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QuickTakes!

Stockton University's Hughes Center Enlightens Homeowners on the Risks of Reverse Mortgages

February 17, 2016

Stockton University's Hughes Center report evaluates the hidden risks of reverse mortgages and presents data on the effects of reverse mortgages on New Jersey homeowners. Since 2005, 1,251 New Jersey residents have lost their homes to foreclosures of reverse mortgages, new research from Stockton University's William J. Hughes Center for Public Policy finds. The report, "Reverse Mortgages in New Jersey: A Bridge Over Troubled Waters" was prepared by David Carr, professor of Political Science and director of research and policy analysis for the Hughes Center.

Nearly 30,000 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.

"Reverse mortgages are viewed by many as a simple solution to economic hardship. However, there are important factors that may be overlooked which could lead the unprepared borrower to foreclosure or financial hardship," said Professor Carr.

Reverse mortgages are loans that enable homeowners to tap a portion of the equity or value of their homes for financial benefit. Unlike traditional home equity loans, reverse mortgages do not require monthly payment. Homeowners can receive a portion of the equity they have built up over the years. While the reverse mortgage payments are tax free, homeowners are still accountable for a variety of other fiscal responsibilities to their property. They must continue to pay property taxes, homeowner's insurance and home maintenance expenses, during the reverse mortgage period, or face foreclosure. In addition, once a reverse mortgage is put in motion, a homeowner must maintain the home as his or her principal residence. If the homeowner is absent for more than 12 months, even for medical reasons (such as residence in an assisted living facility), the reverse mortgage loan may become due and payable.

"While reverse mortgages may offer safe haven from financial hardship to some, it is pivotal to understand the limitations of the loan," said Professor Carr.

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The research provides an analysis of Department of Housing and Urban Development (HUD) foreclosure data in regard to borrower demographics from 2005-2013. The data show that single female borrowers account for 59 percent of foreclosures, single males for 22 percent of the foreclosures, and joint borrowers for 18 percent.

According to the report's author, "Reverse mortgages are more complex than the television and print advertisements indicate . . . By better understanding the pitfalls of reverse mortgages, borrowers can make safer financial decisions."

The report can be downloaded at Stockton.edu/hughescenter. It contains links to interactive maps and data. Foreclosure data from the Department of Housing and Urban Development is from 2005-2015, with the demographic data spanning from 2005-2013.

The William J. Hughes Center for Public Policy (Stockton.edu/hughescenter) at Stockton University serves as a catalyst for research, analysis and innovative policy solutions on the economic, social and cultural issues facing New Jersey, and promotes the civic life of New Jersey through engagement, education and research. The center is named for William J. Hughes, whose distinguished career includes service in the U.S. House of Representatives, as ambassador to Panama and as a Distinguished Visiting Professor at Stockton. The Hughes Center can be found at facebook.com/StocktonHughesCenter and can be followed on Twitter @hughescenter.