ECONOMIC UPDATE

REGIONS

May 17, 2019

Q1 2019 Mortgage Delinquencies & Foreclosures: Regions Footprint

- For the U.S. as a whole the mortgage delinquency rate rose to 4.42 percent in Q1 2019 from 4.06 percent in Q4 2018
- Within the Regions footprint, the mortgage delinquency rate rose to 5.16 percent in Q1 2019 from 4.59 percent in Q4 2018
- Foreclosure starts were down 18.1 percent year-on-year for the U.S. as a whole, and down 19.1 percent for the Regions footprint

The Mortgage Bankers Association (MBA) recently released their data on mortgage delinquencies and foreclosures for Q1 2019. 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, rose to 4.42 percent in Q1 2019 from 4.06 percent in Q4 2018. 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 rose to 5.16 percent in Q1 from 4.59 percent in Q4 2018. As of Q1 2019, the MBA survey covers roughly 38.475 million first lien mortgage loans for the U.S. as a whole and roughly 14.389 million first lien mortgage loans within the Regions footprint.

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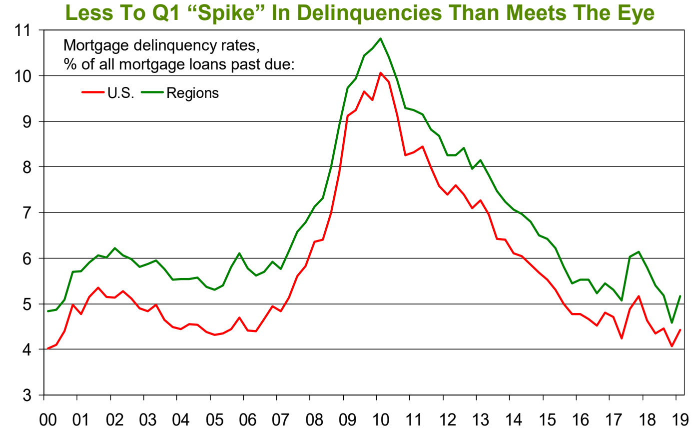
Less To Q1 "Spike" In Delinquencies Than Meets The Eye



Source: Mortgage Bankers Association; Regions Economics Division

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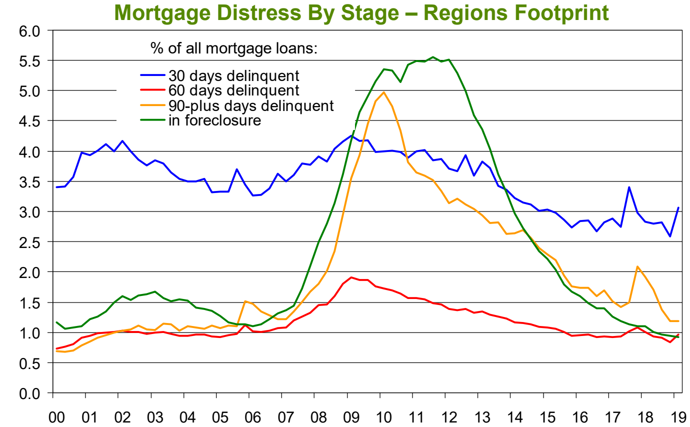
Mortgage Distress By Stage – Regions Footprint



Source: Mortgage Bankers Association; Regions Economics Division

At first glance, the jump in mortgage delinquency rates in Q1 may seem concerning, calling into question whether the long-running downward trend in mortgage delinquency rates has run its course. Indeed, some analysts greeted the Q1 2019 data as a sign of mounting financial stress in the household sector of the U.S. economy. After all, excluding Q3 2017, when delinquency rates were pushed materially higher by Hurricanes Harvey and Irma (though with virtually no ultimate impact on foreclosures), the increase in the mortgage delinquency rate for the U.S. as a whole was the largest in any quarter since Q1 2010, while the increase for the Regions footprint was the largest in any quarter since Q1 2009. Though that may seem a rather ominous sign, the reality is that there is far less to Q1's "spike" in mortgage delinquency rates than meets the eye.

That can only be seen, however, by digging through the details of the raw, or, not seasonally adjusted, data. As with virtually every single economic data series, there are clear seasonal patterns in the data on mortgage delinquency rates. For instance, 30-day mortgage delinquency rates tend to decline in Q1 of any given year and tend to rise in Q4 of any given year, a pattern which to some extent may reflect holiday spending patterns amongst marginal borrowers. It is, after all, common to see the same borrowers swing between current and early-stage delinquent on their mortgage loan. As in any other data series, seasonal adjustment is designed to smooth out normal seasonal patterns in the data on mortgage delinquencies, but if these seasonal patterns do not hold, either in direction or degree, seasonal adjustment can yield results that are more noise than signal, which is what we see in the Q1 data on mortgage delinquencies. For instance, in Q1 2019 the not seasonally adjusted 30-day mortgage delinquency rate fell by 14 basis points for the U.S. as a whole, which directionally is in keeping with typical seasonal patterns but in terms of magnitude is much smaller than the average 56-basis point Q1 decline over the prior 18 years (oddly enough, even during the worst of the housing/mortgage crisis, 30-day delinquency rates declined in each Q1). As such, the seasonal adjustment factors basically overcompensated for the actual decline in the unadjusted 30-day delinquency rate seen in Q1 2019, pushing the seasonally adjusted 30-day delinquency rate sharply higher, as seen in the second chart above. Save for a modest increase in the 60-day delinquency rate, the entire increase in the overall delinquency rate on a seasonally adjusted basis is due to the jump in the 30-day delinquency rate.

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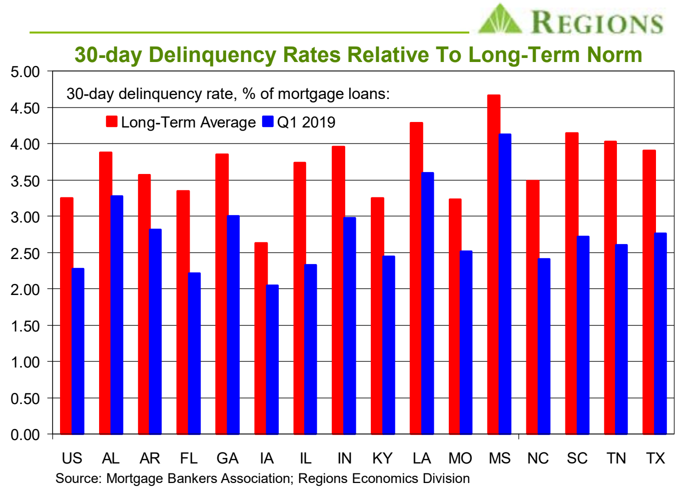
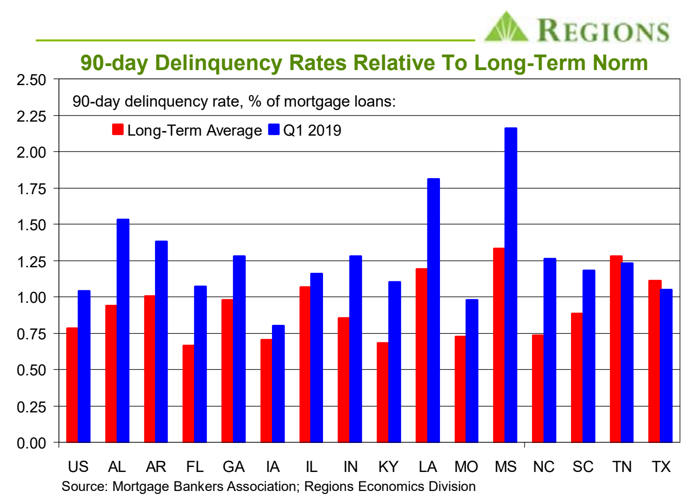


So, sure, one could still make the same point, i.e., that a smaller than normal decline in the unadjusted 30-day delinquency rate in Q1 must be a sign that more mortgage distress is on the way, but we'd make the opposite argument. Keep in mind that with the steady decline in mortgage delinquency rates seen since 2010 (again, the obvious exception is the hurricane-related spike in Q3/Q4 2017), the 30-day delinquency rate has fallen well below its long-term historical average. This is true nationally and for each state in the Regions footprint. As such, we'd argue that there is simply little additional downside room left for early-stage delinquency rates, which is not at all the same as saying early-stage delinquency rates are about to reverse course and rise on a significant and sustained basis.

We use the period from Q1 1980 through Q4 2006 as the basis for estimating longer term norms for mortgage delinquency rates, as this period includes normal cyclical activity without being biased higher by the worst effects of the excesses in mortgage lending in the years leading up to the 2007-09 recession. The above chart compares the 30-day delinquency rate as of Q1 2019 to the longer-term average (data are not seasonally adjusted) for the U.S. and for each state in the Regions footprint. Most of these deviations are substantial – as of Q1 2019, Tennessee's 30-day delinquency rate was 143 basis points below the longer-term norm, with South Carolina's Q1 rate 142 basis points below the longer-term norm, and Illinois' Q1 rate 140 basis points below the longer-term norm. At 54 basis points, Mississippi saw the smallest gap between its Q1 rate and the longer-term norm – as a side point, at 4.12 percent, Mississippi posted the nation's highest 30-day delinquency rate in Q1 2019. For the U.S. as a whole, the unadjusted 30-day delinquency rate stood at 2.27 percent as of Q1 2019, 98 basis points below the longer-term norm.

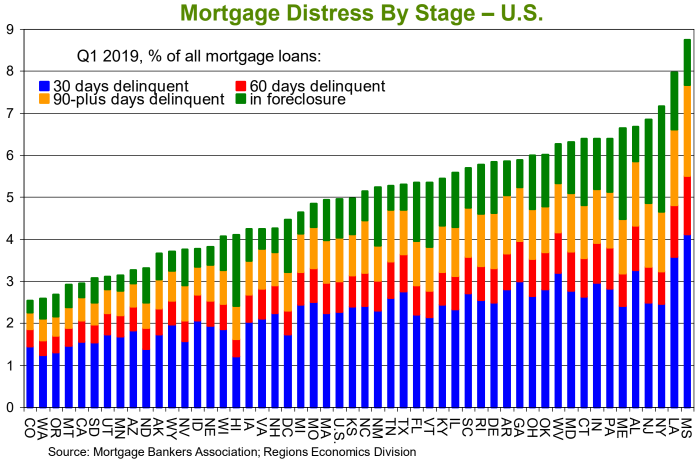
To be sure, this is not to say there are no concerns regarding mortgage delinquencies and/or foreclosures. For instance, 90-day delinquency rates remain above the longer-term norm for the U.S. as a whole and, with the exceptions of Tennessee and Texas, for each state within the Regions footprint. This can be seen in the chart to the side, and note that in some states, such as Alabama, Arkansas, Louisiana, and Mississippi, the disparities are quite large. What is interesting, however, is that the gaps between current and "normal" 90-day delinquency rates does not carry through to foreclosure inventories. With the exception of Florida, whose foreclosure inventory (expressed as a percentage of outstanding mortgage loans) remains 37 basis points above its longer-term norm, current foreclosure inventory rates are either below or only slightly above their longer-term norms in the remaining in-footprint states and for the U.S. as a whole. Rates of foreclosure starts, expressed as a percentage of outstanding mortgage loans, continue to drift lower, which again illustrates the lack of "follow through," for want of a better term, between late-stage delinquencies and foreclosures.



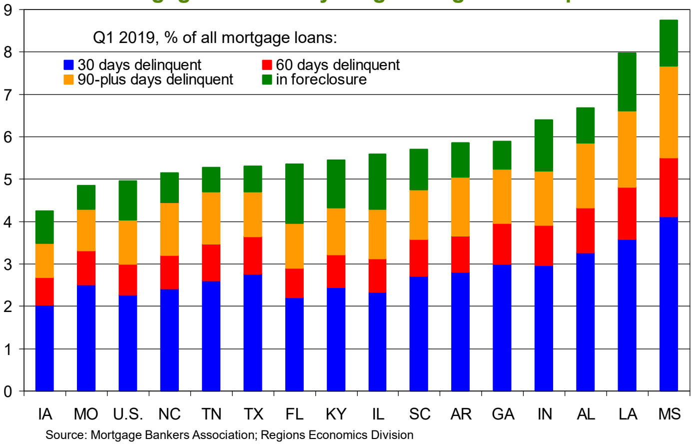
The broader point, however, is that given the degree to which early-stage delinquency rates have fallen, it seems only a matter of time before 90-day delinquency rates also drop below their longer-term norms even if we are correct that there may be little further downside room for early-stage delinquency rates. Turning our attention back to the Q1 2019 data, as we do each quarter we use the two charts that follow to show mortgage distress on a state-by-state basis, first for each state and then for only the states within the Regions footprint. At 8.74 percent, Mississippi had the nation's highest rate of mortgage distress as of Q1 2019, with Louisiana the second highest at 7.98 percent. Alabama, at 6.68 percent, had the fifth highest incidence of mortgage distress in Q1, while Indiana tied with Pennsylvania for the seventh highest, at 6.40 percent. At just 2.55 percent, Colorado had the nation's lowest rate of mortgage distress as of Q1, though at 2.59 percent Washington was a close second. Within the Regions footprint, Iowa posted the lowest incidence of mortgage distress as of Q1, with 4.24 percent of all outstanding first lien loans either in some stage of delinquency or in foreclosure.

As has been the case over the past several quarters, Mississippi's 30-day (4.12 percent), 60-day (1.39 percent), and 90-day (2.16 percent) delinquency rates are the highest in the nation as of Q1 2019, but as has also been the case for some time, Mississippi's foreclosure rate (1.07 percent) is not even close to being the highest foreclosure rate in either the U.S. or the Regions footprint. At 2.51 percent, New York posted the nation's highest foreclosure rate as of Q1 2019, followed by Maine at 2.17 percent, while at 1.38 percent Florida has the highest foreclosure rate in the Regions footprint. Keep in mind, however, that Florida's foreclosure rate peaked at 14.49 percent in Q3 2011, so that it currently has the highest rate in the footprint is not nearly as significant a story as is the significant progress that has been made in clearing the backlog of mortgage distress in Florida over the past several years. To that point, Florida's 30-day and 60-day delinquency rates have been below the national average over the past several quarters.

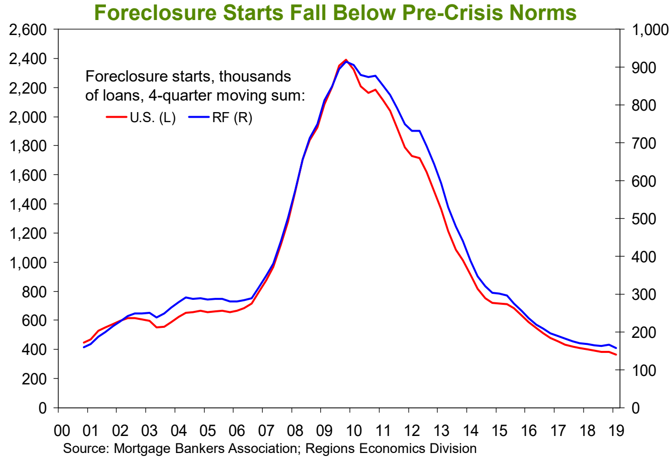
Mortgage Distress By Stage – U.S.



Mortgage Distress By Stage – Regions Footprint



Foreclosure Starts Fall Below Pre-Crisis Norms



One implication of the prolonged period of declining early-stage mortgage delinquencies, both nationally and within the Regions footprint, is that the inflow of properties into the foreclosure process has also slowed significantly. In Q1 2019, there were a total of 88,492 foreclosure starts nationally, down 18.1 percent year-on-year, while within the Regions footprint there were 38,154 foreclosure starts, a year-on-year decline of 19.1 percent. As the number of foreclosure starts can swing sharply from one quarter to the next, the chart to the side shows the running four-quarter moving sum of foreclosure starts for the U.S. and for the Regions footprint. Over the past four quarters, there have been 363,260 foreclosure starts nationally, the lowest 4-quarter total over the 2000-20109 period, which is also true of the 157,907 foreclosure starts within the Regions footprint over the past four quarters. The rate of foreclosure starts, expressed as a percentage of outstanding first lien mortgage loans, has fallen below longer-term historical norms, nationally and for each state in the Regions footprint, which is a logical progression from early-stage delinquency rates having also fallen below longer-term norms.

Foreclosure inventories have also fallen dramatically, and while the number of loans is still modestly above pre-crisis norms, when expressed as a percentage of outstanding first lien mortgage loans, foreclosure inventories are indeed below pre-crisis norms. The share of total home sales accounted for by distress properties, which mainly consist of REO sales and short sales, has fallen sharply and remains just above pre-crisis norms, both nationally and within the Regions footprint. Earlier in this cycle, the paring down of the large backlog of distress inventories helped hold down the pace of house price appreciation, but as that backlog has all but been cleared, inventory constraints in the for-sale segment of the housing market have become more pressing, thus helping fuel a faster pace of house price appreciation.

Clearing what was a vast inventory of mortgage distress is a step on the road back to "normal" for the housing market, but there is still further to go. Unlike the last cycle, which saw unprecedented levels of supply, the current cycle has been characterized by an undersupplied housing market. This has supported a faster pace of house price appreciation than would have otherwise been the case, and at the same time has weighed on the homeownership rate. Though there has been steady growth in single family construction, the pace of that growth has been notably slow, and it will be some time before the level of single family construction approaches what once would have been considered normal. More stringent mortgage underwriting standards during this cycle have helped fend off the kind of housing market excesses that could pose a threat to the broader economy, though there are individual markets in which the rate of house price appreciation merits attention. On the whole, however, the housing market poses little, if any, threat to the broader economy, a welcome contrast to the prior cycle.

Mortgage Distress, Regions Footprint

as of Q1 2019

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	3.27	1.05	1.53	0.83	6.68	4.32	2.36
Arkansas	2.81	0.86	1.38	0.81	5.86	3.67	2.19
Florida	2.21	0.69	1.07	1.38	5.35	2.90	2.45
Georgia	3.00	0.97	1.28	0.64	5.89	3.97	1.92
Iowa	2.04	0.65	0.80	0.75	4.24	2.69	1.55
Illinois	2.33	0.80	1.16	1.30	5.59	3.13	2.46
Indiana	2.97	0.95	1.28	1.20	6.40	3.92	2.48
Kentucky	2.44	0.78	1.10	1.12	5.44	3.22	2.22
Louisiana	3.59	1.22	1.81	1.36	7.98	4.81	3.17
Missouri	2.51	0.80	0.98	0.56	4.85	3.31	1.54
Mississippi	4.12	1.39	2.16	1.07	8.74	5.51	3.23
North Carolina	2.41	0.79	1.26	0.69	5.15	3.20	1.95
South Carolina	2.72	0.86	1.18	0.94	5.70	3.58	2.12
Tennessee	2.60	0.87	1.23	0.57	5.27	3.47	1.80
Texas	2.76	0.89	1.05	0.60	5.30	3.65	1.65
U.S.	2.27	0.73	1.04	0.92	4.96	3.00	1.96

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

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