ECONOMIC OUTLOOK

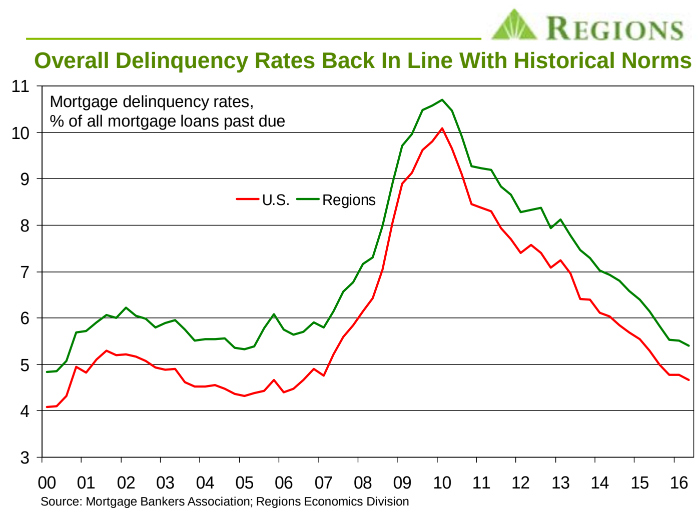
REGIONS

August 2016

Q2 2016 Mortgage Delinquencies & Foreclosures

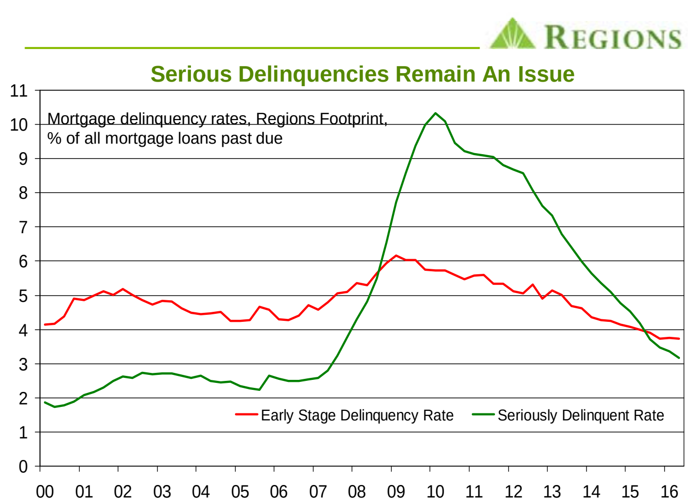
- For the U.S. as a whole the mortgage delinquency rate fell to 4.66 percent in Q2 2016 from 4.77 percent in Q1.
- Within the Regions footprint, the mortgage delinquency rate fell to 5.42 percent from 5.48 percent in Q1.
- Year-on-year, foreclosure starts fell by 25.0 percent for the U.S. as a whole and fell by 25.3 percent for the Regions footprint.

The Mortgage Bankers Association (MBA) recently released their data on mortgage delinquencies and foreclosures for Q2 2016. 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 4.66 percent in Q2. 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 Q2 2016, the delinquency rate for the Regions footprint stood at 5.42 percent, down from 5.48 percent in Q1. As seen in the chart, 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 – but are now also in line with the longer-term averages based on the 1980-2006 period. As of Q2 2016, the MBA survey covers roughly 37.7 million first lien mortgage loans for the U.S. as a whole and just over 14.1 million first lien mortgage loans within the Regions footprint.



To fully account for mortgage distress, however, one needs to also include those loans in some stage of the foreclosure process. While doing so yields the same steady downward trend evident in the delinquency data, 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 most common way of looking at mortgage distress is to break overall mortgage distress down into two buckets – "early stage" delinquencies, which includes those mortgage loans delinquent less than 90 days and "serious" delinquencies, which includes those mortgage loans delinquent for 90 or more days and those mortgage loans at some stage in the foreclosure process. This distinction is seen in the chart to the side, which shows the paths of the early stage delinquency rate and the serious delinquency rate for the Regions footprint. Early stage delinquencies are comprised of two buckets – loans delinquent between 30 and 59 days (reported as the 30-day delinquency rate), and loans delinquent between 60 and 89 days (reported as the 60-day delinquency rate). On average, as of Q2 2016 the 30-day delinquency rate across the Regions footprint is an average of 77 basis points lower than the average rate that prevailed over the 1980-2006 period. In contrast, on average across the footprint the 60-day delinquency rate is 7 basis points above its long-term average, the 90-day delinquency rate (i.e., loans delinquent 90 days or longer) remains 75 basis points above its long-term average, and the foreclosure inventory (i.e., the percentage of mortgage loans in some stage of foreclosure) is 42 basis points above its long-term average.



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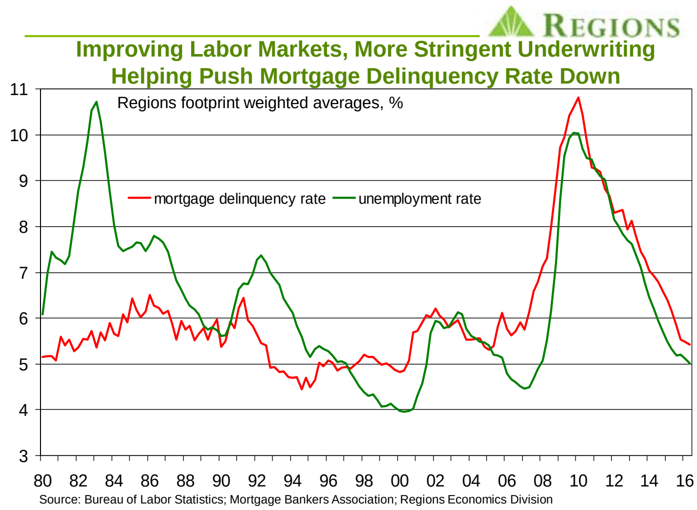
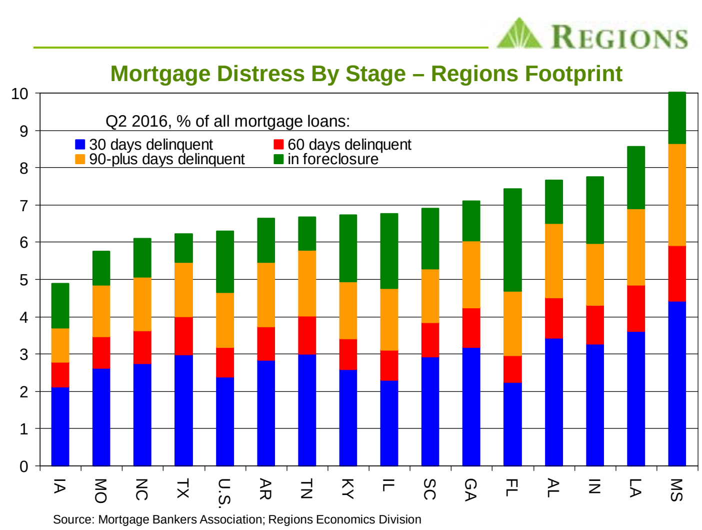


These results should come as no surprise. After all, in the years immediately following the end of the 2007-09 recession mortgage lending standards were considerably more stringent than was the case in the years leading up to the recession. Okay, sure, that's a low, low bar to have to clear, but lending standards were high in an absolute sense, not only relative to those that prevailed in the past expansion. The below-average 30-day delinquency rates seen across the footprint, and the U.S. as a whole, simply reflect this more stringent underwriting. At the same time, 60-day and 90-day delinquency rates have fallen considerably from their cyclical peaks, as is the case with foreclosure inventories. That the foreclosure backlog has yet to fully clear is a function of the magnitude of the problem, i.e., the number of foreclosures that took place during and after the downturn, and the cumbersome process by which foreclosures move through the system in judicial states, most notably Florida. So, one way to think about this is that inflows into the foreclosure process have slowed considerably but outflows from the process remain slow in many states in the Regions footprint and across the U.S. Still, this suggests it is a matter of when, not if, the backlog will clear and foreclosure inventories return to normal, barring of course the U.S. economy stumbling into recession along the way. As the above chart illustrates, the mortgage delinquency rate and the unemployment rate have tended to move together over time, and the two have been much more in synch over the past several years than had been the case historically. While there are clearly other factors that play a part in explaining the movements in mortgage delinquency rates, unemployment is a primary driver.

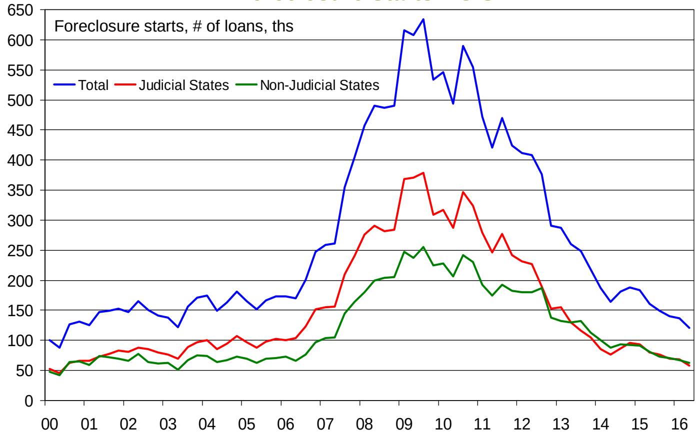
The chart below shows total mortgage distress, broken down by the four stages, for each state in the Regions footprint as of Q2 2016. Mississippi has the highest incidence of mortgage distress in the footprint, with 10.02 percent of all mortgage loans either delinquent or in some stage of foreclosure. This leaves Mississippi second nationally, with only New Jersey having a higher incidence of mortgage distress. Mississippi has the highest 30-day, 60-day, and 90-day delinquency rates in the nation, which has for the most part been the case for some time now. But, as we have discussed in past editions of this write-up, Mississippi has a below-average incidence of foreclosure, i.e., a below-average share of the state's delinquencies progress to foreclosure. One pattern that is common across many of our states is that early-stage delinquency rates are, in any given quarter, above-average but foreclosure rates remain below average. It is not uncommon for the same loans to transition from current to past-due to current, which is a reflection of what in many of our states is a high incidence of seasonal employment, i.e., income flows across the calendar year are uneven and times when those flows either dry up or are significantly slower, delinquency rates tend to rise only to be made current when income flows pick up.



Florida is also of note – at 2.24 percent the state's 30-day delinquency rate is second to Iowa, at 2.12 percent, as the lowest in the Regions footprint and is below the U.S. average of 2.39 percent. In contrast, at 2.72 percent Florida's foreclosure inventory (again, the percentage of loans in some stage of foreclosure) is the highest in the footprint and the sixth highest in the U.S.. This, however, clouds what has been significant progress in clearing out what was a vast foreclosure inventory; at its peak, Florida's foreclosure inventory stood at 14.49 percent in Q3 2011 when it was the highest in the nation. On broader terms, Florida's "all-in" rate of mortgage distress was 7.42 percent as of Q2 2016. This is a considerable distance from the 26.11 percent rate seen in Q4 2009, the highest rate of mortgage distress posted by any state in any quarter during the mortgage debacle. Still, there is further to go before Florida's foreclosure inventory returns to the average rate of 1.02 percent seen over the 1980-2006 period. For comparison, the long-term average foreclosure inventory rate for the U.S. as a whole is 0.97 percent while as of Q2 2016 the rate stood at 1.64 percent.

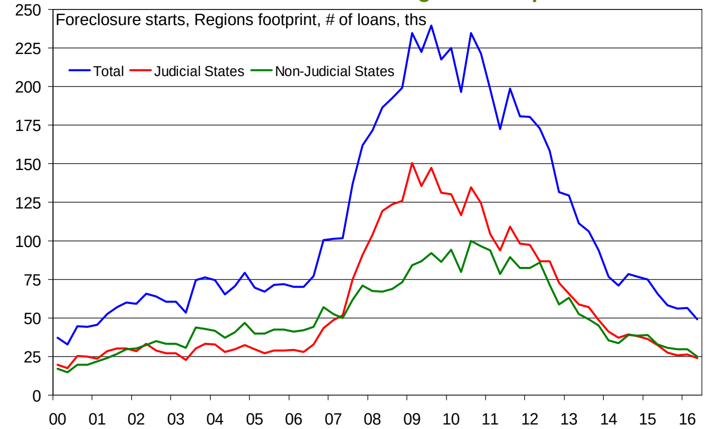
Finally, the charts below show foreclosure starts and foreclosure inventories for both the U.S. as a whole and the Regions footprint. These charts illustrate the points made above pertaining to the significantly diminished inflow into the foreclosure pipeline, and the notable improvement made in clearing distress inventories. In both judicial and non-judicial states, foreclosure starts are back in line with pre-crisis norms, which is the case for the U.S. as a whole and the footprint. The contrast, however, comes in foreclosure inventories. While foreclosure inventories in judicial states have settled back into pre-crisis levels, inventories in judicial states remain elevated and are responsible for total foreclosure inventories remaining above pre-crisis norms. Again, this is the case for both the U.S. as a whole and the Regions footprint.

Foreclosure Starts – U.S.



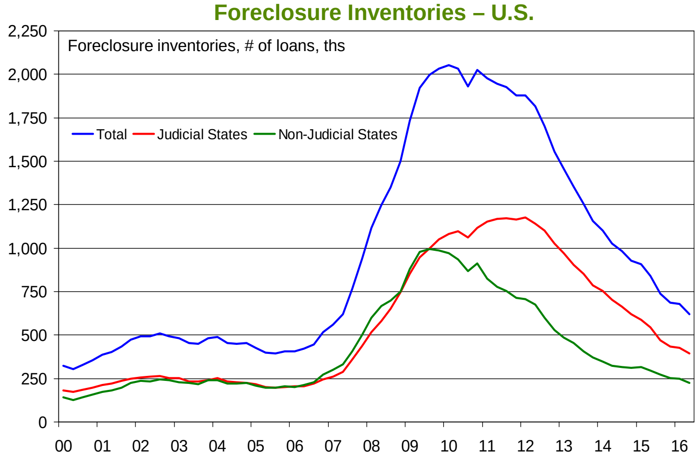
Source: Mortgage Bankers Association; Regions Economics Division

Foreclosure Starts – Regions Footprint



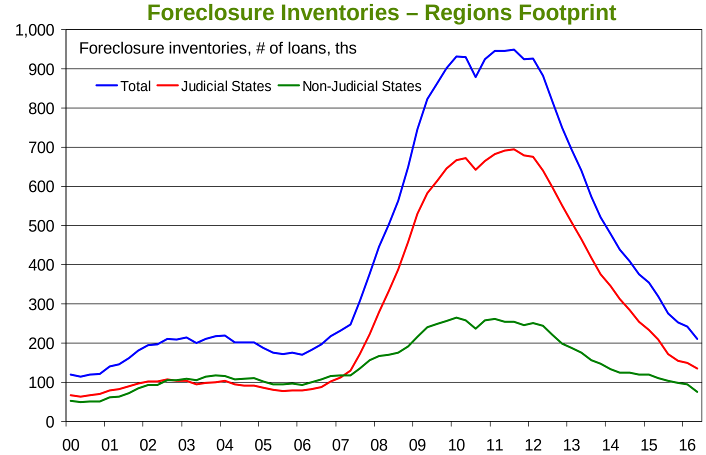
Source: Mortgage Bankers Association; Regions Economics Division

Foreclosure Inventories – U.S.



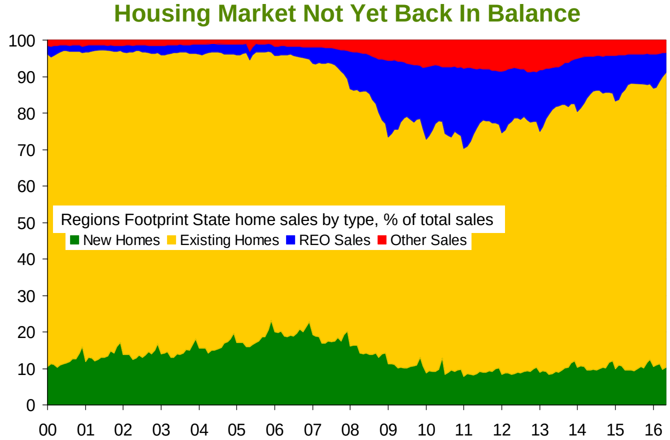
Source: Mortgage Bankers Association; Regions Economics Division

Foreclosure Inventories – Regions Footprint



Source: Mortgage Bankers Association; Regions Economics Division

Housing Market Not Yet Back In Balance



Source: CoreLogic; Regions Economics Division

One way to see the impact of still elevated foreclosure inventories is to break down home sales into the various components, which the chart to the side shows for the Regions footprint. Prior to the crisis, distress sales, which consist of REO sales, short sales, and other means of transacting homes from foreclosure inventories, accounted for roughly 3.5 percent of total home sales within the Regions footprint. During the worst of the crisis, that share had ballooned to over 27 percent, much higher in Florida (note – though we do not show it here, the same patterns are seen nationally). Though that share has since come down considerably, it nonetheless remains in double-digits, so clearly there is further to go. But, to the extent distress sales factor into the mix, it is harder for builders of new homes to compete with distress properties often selling for large discounts. Though less of an impediment to new construction now than over the 2009-14 period, in certain markets this is one factor likely holding down new single family construction.

Mortgage Distress, Regions Footprint

as of Q2 2016

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	3.43	1.08	2.00	1.15	7.66	4.51	3.15
Arkansas	2.84	0.90	1.73	1.17	6.64	3.74	2.90
Florida	2.24	0.72	1.74	2.72	7.42	2.96	4.46
Georgia	3.19	1.06	1.80	1.06	7.11	4.25	2.86
Iowa	2.12	0.66	0.93	1.18	4.89	2.78	2.11
Illinois	2.31	0.80	1.66	1.99	6.76	3.11	3.65
Indiana	3.27	1.04	1.66	1.79	7.76	4.31	3.45
Kentucky	2.59	0.83	1.52	1.78	6.72	3.42	3.30
Louisiana	3.62	1.23	2.06	1.66	8.57	4.85	3.72
Missouri	2.62	0.86	1.38	0.90	5.76	3.48	2.28
Mississippi	4.42	1.50	2.73	1.37	10.02	5.92	4.10
North Carolina	2.75	0.88	1.45	1.01	6.09	3.63	2.46
South Carolina	2.93	0.91	1.45	1.62	6.91	3.84	3.07
Tennessee	3.00	1.03	1.77	0.87	6.67	4.03	2.64
Texas	2.99	1.02	1.45	0.77	6.23	4.01	2.22
U.S.	2.39	0.79	1.47	1.64	6.29	3.18	3.11

NOTE: all rates expressed as a percentage of outstanding mortgage loans

Source: Mortgage Bankers Association; Regions Economics Division

Serious Delinquency Rates, Regions Footprint

	1980-2006	2006Q2	2007Q2	2008Q2	2009Q2	2010Q2	2011Q2	2012Q2	2013Q2	2014Q2	2015Q2	2016Q2
United States	1.75	1.89	2.47	4.50	7.97	9.11	7.85	7.31	5.88	4.80	3.95	3.11
Alabama	1.66	2.68	2.42	3.23	5.41	6.17	5.53	5.39	5.00	4.57	4.00	3.15
Arkansas	1.87	1.98	2.05	2.74	4.50	5.17	4.92	5.84	5.22	4.37	3.80	2.90
Florida	1.68	1.10	2.39	8.43	17.12	20.13	18.68	17.49	13.54	9.83	6.58	4.46
Georgia	1.81	2.53	2.98	4.35	7.50	9.35	7.70	7.10	5.51	4.36	3.65	2.86
Iowa	1.63	2.02	2.36	3.06	4.65	5.22	4.64	4.25	3.71	3.04	2.59	2.11
Illinois	2.41	2.08	2.84	4.66	8.62	11.07	10.59	10.33	8.15	6.29	4.90	3.65
Indiana	2.20	4.31	4.60	5.74	8.37	8.83	8.21	7.60	6.19	5.17	4.40	3.45
Kentucky	1.63	2.79	3.08	3.99	5.70	6.59	6.59	6.41	5.28	4.62	3.99	3.30
Louisiana	2.41	6.81	3.77	4.05	6.03	7.49	6.78	6.27	5.37	4.81	4.23	3.72
Missouri	1.41	1.87	2.29	3.09	5.02	5.57	4.72	4.56	3.87	3.33	2.87	2.28
Mississippi	2.42	6.51	4.28	4.96	7.39	8.43	7.80	7.52	6.34	5.63	5.03	4.10
North Carolina	1.47	2.15	2.10	2.69	4.91	6.15	5.93	5.80	4.60	3.70	3.16	2.46
South Carolina	2.09	2.64	2.62	3.47	6.04	7.48	7.13	6.87	5.58	4.57	3.87	3.07
Tennessee	2.16	2.61	2.78	3.65	5.87	6.47	6.25	5.71	4.80	4.12	3.44	2.64
Texas	2.09	2.66	2.57	3.11	4.68	5.43	4.50	4.31	3.61	3.10	2.62	2.22

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