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May 23, 2017

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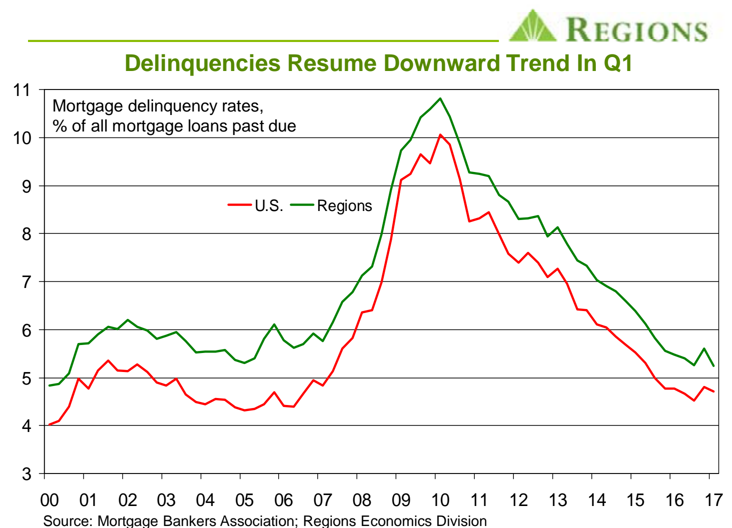
# Q1 2017 Mortgage Delinquencies & Foreclosures

- For the U.S. as a whole the mortgage delinquency rate fell to 4.71 percent in Q1 2017 from 4.80 percent in Q4 2016.
- Within the Regions footprint, the mortgage delinquency rate fell to 5.24 percent in Q1 2017 from 5.60 percent in Q4 2016.
- Year-on-year, foreclosure starts fell by 17.1 percent for the U.S. as a whole and fell by 13.2 percent for the Regions footprint.

The Mortgage Bankers Association (MBA) recently released their data on mortgage delinquencies and foreclosures for Q1 2017. For the U.S. as a whole the mortgage delinquency rate, which encompasses all states of delinquency but not those loans in some stage of foreclosure, fell to 4.71 percent in Q1. Utilizing the MBA data, we calculate a comparable delinquency rate for the 15-state Regions footprint, which is a weighted average (based on the number of total mortgage loans serviced in each state) of the delinquency rates reported for the individual states. As of Q1 2017, the delinquency rate for the Regions footprint stood at 5.24 percent, down from 5.60 percent in Q4 2016. At the same time, foreclosure starts continue to trend lower as do foreclosure inventories, though the latter remain above pre-crisis norms.




Mortgage delinquency rates for the U.S. and the footprint have trended lower since peaking in Q1 2010 – at 10.1 percent for the U.S. and 10.7 percent for the Regions footprint. As seen in the chart, however, despite the downward trend there have been quarters in which delinquency rates ticked higher before resuming their downward drift. We noted this in our write-up of the Q4 2016 MBA data and stated our view that the uptick in delinquency rates seen in that quarter, both nationally and within the Regions footprint, were likely one-off increases. This proved to be the case, as delinquency rates fell in Q1, but while the decline within the Regions footprint entirely reversed the increase seen in Q4, this was not the case nationally. Either way, delinquency rates remain line with the longer-term averages seen over 1980-2006 period. As of Q1 2017, the MBA survey covers roughly 37.7 million first lien mortgage loans for the U.S. as a whole and over 14.1 million first lien mortgage loans within the Regions footprint.

Before proceeding, we should point out that starting with the Q1 data the MBA has changed the reporting structure of the data on mortgage delinquencies. Reflecting the changes seen in the mortgage servicing landscape over the past several years, the MBA no longer makes a distinction between prime and subprime mortgage loans – regular readers will recall in the past we would discuss delinquency trends by loan types, and this was one cut of the data. But, over the past several years originations of loans characterized as "subprime" have slowed to a crawl and many mortgage servicing firms have changed how they characterize "prime" and "subprime" loans, so that current data are not comparable to historical data. One place we see the change in originations is in the Federal Reserve Board's quarterly survey of senior loan officers. In response to the Fed's queries about lending standards on subprime mortgage loans, only 4 of the 67 banks in the Q2 2017 survey said they originate subprime loans, and the number stating they do so has hovered at five or less for the past several years now. In the MBA's new reporting structure, originations, delinquencies, and foreclosures are reported for conventional mortgage loans, FHA loans, and VA loans, with conventional loans broken out into fixed rate and adjustable rate loans. The reporting on FHA and VA loans has not changed, so the Q1 data are comparable with the historical data. The time series on conventional loans is not as long as the historical data on other types of loans, though a longer series is being constructed. These changes have resulted in only a few differences in how we analyze and report the MBA data.

In addition to those loans in some stage of delinquency, as illustrated in the chart above, one must also account for those loans in some stage of foreclosure in order to fully account for mortgage distress. While doing so yields the same steady downward trend seen in delinquency rates, unlike delinquencies total mortgage distress remains above longer-term averages. This is a reflection of "late-stage" delinquencies and foreclosure inventories remaining above their long-term averages, while "early-stage" delinquencies are below their longer-term averages. The term "early-stage" delinquencies refers to those mortgage loans delinquent less than 90 days, while those loans delinquent for 90 days or more are referred to as "late-stage" delinquencies; adding foreclosure inventory rates, i.e., the percentage of outstanding mortgage loans at some stage in the foreclosure process, to late-stage delinquencies yields what is referred

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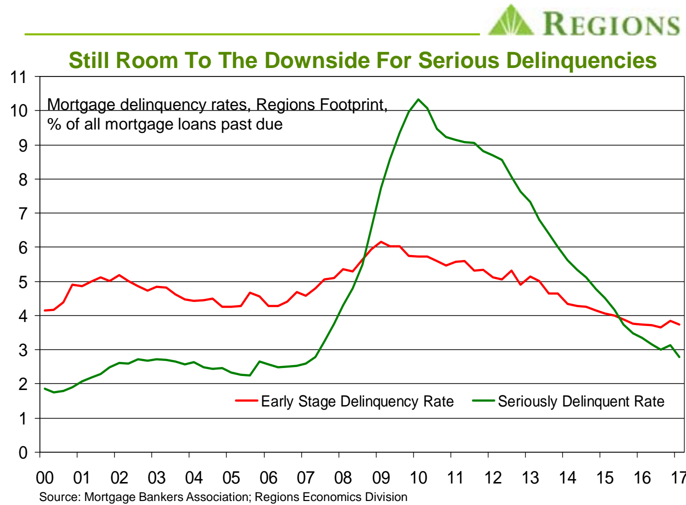
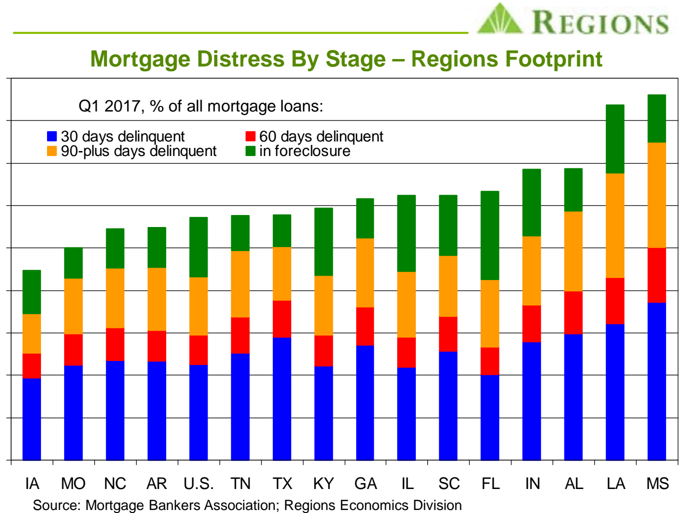
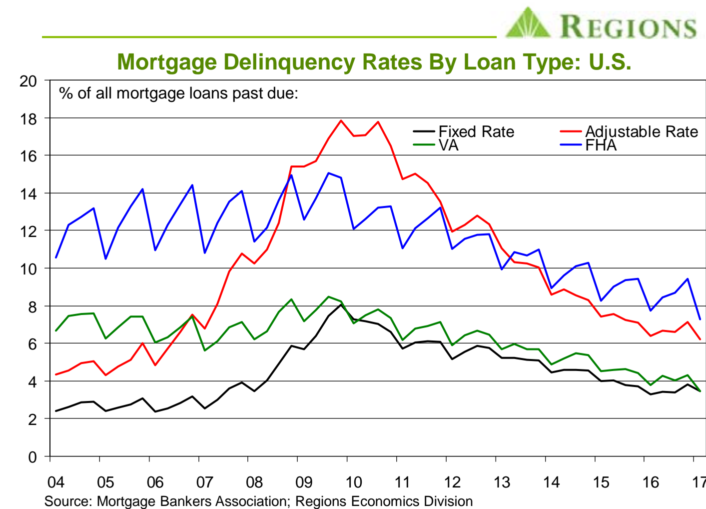
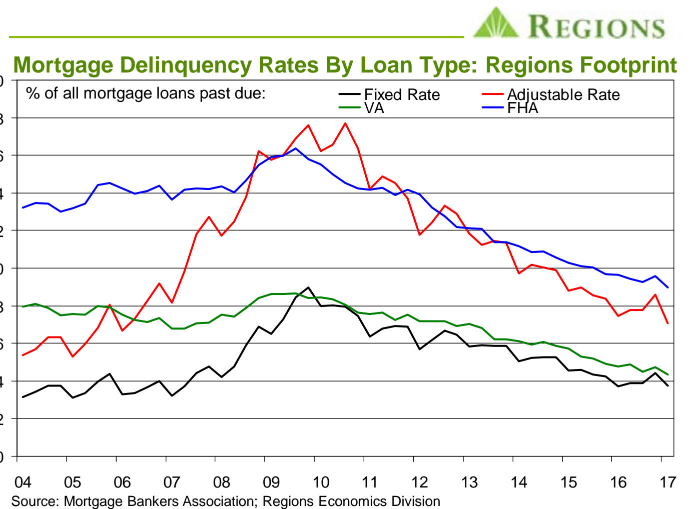
to as "serious" delinquencies. The first chart below breaks out total mortgage distress for the 15-state Regions footprint into early-stage delinquencies and serious delinquencies. As seen in the chart, early stage delinquencies within the footprint are below pre-crisis levels, and indeed are below the longer-term average seen over the 1980-2006 period. In contrast, serious delinquency rates remain above pre-crisis norms and also above the longer-term average. The second chart below breaks out total mortgage distress as of Q1 2017 by each of the four buckets for the 15 states in the Regions footprint.




As is typically the case, Mississippi had the highest incidence of mortgage distress in Q1 2017, and the third highest incidence nationally behind only New Jersey and New York. As we routinely note, however, while Mississippi tends to post early-stage delinquency rates (i.e., 30 or 60 day delinquency rates) well above the national average, a relatively low share of these loans progress into foreclosure, as Mississippi's foreclosure inventory is consistently below the U.S. average. Another trend that has been in place over the past few years is that Florida's early-stage delinquency rate has run below the national average, and this remained the case in Q1 2017. Florida's above-average rate of overall mortgage distress is a reflection of foreclosure inventories that remain above longer-term averages, even though well down from the cyclical peak. Recent quarters have seen a higher incidence of mortgage distress in Louisiana and Texas, which most likely reflects the impact of the tough times experienced in the energy industry and spillover effects into other segments of the state economies. Louisiana saw a more pronounced increase in mortgage delinquencies than did Texas, and while rates edged lower in Q1 2017 they remain higher than implied by the downward trend that had been in place prior to the dramatic decline in oil prices, while the rates of decline in foreclosure inventories have been slower than the U.S. and footprint averages.




We can, as always, break mortgage delinquency rates down by loan type, but the loan buckets are different with the MBA's new reporting structure than in the past, where we could look at delinquency rates for prime and subprime mortgage loans. With the new data, we can look at delinquency rates on conventional fixed rate loans, conventional adjustable rate loans, as well as VA and FHA loans, which we do in the above charts for the U.S. as a whole and for the Regions footprint. The rates shown for the footprint are weighted averages, with the number of loans of each type in each state serving as the weights. Also, as is apparent in the above charts,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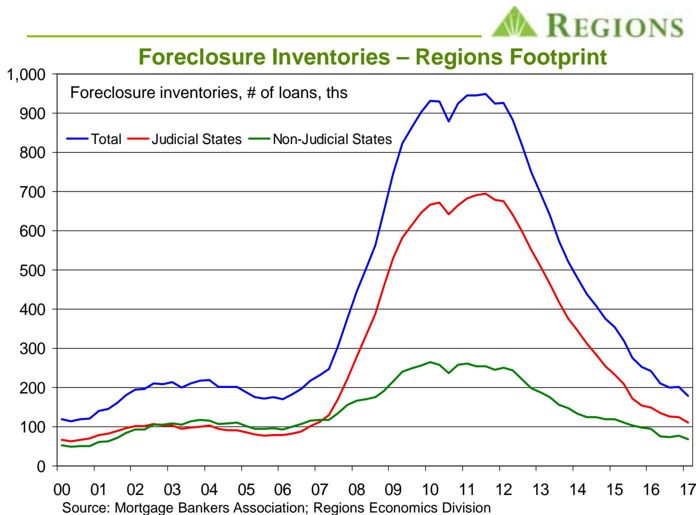
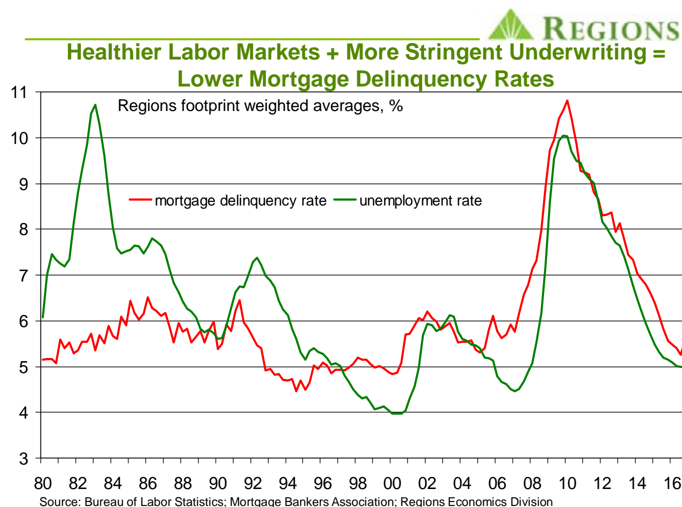
the rates shown are not seasonally adjusted though we are hopeful that at some point we will be able to show seasonally adjusted rates. In any event, the patterns shown in the above charts are similar for the U.S. as a whole and the Regions footprint – delinquency rates are trending lower on each type of loan, and delinquency rates are the highest on FHA loans with those on adjustable rate loans also well above average, while conventional fixed rate loans show the lowest delinquency rates. This reflects differences in underwriting standards on the various loan types, and it is worth keeping in mind that the bulk of what in the past were characterized as subprime mortgage loans were adjustable rate loans. This helps account for the fact that when conditions in the housing market began to deteriorate ahead of the 2007-09 recession, the first signs of that in terms of mortgage loan performance were seen in the spike in delinquency rates on adjustable rate loans, which was true nationally and in the Regions footprint.




As would be expected with the steady downtrend in mortgage delinquencies, inflows into the foreclosure pipeline continue to slow. Foreclosure starts were down 17.1 percent year-on-year in Q1 for the U.S. as a whole and down 13.2 percent for the Regions footprint. That said, foreclosure starts did edge higher in Q1 2017 compared to Q4 2016. This could be a natural follow on to the increase in delinquencies seen in Q4 2016, and could in part reflect trends in house prices. What has been a multi-quarter run of faster house price appreciation could be giving lenders incentive to act faster in terms of foreclosures if they are less fearful of facing a significant hit on sales prices for distress properties placed back on the sales market. With late-stage mortgage delinquencies still elevated above historical norms, it is possible that foreclosure starts will continue to edge higher over coming quarters, but the magnitude and the duration of any such upturn will not come close to those seen during the last cycle. And, should there be a period of rising foreclosure starts, that could in turn lead to a reversal of the steady and long-running trend of declining foreclosure inventories. But, again, the duration and magnitude of any increase in foreclosure inventories figure to be much less pronounced than was the case during the last cycle. As of Q1 2017, foreclosure inventories stood 22.6 percent lower, year-on-year, for the U.S. and 20.8 percent lower for the Regions footprint.




The persistent decline in mortgage delinquency rates is not at all surprising given the past several years have seen steadily improving labor market conditions, steadily rising disposable personal income, a prolonged period of low mortgage interest rates, and mortgage lending standards that, while having eased a bit over recent quarters, nonetheless remain far more stringent than those seen in the years prior to the 2007-09 recession. There is potential for further declines in mortgage delinquency rates over coming quarters as long as the trends noted above remain intact. Still, June will mark the eighth birthday of the current economic expansion, which already stands as the third longest on record. As such, it is reasonable to think we are closer to the end of this expansion than we are to the beginning, and that naturally leads to questions as to what the next downturn will look like. Of the four recessions shown in the chart to the side, the increases in mortgage delinquency rates associated with the 1980-82*, 1990-91, and 2001 recessions were far less severe than that associated with the 2007-09 recession, which makes perfect sense given those earlier recessions were not preceded by credit fueled bubbles in the housing market. The absence of such excesses during the current expansion suggests that when the next downturn does come, the consequences won't be nearly as severe as those associated with the last one.

NOTE: * while the NBER delineates two separate recessions over this period many analysts, us included, view this as one prolonged and severe recession

Mortgage Distress, Regions Footprint

as of Q1 2017

| STATE | 30-day delinquency rate | 60-day delinquency rate | 90-day delinquency rate | foreclosure inventory | total mortgage distress rate | "early stage" delinquency rate | "serious" delinquency rate |
|---|---|---|---|---|---|---|---|
| Alabama | 2.99 | 1.00 | 1.88 | 1.00 | 6.87 | 3.99 | 2.88 |
| Arkansas | 2.33 | 0.73 | 1.49 | 0.93 | 5.48 | 3.06 | 2.42 |
| Florida | 2.02 | 0.65 | 1.59 | 2.07 | 6.33 | 2.67 | 3.66 |
| Georgia | 2.71 | 0.91 | 1.62 | 0.92 | 6.16 | 3.62 | 2.54 |
| Iowa | 1.94 | 0.58 | 0.93 | 1.02 | 4.47 | 2.52 | 1.95 |
| Illinois | 2.19 | 0.71 | 1.56 | 1.78 | 6.24 | 2.90 | 3.34 |
| Indiana | 2.79 | 0.88 | 1.62 | 1.57 | 6.86 | 3.67 | 3.19 |
| Kentucky | 2.23 | 0.72 | 1.41 | 1.58 | 5.94 | 2.95 | 2.99 |
| Louisiana | 3.22 | 1.09 | 2.47 | 1.59 | 8.37 | 4.31 | 4.06 |
| Missouri | 2.25 | 0.73 | 1.31 | 0.72 | 5.01 | 2.98 | 2.03 |
| Mississippi | 3.72 | 1.30 | 2.48 | 1.11 | 8.61 | 5.02 | 3.59 |
| North Carolina | 2.35 | 0.78 | 1.40 | 0.92 | 5.45 | 3.13 | 2.32 |
| South Carolina | 2.57 | 0.82 | 1.44 | 1.41 | 6.24 | 3.39 | 2.85 |
| Tennessee | 2.52 | 0.86 | 1.56 | 0.83 | 5.77 | 3.38 | 2.39 |
| Texas | 2.90 | 0.88 | 1.26 | 0.74 | 5.78 | 3.78 | 2.00 |
| U.S. | 2.26 | 0.70 | 1.37 | 1.39 | 5.72 | 2.96 | 2.76 |

NOTE: all rates expressed as a percentage of outstanding mortgage loans, not seasonally adjusted

Source: Mortgage Bankers Association; Regions Economics Division

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