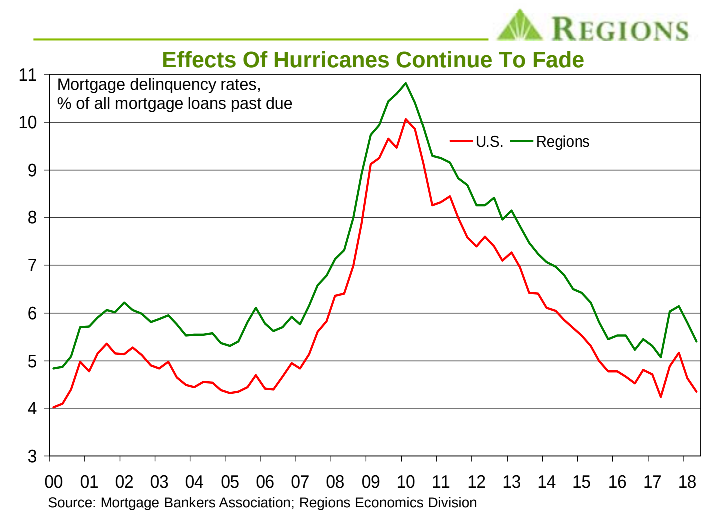
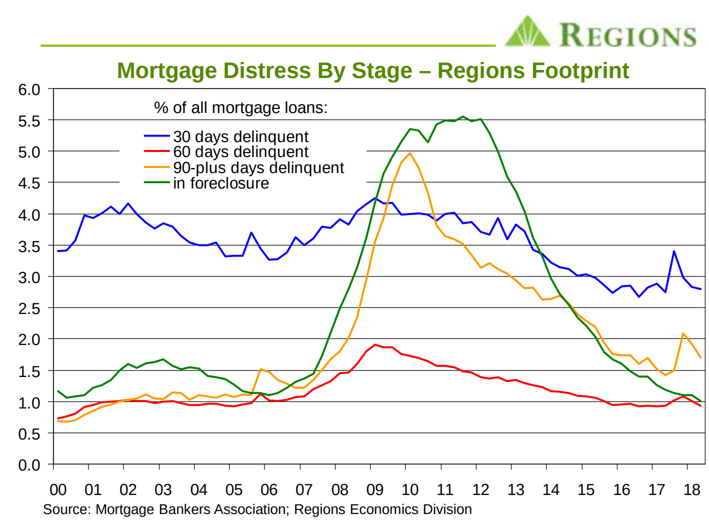
ECONOMIC UPDATE
REGIONS
August 20, 2018

Q2 2018 Mortgage Delinquencies & Foreclosures: Regions Footprint

- For the U.S. as a whole the mortgage delinquency rate fell to 4.35 percent in Q2 2018 from 4.63 percent in Q1
- Within the Regions footprint, the mortgage delinquency rate fell to 5.40 percent in Q1 2018 from 5.80 percent in Q1
- Foreclosure starts were down 9.14 percent year-on-year for the U.S. as a whole, and down 8.43 percent for the Regions footprint

The Mortgage Bankers Association (MBA) recently released their data on mortgage delinquencies and foreclosures for Q2 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 4.35 percent in Q2 2018 from 4.63 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. The delinquency rate for the Regions footprint fell to 5.40 percent in Q2 2018 from 5.80 percent in Q1. As seen in the chart to the side, delinquency rates spiked in late-2017, reflecting the effects of Hurricanes Harvey and Irma. 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 delinquency rate we construct for the footprint is weighted by total mortgage loans. The effects of the hurricanes have mostly washed from the data, and mortgage delinquency rates are falling back into what prior to the hurricanes had been a long-running downward trend. As of Q2 2018, the MBA survey covers roughly 38.338 million first lien mortgage loans for the U.S. as a whole and roughly 14.382 million first lien mortgage loans within the Regions footprint.



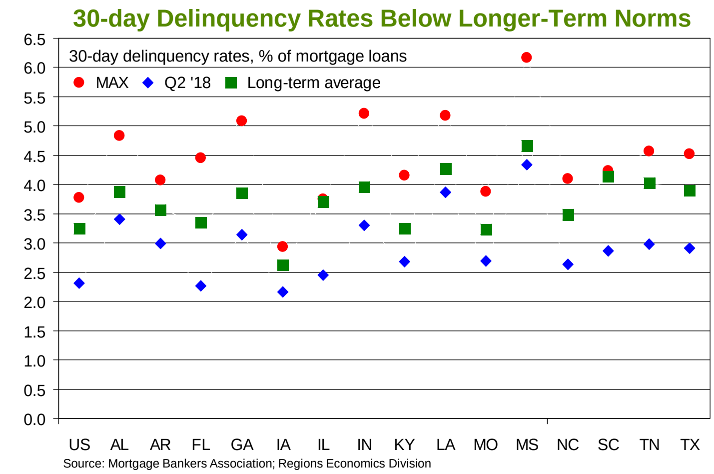


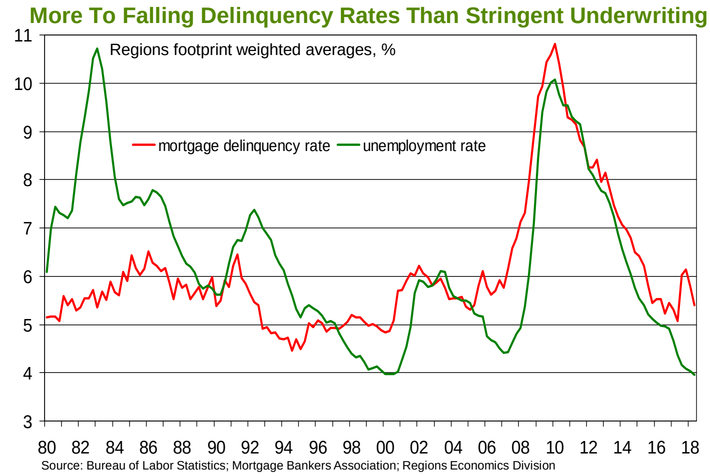
In keeping with their standard practice, the MBA recognizes that forbearance is in place for borrowers impacted by events such as hurricanes yet requests that servicers report such loans as being delinquent when payments are not made in accordance with the original terms of the mortgage loans. As such, over the past few quarters delinquency rates have not been as reliable indicator of the incidence of mortgage distress as is normally the case, which can be seen in the spike in reported delinquency rates after Hurricanes Harvey and Irma. The chart to the side helps illustrate the effects of the hurricanes. Delinquency rates by stage and the foreclosure rate are shown for the Regions footprint as a whole, each the weighted average of rates across the individual states. While 30-day and 60-day delinquency rates for the footprint as a whole are back to where they were prior to the hurricanes, the 90-day delinquency rate remains above its pre-hurricane value. But, as delinquencies tied to events such as hurricanes do not tend to flow into foreclosure, there are no visible effects on the foreclosure rate (or, the percentage of all first-lien mortgage loans in some stage of foreclosure). To that point, the foreclosure rate for the Regions footprint stood at 1.01 percent as of Q2 2018, the lowest since Q4 1997. Coming quarters will likely see 30-day and 60-day delinquency rates and the foreclosure rate drift lower (note: the data shown above are not seasonally adjusted, and there are clear seasonal patterns in the data), but the 90-day delinquency rate will likely remain elevated for some time, reflecting the lingering effects of the storms.

We think the relevant story in the mortgage delinquency data is continued downward drift in early-stage (i.e., delinquent less than 90 days) delinquency rates. To put this in perspective, the first chart below shows the 30-day delinquency rate for each in-footprint state

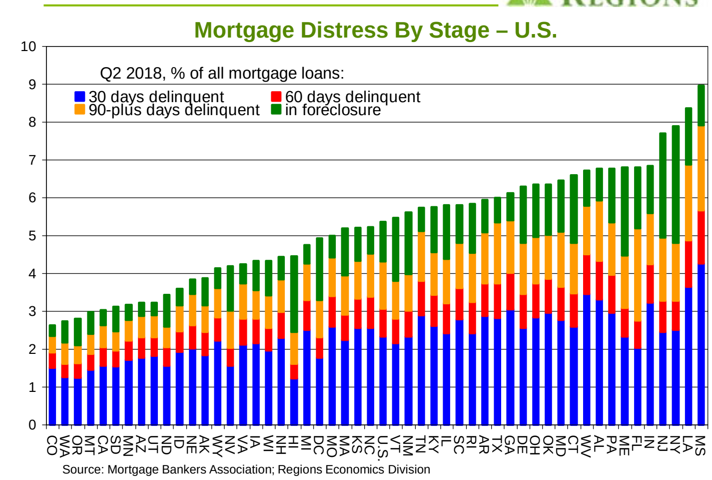
Regions Financial Corporation, 1900 5th Avenue North, 17th Floor, Birmingham, Alabama 35203
Richard F. Moody, Chief Economist • 205.264.7545 • richard.moody@regions.com

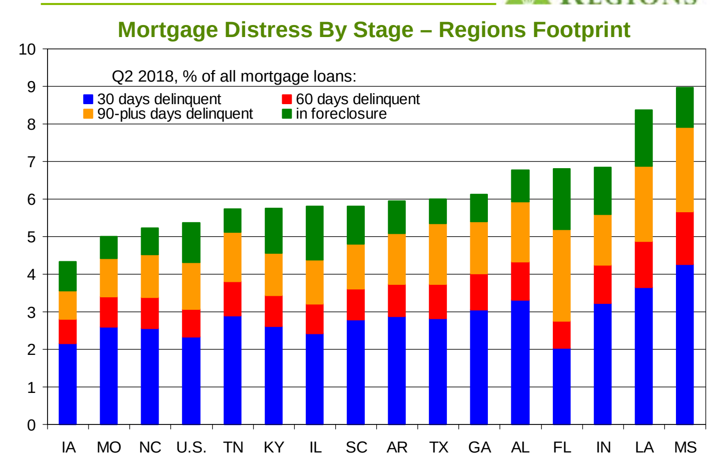
and the U.S. as a whole. For each state, the green square denotes the long-term average rate calculated using the quarterly data over the Q1 1980 through Q4 2006 period, the red circle shows the peak rate seen during the mortgage crisis tied to the 2007-09 recession, and the blue diamond shows the rate as of Q2 2018. As seen in the chart, in each state and for the U.S. as a whole, the 30-day delinquency rate is below the longer-term pre-recession average, in many cases significantly so. To some extent, this reflects what have been, in the post-recession years, notably more stringent mortgage underwriting standards than those that prevailed in the years leading up to the 2007-09 recession. For instance, as we discussed in our recent write-up of the Q2 2018 report on household debt, in the post-recession years mortgage loan originations have been heavily concentrated amongst borrowers with credit scores of 760 and higher.



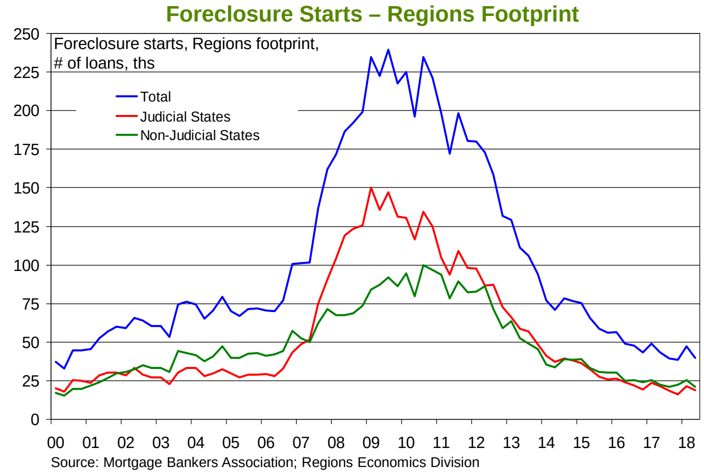


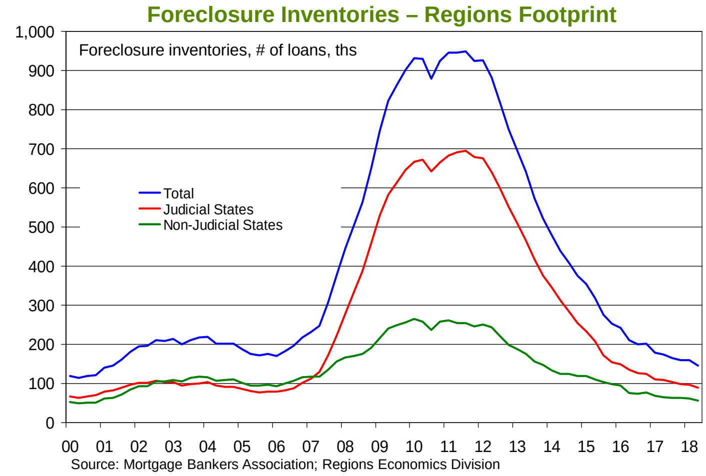
That said, it is too simplistic to attribute the entire improvement in mortgage loan performance to more stringent underwriting standards. As seen in the second chart above, the path of mortgage delinquency rates has been closely aligned with the unemployment rate, far more so since the 2007-09 recession (barring of course the post-hurricane spike in the delinquency rate discussed above). The mortgage delinquency rate shown in the second chart above encompasses all delinquency buckets (i.e., 30-day, 60-day, and 90-day rates) and is a weighted average of rates for the individual states, weighted by the number of outstanding first lien mortgage loans in each state; the unemployment rate is the employment-weighted average of unemployment rates for each in-footprint state. With the current economic expansion poised to endure at least long enough to become the longest expansion on record in the summer of 2019 and our expectation that unemployment rates have further room to fall, this suggests mortgage delinquency rates should continue to drift lower over coming quarters. It follows that when (and it is "when," not "if") the economy does slip into recession, the more stringent underwriting standards that have prevailed over the past several years should stem the tide of mortgage delinquencies such that delinquency rates and foreclosure rates will rise, but not nearly to the same extent as was the case with the 2007-09 recession.



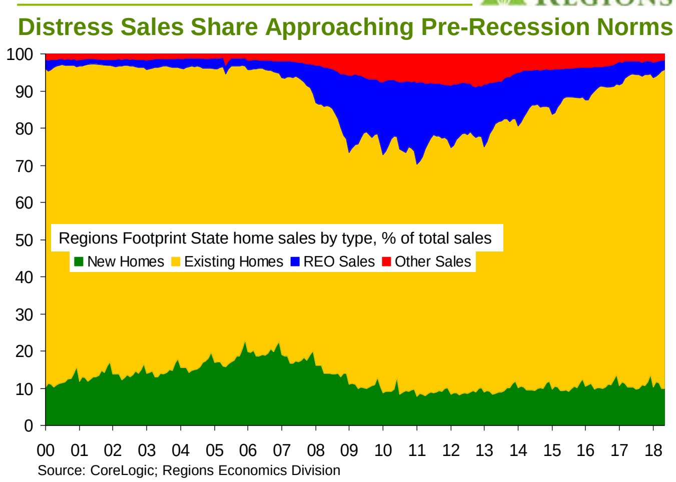


As to the Q2 2018 data, the two charts above show mortgage distress by stage on a state-by-state basis, the first shows all states and the second shows only the Regions footprint. As of Q2 2018, Mississippi (at 8.97 percent) and Louisiana (at 8.37 percent) had the highest and second highest incidence of mortgage distress in not only the Regions footprint but in the U.S. as a whole. At 4.26 percent, Mississippi's 30-day delinquency rate is the highest in the U.S., and while Mississippi's 60-day and 90-day delinquency rates are also easily above the U.S. average, its foreclosure rate of 1.06 percent is equal to the national average. This simply illustrates a point we have made before in these write-ups – mortgage delinquency rates in Mississippi (as well as other southern states) tend to have distinct patterns, in which loans routinely migrate between current and delinquent, but these loans for the most part do not escalate into foreclosure, hence the in-line foreclosure rate. It should be noted that the 90-day delinquency rates for Florida and Texas continue to, as discussed above, reflect lingering effects from Hurricanes Harvey and Irma that are pushing reported overall mortgage distress rates higher than each state's economic fundamentals would imply. For instance, in Q2 2017, Florida's 90-day delinquency rate stood at 1.27 percent while the rate for Texas stood at 1.17 percent, by Q4 2017 those rates stood at 4.47 percent and 2.55 percent, respectively, and they remain elevated as of Q2 2018, at 2.45 percent and 1.61 percent, respectively. At 2.04 percent as of Q2 2018, however, Florida's 30-day delinquency rate is well below the U.S. average of 2.33 percent.





We have often referred to early stage delinquencies as inflows into the foreclosure pipeline. Obviously, not all early-stage delinquencies evolve into foreclosure, but that is the first step for those that do evolve. Given the prolonged and steady decline in early-stage delinquencies, it follows that foreclosure starts have also fallen significantly, and this is shown in the first chart above for the Regions footprint. In Q2 2018, there were a total of 39,765 foreclosure starts across the 15 in-footprint states, a year-on-year decline of 8.43 percent (compared to a 9.14 percent decline for the U.S. as a whole). The number of foreclosure starts in the Regions footprint is approaching levels last seen in the year 2000, and to the extent early-stage delinquencies decline further over coming quarters, that will keep downward pressure on foreclosure starts. The extension of steadily declining foreclosure starts over the past several years is the steady decline in foreclosure inventories, as shown in the second chart above. As of Q2 2018, foreclosure inventories for the states in the Regions footprint totaled 145,230 units, down 16.44 percent from Q2 2017 and the lowest inventory count since Q2 2001. It is worth noting that foreclosure inventories in both the judicial states and the non-judicial states within the Regions footprint have fallen steadily, though the process in the former states tends to be longer and more cumbersome than in the latter states.



One implication of what are now significantly lower foreclosure inventories is that distress sales account for a much smaller share of total home sales, nationally and within the Regions footprint, than has been the case in the post-recession years. The chart to the side shows the breakdown of total home sales in the Regions footprint, and as of Q2 2018 REO sales accounted for just 2.61 percent of all home sales in the footprint, while "other" sales (mainly short sales, also included in the "distress sales" category) accounted for 1.68 percent of all sales. Though still slightly above the pre-recession averages, these shares are nonetheless well below the cyclical peaks of 21.79 percent and 8.84 percent, respectively. With notably lean inventories of existing homes for sale and supply constraints holding down new home sales, the steadily fading share of distress has contributed to increasingly tight supplies of homes for sale – though for sure this is not a complaint! While there is little that is "normal" in the dynamics of the for-sale segment of the housing market, the performance of mortgage loans and the steady decline in distress sales is a happily normal sign, and one that should persist over coming quarters.

Mortgage Distress, Regions Footprint

as of Q2 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	3.31	1.02	1.60	0.85	6.78	4.33	2.45
Arkansas	2.87	0.87	1.35	0.86	5.95	3.74	2.21
Florida	2.04	0.71	2.45	1.61	6.81	2.75	4.06
Georgia	3.06	0.95	1.40	0.71	6.12	4.01	2.11
Iowa	2.16	0.64	0.77	0.77	4.34	2.80	1.54
Illinois	2.42	0.79	1.18	1.41	5.80	3.21	2.59
Indiana	3.23	1.01	1.36	1.25	6.85	4.24	2.61
Kentucky	2.61	0.82	1.13	1.20	5.76	3.43	2.33
Louisiana	3.65	1.23	2.00	1.49	8.37	4.88	3.49
Missouri	2.60	0.80	1.02	0.58	5.00	3.40	1.60
Mississippi	4.26	1.40	2.25	1.06	8.97	5.66	3.31
North Carolina	2.57	0.81	1.15	0.70	5.23	3.38	1.85
South Carolina	2.79	0.83	1.19	0.99	5.80	3.62	2.18
Tennessee	2.89	0.92	1.31	0.62	5.74	3.81	1.93
Texas	2.82	0.92	1.61	0.65	6.00	3.74	2.26
U.S.	2.33	0.74	1.25	1.05	5.37	3.07	2.30

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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