ECONOMIC OUTLOOK

REGIONS

February 2017

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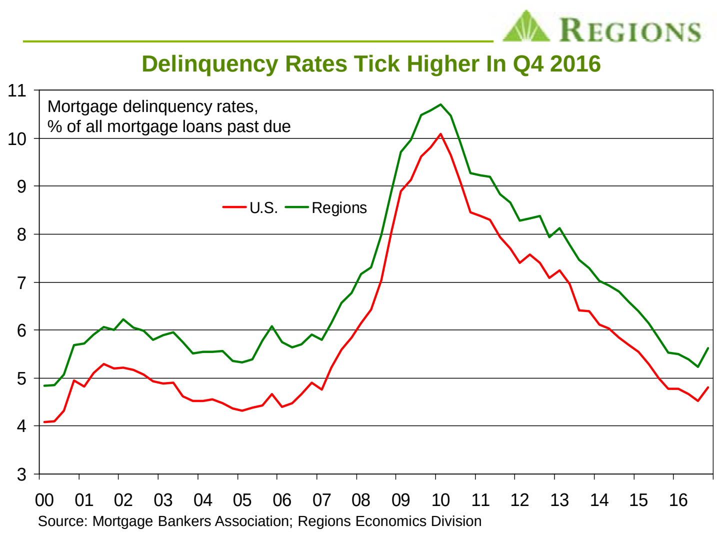
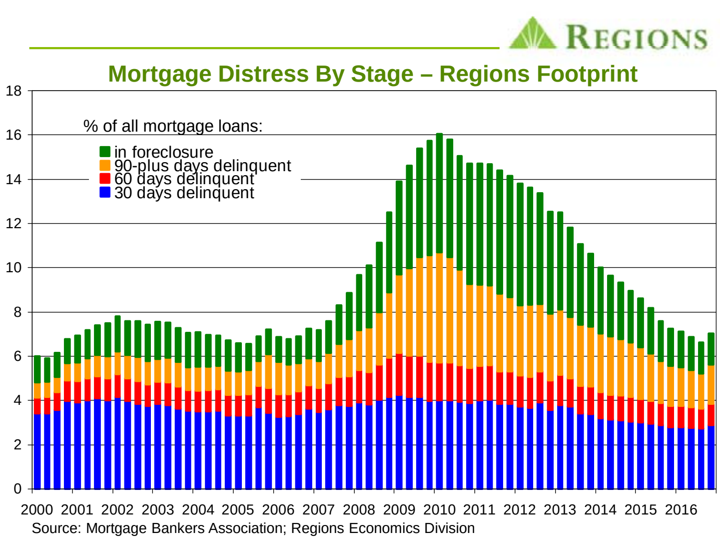
Q4 2016 Mortgage Delinquencies & Foreclosures

- For the U.S. as a whole the mortgage delinquency rate rose to 4.80 percent in Q4 2016 from 4.52 percent in Q3.
- Within the Regions footprint, the mortgage delinquency rate rose to 5.62 percent from 5.23 percent in Q3.
- Year-on-year, foreclosure starts fell by 23.4 percent for the U.S. as a whole and fell by 22.6 percent for the Regions footprint.

The Mortgage Bankers Association (MBA) recently released their data on mortgage delinquencies and foreclosures for Q4 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, rose to 4.80 percent in Q4. 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 Q4 2016, the delinquency rate for the Regions footprint stood at 5.62 percent, up from 5.23 percent in Q3. 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, and at this point it is reasonable to expect this to be the case after the increase seen in Q4 2016. Even with Q4's increase, however, delinquency rates nonetheless remain line with the longer-term averages seen over 1980-2006 period. As of Q4 2016, the MBA survey covers roughly 38.3 million first lien mortgage loans for the U.S. as a whole and over 14.4 million first lien mortgage loans within the Regions footprint.



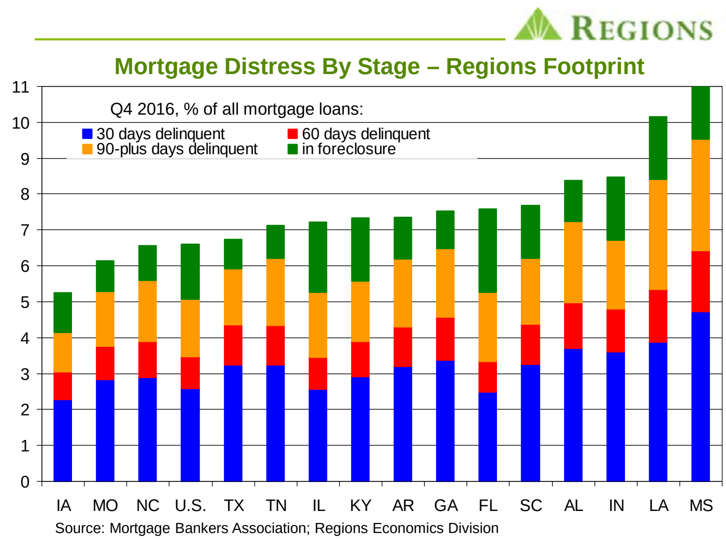


To fully account for mortgage distress, however, one needs to also include those loans in some stage of the foreclosure process. While doing so yields the same steady downward trend, punctuated by the increase in Q4 2016, evident in the delinquency data, unlike delinquencies total mortgage distress remains a bit 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 to as "serious" delinquencies. The chart to the side shows a recent time series of the overall rate of mortgage distress, for the Regions footprint, broken down by the various buckets. Again, the rates for the footprint are weighted averages for the individual states based on the number of loans serviced in each state.

In Q4 2016, each state in the Regions footprint saw their 30-day and 60-day delinquency rates increase, with the exception of Louisiana where early-stage delinquency rates declined. Those declines, however, came off sizeable increases in Q3 2016 which could have reflected the effects of the severe flooding that impacted a good portion of the state. Every state in the footprint saw their 90-day delinquency rate increase in Q4 2016. For the U.S. as a whole, delinquency rates in each bucket increased in Q4. It is worth noting,

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

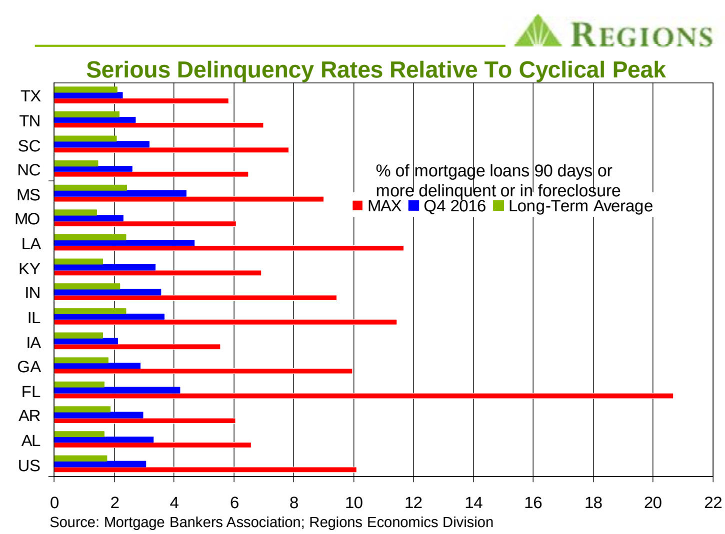
particularly in light of our seemingly endless nagging about seasonal adjustment noise often distorting the data, 30-day delinquency rates rose between Q3 and Q4 2016 on both a seasonally adjusted and a not seasonally adjusted basis. There are clear seasonal patterns in the mortgage delinquency data just as in other data series, but the increase in not seasonally adjusted delinquency rates in Q4 is larger than normal. In the raw, i.e., not seasonally adjusted data, Alaska is the only state other than Louisiana in which the 30-day delinquency rate declined between Q3 and Q4, so the broad based increases in adjusted delinquency rates can't be brushed off as mere seasonal adjustment noise. The same patterns are found in 60-day and 90-day delinquency rates. Our point here is that we don't see any widespread deterioration in the economic fundamentals that would account for the upturn in delinquency rates in Q4, and we do not see evidence of faulty seasonal adjustment factors. Either way, this is definitely something to be watched over coming quarters.



Source: Mortgage Bankers Association; Regions Economics Division

The chart to the side shows Q4 2016 mortgage distress rates for the states in the Regions footprint, broken out by buckets. As has been the case over the past several quarters, the highest incidence of mortgage distress is in Mississippi, where 10.98 of all mortgage loans were either delinquent or in some stage of foreclosure in Q4. This is something we've commented on before, but the chart illustrates a long-running pattern with Mississippi, and indeed many of the southern states – while early-stage delinquency rates tend to be above-average, foreclosure rates tend to be below-average, or, in other words, a relatively small share of delinquent loans actually progress into foreclosure. We've attributed this to what, for many residents of these states, are highly seasonal patterns of employment and, correspondingly, income flows so that many loans transition, often repeatedly, between being current and being early-stage delinquent without ever moving into foreclosure. Nationally, Mississippi had the second highest incidence of mortgage distress in Q4 2016, exceeded only by the 11.83 percent rate in New Jersey.

At the other end of the spectrum, Iowa has the lowest incidence of mortgage distress, 5.24 percent of all mortgage loans, as of Q4 2016. Another pattern we've noted in the past is that Florida has the second lowest incidence of early-stage mortgage delinquency in the footprint, and indeed the state's 30-day and 60-day delinquency rates are easily below the national average, yet Florida's overall incidence of mortgage distress is above-average. This simply reflects a late-stage delinquency rate and a foreclosure rate that are above average, the latter considerably so. While Florida has seen considerable progress in clearing its foreclosure backlog, the magnitude of that problem combined with Florida being a judicial state nonetheless still leave a fairly sizeable backlog to clear.



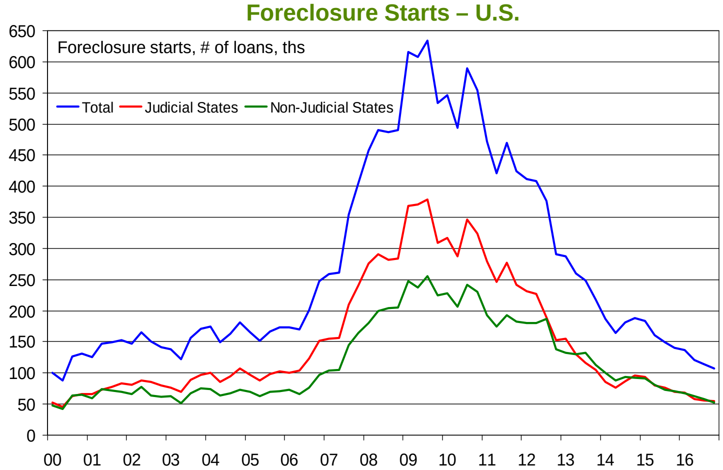
Source: Mortgage Bankers Association; Regions Economics Division

While Florida may have the problem on a bigger scale, inventories of "distress" properties remain elevated in each state in the Regions footprint and for the U.S. as a whole, as we noted in our recent update on housing market conditions. This is the case despite these inventories being considerably smaller than they were at their peaks. One way to illustrate this point is to look at serious delinquency rates, i.e., the percentage of mortgage loans either 90-days or more delinquent or in some stage of foreclosure relative to their cyclical peaks and their long-term historical average (defined here as the average from 1980 through 2006). As seen in the chart to the side, as of Q4 2016 the incidence of serious mortgage delinquency was well below the cyclical peak for each state in the Regions footprint as well as for the U.S. as a whole, but at the same time these rates remain above their historical averages, in many cases by a considerable distance. One way to think about the steady and prolonged decline in early-stage delinquency rates is that the inflows into mortgage distress, and ultimately foreclosure, have slowed considerably and are at, if not below, their longer-term norms. Conversely, however, outflows from mortgage distress, in the form of the disposition of distress inventories, continue at a rate slower than longer-term norms, even if that rate has accelerated over the past several quarters.

Rather than look at this in terms of percentages of mortgage loans, as in the chart above, we can also look at this in terms of the actual numbers of loans, as in the charts on the following page. The first set of charts shows a time series of foreclosure starts, broken down into judicial versus non-judicial states, for the U.S. and the Regions footprint, and the second set of chart shows a time series of foreclosure inventories, also broken down into judicial versus non-judicial states. As can be seen in the first set of charts, the number of foreclosure starts has drifted down to pre-crisis levels, both nationally and in the Regions footprint, and over the past several quarters there have been few material differences in starts between judicial and non-judicial states. When it comes to foreclosure inventories, current levels are down considerably from the cyclical peak but for the U.S. as a whole remain above pre-crisis norms, reflecting still-elevated inventories in judicial states – in the pre-crisis years there was little difference between the two. In the Regions footprint, inventories are back in line with pre-crisis norms but this reflects inventories in non-judicial states being lower and inventories in judicial states being higher relative to the pre-crisis years. Note that for those states in which foreclosure inventories are in line with pre-crisis norms, that serious delinquency rates remain elevated (as shown in the chart on the prior page) reflects higher than normal 90-day delinquency rates, which at some point could progress to foreclosure.

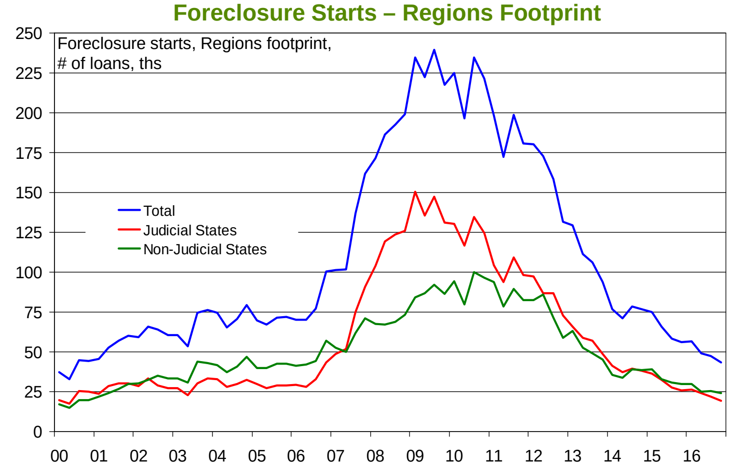
As it is with so many elements of the broader economy, so it is with the housing market – yes, considerable progress has been made, but there is further to go. If for no other reason, that we have not yet worked our way entirely through the damage done during the past cycle is grounds to not totally dismiss the uptick in mortgage delinquencies in Q4 2016. By no means does this alone suggest "here we go again" but a housing market that is still not functioning normally is a reason to not simply brush that uptick aside. As noted above, this is something that will merit attention over coming quarters.

Foreclosure Starts – U.S.



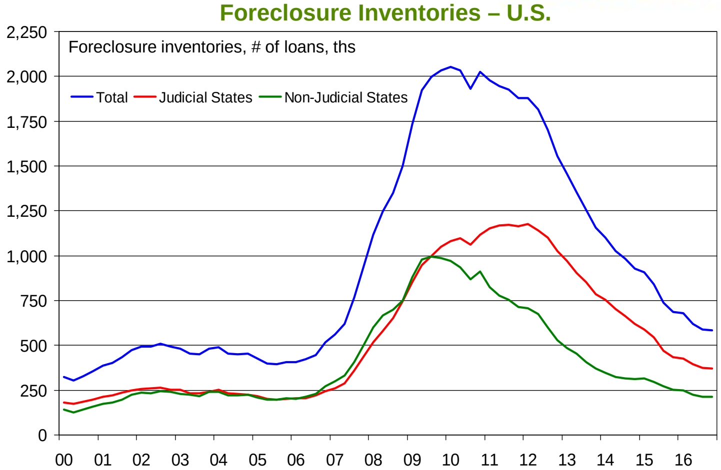
Source: Mortgage Bankers Association; Regions Economics Division

Foreclosure Starts – Regions Footprint



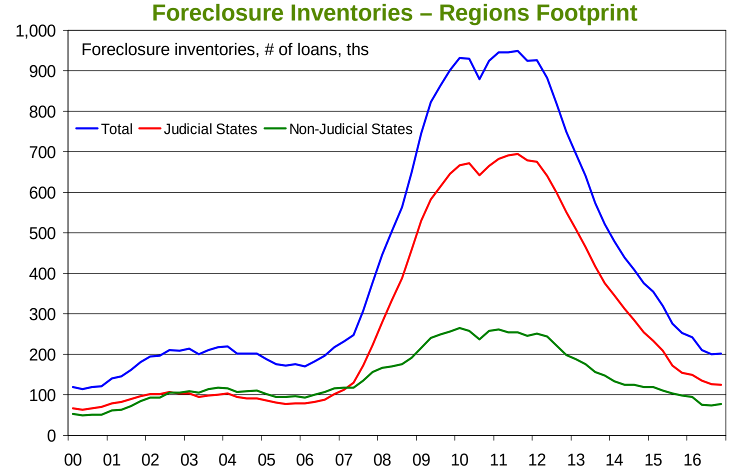
Source: Mortgage Bankers Association; Regions Economics Division

Foreclosure Inventories – U.S.



Source: Mortgage Bankers Association; Regions Economics Division

Foreclosure Inventories – Regions Footprint



Source: Mortgage Bankers Association; Regions Economics Division

Mortgage Distress, Regions Footprint

as of Q4 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	3.70	1.28	2.25	1.14	8.37	4.98	3.39
Arkansas	3.21	1.09	1.90	1.15	7.35	4.30	3.05
Florida	2.49	0.84	1.94	2.31	7.58	3.33	4.25
Georgia	3.38	1.19	1.92	1.04	7.53	4.57	2.96
Iowa	2.28	0.77	1.09	1.10	5.24	3.05	2.19
Illinois	2.57	0.89	1.81	1.95	7.22	3.46	3.76
Indiana	3.60	1.20	1.91	1.76	8.47	4.80	3.67
Kentucky	2.91	0.98	1.69	1.75	7.33	3.89	3.44
Louisiana	3.88	1.46	3.07	1.75	10.16	5.34	4.82
Missouri	2.84	0.93	1.51	0.85	6.13	3.77	2.36
Mississippi	4.73	1.70	3.10	1.45	10.98	6.43	4.55
North Carolina	2.90	1.00	1.70	0.97	6.57	3.90	2.67
South Carolina	3.26	1.13	1.82	1.47	7.68	4.39	3.29
Tennessee	3.24	1.11	1.86	0.92	7.13	4.35	2.78
Texas	3.24	1.13	1.55	0.81	6.73	4.37	2.36
U.S.	2.59	0.88	1.60	1.53	6.60	3.47	3.13

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

Source: Mortgage Bankers Association; Regions Economics Division

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