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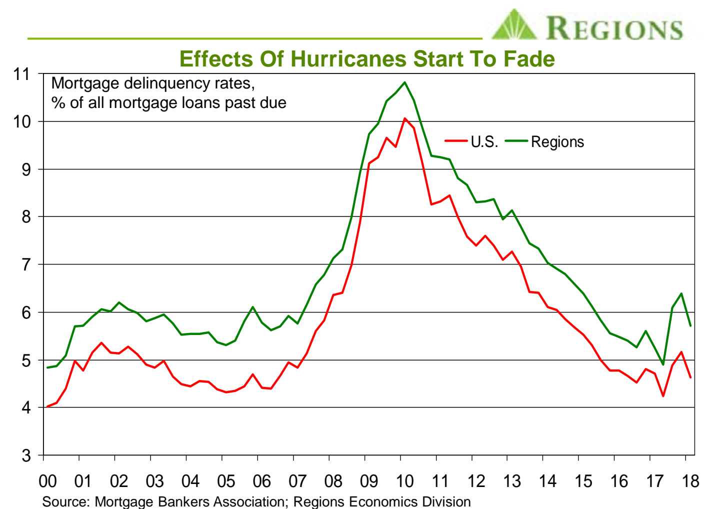
Q1 2018 Mortgage Delinquencies & Foreclosures

- For the U.S. as a whole the mortgage delinquency rate fell to 4.63 percent in Q1 2018 from 5.17 percent in Q4 2017
- Within the Regions footprint, the mortgage delinquency rate fell to 5.71 percent in Q1 2018 from 6.38 percent in Q4 2017
- Foreclosure starts were down 4.56 percent year-on-year for the U.S. as a whole, and down 3.78 percent for the Regions footprint

The Mortgage Bankers Association (MBA) recently released their data on mortgage delinquencies and foreclosures for Q1 2018. For the U.S. as a whole the mortgage delinquency rate, which encompasses all stages of delinquency but not those loans in some stage of foreclosure, fell to 4.63 percent in Q1 2018 from 5.17 percent in Q4 2017. 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. The delinquency rate for the Regions footprint fell to 5.71 percent in Q1 2018 from 6.38 percent in Q4 2017. The obvious caveat here is that the declines in delinquencies in Q1 reflect the initial unwinding of the effects of Hurricanes Harvey and Irma, which pushed delinquencies sharply higher over the final two quarters of 2017. That the two states most impacted by the hurricanes – Florida and Texas – are part of the Regions footprint means the impact on the delinquency rate was more pronounced for the footprint than for the U.S. as a whole, particularly given the rate we construct for the footprint is weighted by total mortgage loans. Data for Louisiana and Mississippi have also been impacted by the hurricanes. As of Q1 2018, the MBA survey covers roughly 38.563 million first lien mortgage loans for the U.S. as a whole and roughly 14.364 million first lien mortgage loans within the Regions footprint.



As noted in our last two quarterly updates of the MBA data, in keeping with their standard practice the MBA recognizes that forbearance is in place for borrowers impacted by the hurricanes yet requests that servicers report such loans as delinquent if payments were not made based on the original terms of the mortgage loans. As such, over recent quarters reported delinquency rates have not been as reliable an indicator of the incidence of mortgage distress as is normally the case. What we have seen is the effects of the hurricanes transitioning across delinquency buckets over the past few quarters. In other words, loans that were initially reported in the 30-day delinquency bucket transitioned to the 60-day bucket and then to the 90-day bucket. As such, the Q1 data show early-stage delinquency rates (or, loans delinquent less than 90 days) are shifting back in line with the downward trend that had prevailed prior to the hurricanes while late-stage delinquency rates (or, loans delinquent 90 or more days) remain elevated but, as the saying goes, this too shall pass.

These effects can be seen in the following charts, the first of which shows mortgage distress by stage – the three delinquency buckets and foreclosures (as a percentage of outstanding first lien mortgage loans – for the Regions footprint as a whole. Again, the rates shown for the footprint are the weighted average of rates across the individual states, with the number of first lien mortgage loans outstanding in each state serving as the weights. As the first chart shows, the 30-day delinquency rate for the Regions footprint spiked from 2.63 percent in Q2 2017 to 3.57 percent in Q3 before reversing in Q4 2017. As of Q1 2018 the 30-day delinquency rate for the footprint as a whole stands at 2.74 percent. The 90-day delinquency rate shot up from 1.49 percent in Q3 2017 to 2.17 percent in Q4 but gave back some of that advance in Q1 2018, standing at 1.94 percent and should fall further over coming quarters.

As we have noted in previous quarters, delinquencies tied to events such as hurricanes do not tend to flow into foreclosures and there is no evidence of that happening to any material degree in the wake of Hurricanes Harvey and Irma. That said, foreclosure starts did increase, nationally and within the Regions footprint, in Q1 2018 but were nonetheless down on a year-on-year basis. As seen in the first chart below, the foreclosure rate (i.e., the percentage of first lien mortgage loans at some stage of the foreclosure process) has flattened out at 1.10 percent over the past two quarters, putting it on par with the pre-crisis low seen in 2000. By way of comparison, the foreclosure rate for the U.S. as a whole stood at 1.16 percent in Q1 2018, down slightly from 1.19 percent in Q4 2017 and the lowest national rate since Q3 2016. The rate of "serious" mortgage delinquencies, or, the percentage of first lien mortgage loans either

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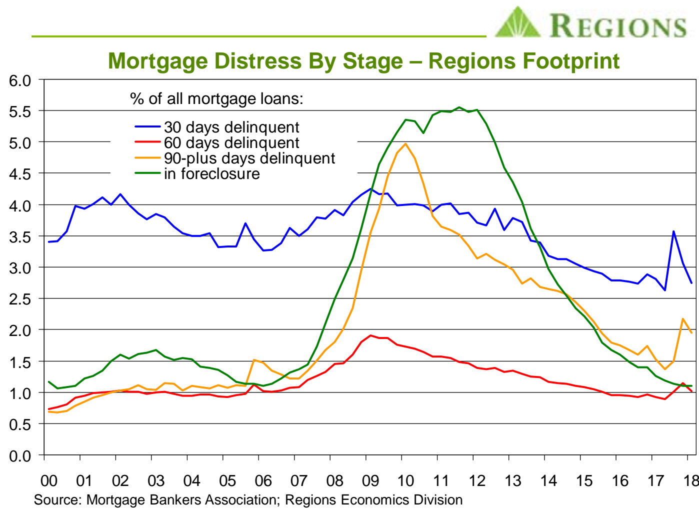
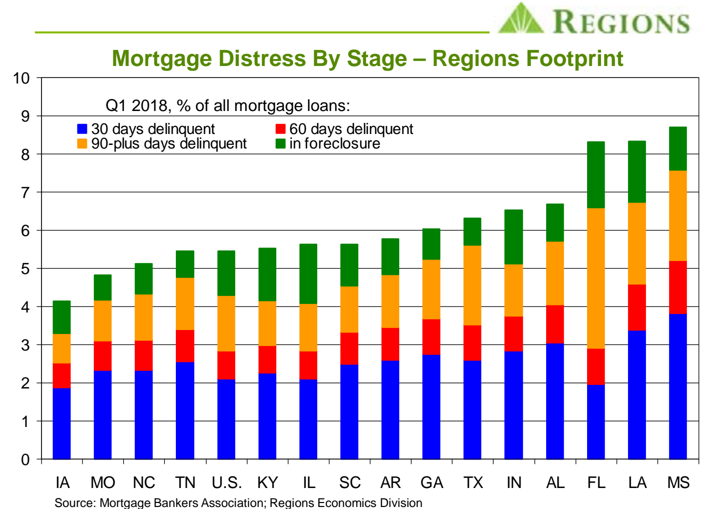
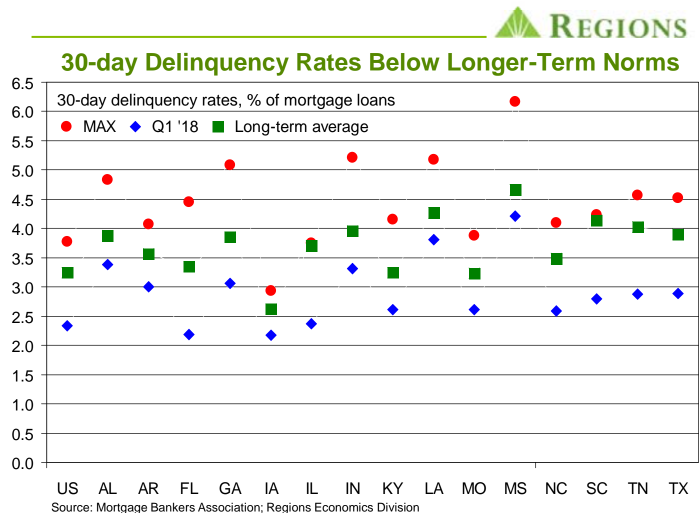
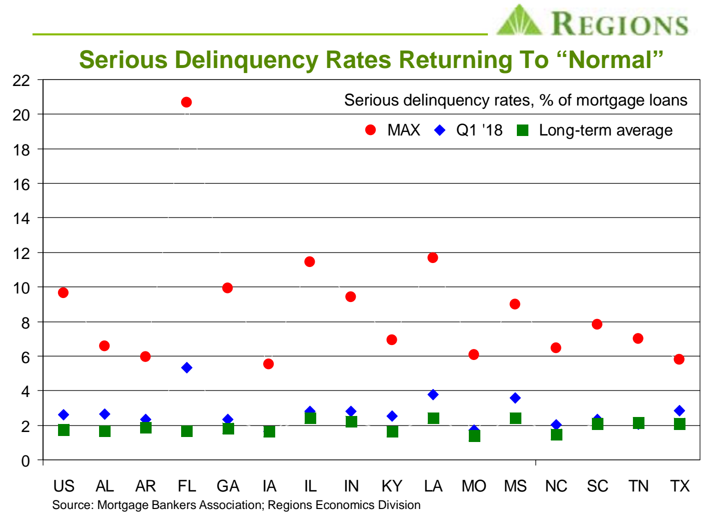
delinquent for 90 or more days or in some stage of foreclosure, fell to 3.05 percent for the Regions footprint as a whole in Q1. Again, though, to the extent the 90-day delinquency rate is being propped up by the effects of the hurricanes, so too will be the serious delinquency rate but over coming quarters the serious delinquency rate should fall back in line with the pre-hurricane trend. For the U.S. as a whole, the serious delinquency rate stood at 2.63 percent in Q1.





The second chart above shows mortgage distress by stage for each state within the Regions footprint and for the U.S. as a whole in Q1 2018 (the data are not seasonally adjusted). Mississippi had the highest incidence of mortgage distress not only in the Regions footprint but in the entire nation in Q1, with 8.71 percent of all first lien mortgage loans either delinquent or in some stage of foreclosure. As we have often noted, Mississippi typically sees well above-average early-stage delinquency rates while 90-day delinquency rates and foreclosure rates are typically below average. This was again the case in Q1 2018, with Mississippi logging the nation's highest 30-day (3.83 percent) and 60-day (1.38 percent) delinquency rates, but at 1.13 percent Mississippi's foreclosure rate was slightly below the U.S. average. In contrast, Florida once again posted a below-average 30-day delinquency rate (1.97 percent) in Q1 but at the same time logged the nation's highest 90-day delinquency rate (3.67 percent), thus leaving its overall rate of mortgage distress at 8.31 percent, third highest in both the Regions footprint and the U.S. as a whole. Louisiana posted the footprint's, and the nation's, second highest incidence of mortgage distress in Q1, with a rate of 8.34 percent. Louisiana's rate of mortgage distress is above the U.S. average for each stage of delinquency. At 4.14 percent, Iowa posted the lowest rate of mortgage distress in the Regions footprint in Q1, though this was only good for the 16th lowest rate nationally. At 2.43 percent, Colorado posted the nation's lowest rate of mortgage distress in Q1 2018.



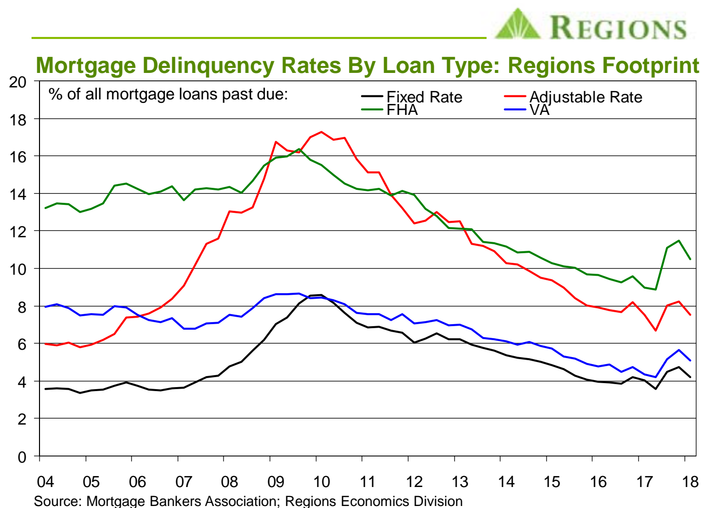


Hurricane-related distortions in the data notwithstanding, we thought it would be of interest to compare where rates of mortgage distress stand relative to both the height of the crisis and longer-term (i.e., pre-crisis) norms. We do this with the two charts above, the first of which shows 30-day delinquency rates for each in-footprint state and the U.S. as a whole and the second of which shows serious delinquency rates (these charts show the seasonally adjusted data). In each chart, the green square denotes the long-term average rate calculated using the quarterly data over the Q1 1980 through Q4 2006 period, the red circle shows the maximum rate reached

during the mortgage crisis tied to the 2007-09 recession, and the blue diamond shows the Q1 2018 rate. What is striking in the first chart is that 30-day delinquency rates are below, in many cases significantly so, the longer-term norms. To be sure, this to some extent reflects a much more stringent mortgage underwriting environment in the aftermath of the 2007-09 recession, but keep in mind that the length of the period over which we calculated the longer-term average blunts the effects of the years immediately preceding the crisis during which underwriting standards were much more lax than has been the case in the post-recession years.

Be that as it may, what is more significant about the first chart is that the data show the extent to which inflows into mortgage distress have slowed, which in turn suggests late-stage delinquency rates and foreclosure rates will push lower over coming quarters. Along with more stringent underwriting standards, notably healthy labor market conditions, a prolonged period of steady growth in personal income, and ongoing growth in housing equity have contributed to steadily improving mortgage loan performance. This is worth noting given the extent to which some have taken recent increases in delinquency rates on auto loan and credit card loan portfolios as a sign of deteriorating consumer fundamentals. Given that this deterioration is largely confined to the subprime segments of these portfolios, we do not agree with this argument, and the behavior of early-stage mortgage delinquencies makes us comfortable with our assessment. A more recent concern is that rising mortgage interest rates will at some point trigger "payment shocks" as adjustable rate mortgages begin to reset, which could spark an increase in early-stage delinquencies. Given the degree to which outstanding mortgage loans are fixed rate, rather than adjustable rate, loans now relative to past cycles, we do not see this as being the source of a pronounced increase in delinquencies even should mortgage interest rates continue to push higher over coming quarters.

The second chart above shows serious delinquency rates for each in-footprint state and for the U.S. as a whole, using the same three reference points – the longer-term average rate, the maximum rate during the crisis, and the rate as of Q1 2018. While serious delinquency rates in Florida, Louisiana, Mississippi, and Texas are to some degree artificially inflated due to the hurricanes, the overall pattern is the same across the Regions footprint and across the U.S. as a whole – serious delinquency rates are not only considerably below the peak rates associated with the crisis but they are closing in on their longer-term averages. Indeed, in Iowa, Illinois, Missouri, South Carolina, and Tennessee the Q1 rates basically matched the state's longer-term average rate. Again, with inflows into mortgage distress having diminished significantly over the past several quarters, coming quarters should see serious delinquency rates fall further. With the current economic expansion, now in its ninth year, closer to its end than to its beginning, it is worth thinking about how mortgage loan performance will hold up when (yes, it is "when" not "if') the next recession comes. While there is every reason to think there will be some deterioration in mortgage loan performance, there is no reason to think that deterioration will be anywhere near on the order of that seen during/following the 2007-09 recession.



Finally, as we have done over the past few quarters, we break down mortgage delinquency rates down by loan type, which the chart to the side shows for the Regions footprint as a whole. As would be expected, delinquency rates rose for each loan type in the wake of Hurricanes Harvey and Irma. At 224 basis points, however, the post-hurricane spike was the largest for FHA loans. Delinquency rates fell sharply across all loan types in Q1 2018 and should fall further as the effects of the hurricanes continue to fade from the data over coming quarters. It is worth noting that delinquency rates for each loan type for the Regions footprint as a whole are higher than the national average delinquency rate for each loan type.

Delinquency rates on FHA loans are higher than those for other loan types due to factors such as lower average credit scores on FHA endorsements since 2014; as these loans season a higher share can be expected to become delinquent. Also, FHA borrowers have been more impacted by rising household debt-to-income ratios. As we've noted in past editions, a change in how the MBA reports on mortgage loan performance means that what MBA now classifies as adjustable rate loans in their current reporting system would have been classified as subprime loans in the prior MBA reporting system, and data based on the old reporting system consistently showed significantly higher delinquency rates on subprime mortgage loans within the Regions footprint than for the U.S. as a whole. These points are worth keeping in mind when thinking about how mortgage loans will perform during the next downturn, as FHA loans account for roughly 19 percent of total mortgage loans outstanding in the Regions footprint, above the U.S. average, while adjustable rate loans account for just under 7 percent of all outstanding mortgage loans in the Regions footprint. To the extent there are differences in performance across loan types at this stage of the expansion, these differences will likely become more, not less, pronounced during the next downturn.

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Mortgage Distress, Regions Footprint

as of Q1 2018

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	3.05	1.00	1.67	0.96	6.68	4.05	2.63
Arkansas	2.59	0.87	1.38	0.93	5.77	3.46	2.31
Florida	1.97	0.95	3.67	1.72	8.31	2.92	5.39
Georgia	2.75	0.93	1.56	0.79	6.03	3.68	2.35
Iowa	1.88	0.64	0.77	0.85	4.14	2.52	1.62
Illinois	2.10	0.75	1.24	1.54	5.63	2.85	2.78
Indiana	2.84	0.92	1.37	1.39	6.52	3.76	2.76
Kentucky	2.26	0.73	1.17	1.36	5.52	2.99	2.53
Louisiana	3.38	1.21	2.15	1.60	8.34	4.59	3.75
Missouri	2.34	0.77	1.06	0.65	4.82	3.11	1.71
Mississippi	3.83	1.38	2.37	1.13	8.71	5.21	3.50
North Carolina	2.33	0.79	1.22	0.79	5.13	3.12	2.01
South Carolina	2.50	0.83	1.22	1.09	5.64	3.33	2.31
Tennessee	2.56	0.84	1.37	0.69	5.46	3.40	2.06
Texas	2.59	0.94	2.09	0.69	6.31	3.53	2.78
U.S.	2.10	0.75	1.45	1.16	5.46	2.85	2.61

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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