but any money currently owed on your home will be deducted from the amount you are eligible to receive and might significantly decrease the size of monthly payments to you.

You can stay in your home for as long as you live

- Depends. You must pay your property taxes, homeowner's insurance, and maintain your home, otherwise the lender can call for the repayment of the loan which would most often involve selling the home.

- Depends. The home must be your principal residence. If you are absent for more than 12 months, even for medical reasons, the loan may become due and payable.

You get tax free cash for life

- Depends on the way in which you choose to receive the proceeds of your reverse mortgage. Only the "tenure" method of receiving guarantees monthly payments for as long as you live. The guaranteed monthly payments will be based on the assumption that you will live to be 100 and will thus reduce the monthly amount.
- Depends. If you are unable to pay property taxes, insurance, or to make major repairs, you may be able to modify your loan and get money to pay these expenses. That, however, would reduce the amount you were able to get each month.
- Depends. If you fail to pay your property taxes, homeowner's insurance, and to maintain the home, the lender may call the loan due and payable. Or, if you fail to maintain the home as your principal residence the loan will become due and payable.
- Yes, but, he amount you qualify to receive may not be sufficient to fully fund all your needs.

Income from a reverse mortgage will not affect my eligibility for Social Security and Medicare

- True, but your eligibility for other, income-based programs such as Medicaid, SSI, SNAP (food stamps) could potentially be affected

Additional Findings:

- Reverse mortgages are complex products whose costs can be significantly higher than more traditional means of tapping home equity. Any existing mortgage balance on the home will be deducted from the amount the borrower is eligible to receive.

- 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 AARP web site: http://www.aarp.org/money/credit-loans-debt/reverse_mortgages/

Acknowledgements

I would like to acknowledge the research assistance of Mr. Anthony Wilent, the gracefully offered expertise of Ms. Kelly Sloane, my Hughes Center colleague, and the generous support and encouragement of the Center's Director, Mr. Daniel J. Douglas.

Also, this policy brief would not have been possible without the support of those who administer and oversee the Home Equity Conversion Mortgage program. I am indebted to Ms. Megan Thibos of the Consumer Financial Protection Bureau, and Ms. Karin Hill of the Department 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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