ECONOMIC UPDATE

REGIONS

August 28, 2017

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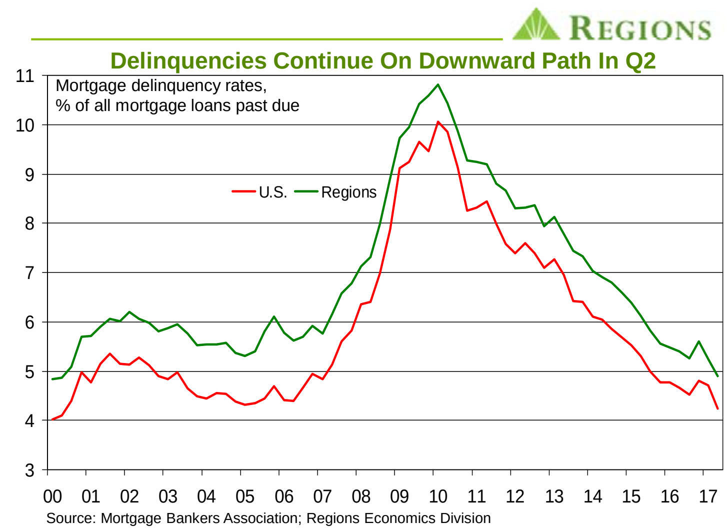
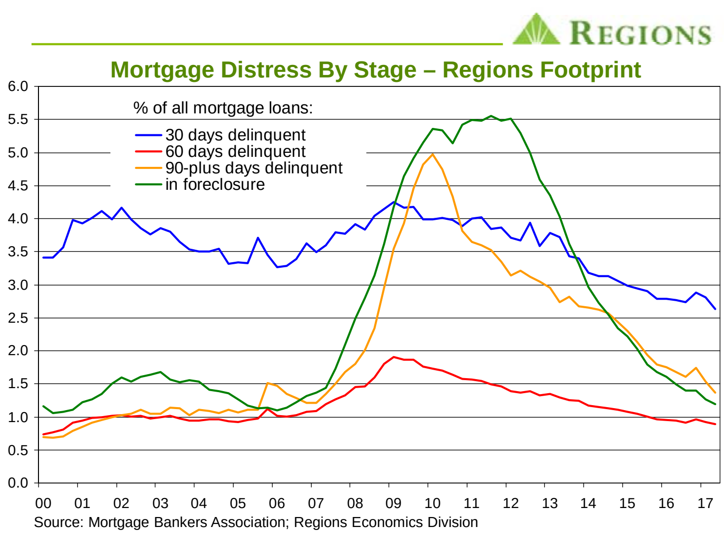
Q2 2017 Mortgage Delinquencies & Foreclosures

- For the U.S. as a whole the mortgage delinquency rate fell to 4.24 percent in Q2 2017 from 4.71 percent in Q1.
- Within the Regions footprint, the mortgage delinquency rate fell to 4.90 percent in Q2 2017 from 5.24 percent in Q1.
- Year-on-year, foreclosure starts fell by 16.1 percent for the U.S. as a whole and fell by 11.4 percent for the Regions footprint.

The Mortgage Bankers Association (MBA) recently released their data on mortgage delinquencies and foreclosures for Q2 2017. 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 4.24 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 2017, the delinquency rate for the Regions footprint stood at 4.90 percent, down from 5.24 percent in Q1. For both the U.S. as a whole and the Regions footprint, the Q2 delinquency rate is the lowest rate since Q2 2000. As is consistent with the steady decline in the delinquency rate, foreclosure starts have also steadily trended lower and are also at levels last seen in 2000, though foreclosure inventories remain above pre-crisis norms nationally and within the footprint. As of Q2 2017, the MBA survey covers roughly 38.9 million first lien mortgage loans for the U.S. as a whole and over 14.6 million first lien mortgage loans within the Regions footprint



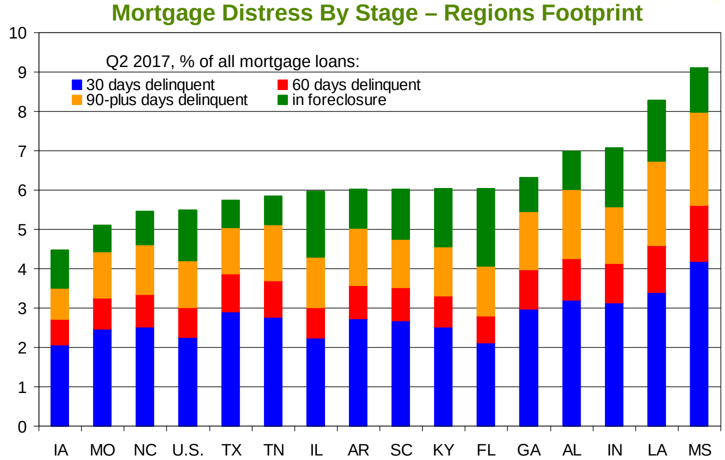


The chart to the side breaks down total mortgage distress in the Regions footprint into the four buckets – 30, 60, and 90 day delinquency rates and foreclosure – with each shown as a percentage of outstanding mortgage loans. As can be seen in the chart, the 30-day delinquency rate has fallen below pre-crisis norms while the 60-day delinquency rate is in line with pre-crisis norms. At the same time, the 90-day delinquency rate has fallen significantly from the cyclical peak but remains above pre-crisis norms, as is true for the percentage of loans at some stage of foreclosure. Given patterns in early stage delinquencies, however, it is but a matter of time before late-stage delinquency and foreclosure rates are also below pre-crisis norms.

Looking at the individual states in the Regions footprint, Iowa continues to post the lowest rate of mortgage distress, with 4.47 percent of all mortgage loans either delinquent or in some stage of foreclosure. In contrast, at 9.11 percent, Mississippi posted the highest rate of mortgage distress in Q2. As of Q2, Mississippi had the second highest incidence of mortgage distress in the nation, topped only by New Jersey, with Louisiana (fourth), Indiana (seventh), and Alabama (eighth) also ranking amongst the ten states with the highest rates of mortgage distress. It is worth noting that there are clear seasonal patterns in the state level data on delinquencies, and Mississippi is a good illustration. The overall rate of mortgage distress in Mississippi rose by 50 basis points between Q1 and Q2, but this is largely accounted for by a 47 basis point increase in the 30-day delinquency rate, which stands at 4.19 percent as of Q2. This is, however a common occurrence, as the state's 30-day delinquency rate tends to rise in Q2 and Q3 of any given year and fall in Q1 and Q4, indeed, the 30-day delinquency rate has risen in Q2 in 27 of the past 28 years. The historical data also show that a below-average share of mortgage loans in Mississippi progress to foreclosure, and the incidence of serious delinquency (i.e., loans delinquent for 90 days or more or in some stage of foreclosure) fell in Q2. As we have noted before, it is not uncommon in a handful of the states in the Regions footprint, including Mississippi, for loans to transition back and forth between current and early-stage delinquency.

Conversely, at 2.12 percent in Q2, Florida has the second lowest 30-day delinquency rate of any state in the footprint which puts it below the U.S. average of 2.27 percent, yet its overall incidence of mortgage distress, 6.04 percent, is above the footprint and national averages. This is due to Florida's incidence of late-stage delinquency foreclosure inventory both remaining elevated, though both are well below cyclical highs. As of Q2, Florida's 90-day delinquency rate stood at 1.27 percent (compared to the national average of 1.20 percent) while 1.97 percent of outstanding mortgage loans were in some stage of foreclosure (compared to the national average of 1.29 percent). Missouri (0.67 percent), Texas (0.69 percent), and Tennessee (0.72 percent) posted the lowest foreclosure inventories in the footprint in Q2, with Illinois (1.67 percent) and Louisiana (1.54 percent) coming after Florida as the highest in the footprint.

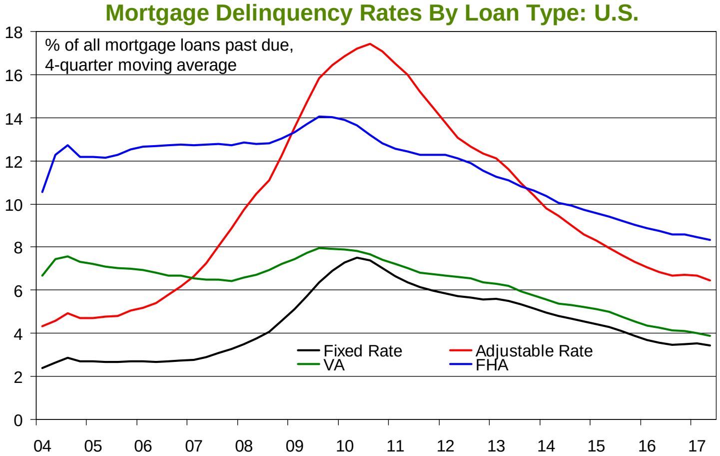
Mortgage Distress By Stage – Regions Footprint



Source: Mortgage Bankers Association; Regions Economics Division

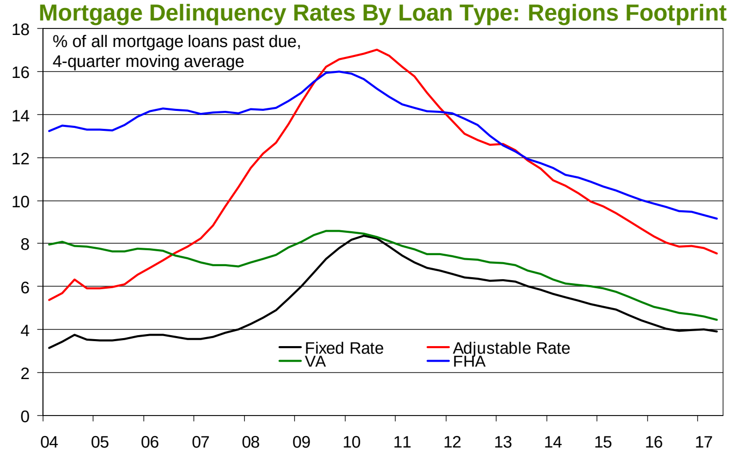
Delinquency rates fell in Q2 2017 for each of the four broad loan categories for which the MBA reports data – conventional fixed rate loans, conventional adjustable rate loans, FHA loans, and VA loans. This was the case nationally and within the Regions footprint. Conventional fixed rate loans boast the lowest delinquency rate, followed closely by VA loans and more distantly by adjustable rate loans while FHA loans carry the highest delinquency rate. Again, this is true nationally and within the footprint. We will note that in the following charts we show the four-quarter moving average of delinquency rates for each loan type, as a means of smoothing out what, due to seasonal patterns, is a high degree of volatility from one quarter to the next. This is the reporting structure adopted by MBA in Q1 2017 and at least at this point there is not sufficient history to adequately seasonally adjust the data, hence our use of four-quarter moving averages. In any event, differences in delinquency rates to some extent reflect differences in underwriting standards on the various loan types, and it is worth keeping in mind that the bulk of what in the past were characterized as subprime mortgage loans in the MBA's former reporting structure were adjustable rate loans. This helps account for the fact that when conditions in the housing market began to deteriorate ahead of the 2007-09 recession, the first signs of that in terms of mortgage loan performance were seen in the spike in delinquency rates on adjustable rate loans, which was true nationally and in the Regions footprint

Mortgage Delinquency Rates By Loan Type: U.S.



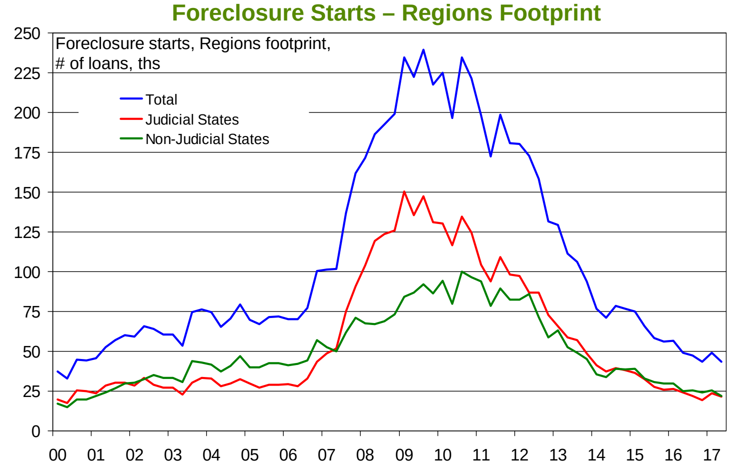
Source: Mortgage Bankers Association; Regions Economics Division

Mortgage Delinquency Rates By Loan Type: Regions Footprint



Source: Mortgage Bankers Association; Regions Economics Division

It is no surprise that foreclosure starts have followed the same patterns as mortgage delinquencies, and for the U.S. as a whole and the Regions footprint foreclosure starts in Q2 2017 fell to levels last seen on a sustained basis in 2000. Nationally, there were 101,266 foreclosure starts in Q2 according to the MBA data, down 16.1 percent from Q2 2016 and a decline of over 84 percent from the peak of 633,969 starts in Q3 2009. Foreclosure inventories stood at 502,437 loans in Q2 2017 nationally, down 18.7 percent year-on-year and down 75.5 percent from the peak of 2,054,005 loans in Q1 2010. Though the disparity is greater in judicial states, current foreclosure inventories remain above pre-crisis norms in both judicial and non-judicial states.



Source: Mortgage Bankers Association; Regions Economics Division

Within the Regions footprint, there were 43,427 foreclosure starts in Q2 2017, down 11.4 percent year-on-year and 81.6 below the cyclical peak of 239,322 starts in Q3 2009. At 9,556 starts, Florida saw the highest number of foreclosure starts of any state in the footprint in Q2, followed by Texas at 6,605. As of Q2, the foreclosure inventory within the footprint stood at 173,795 loans, down 17.4 percent year-on-year and 81.3 percent below the cyclical peak of 931,436 loans in Q1 2010. Foreclosure inventories within the footprint remain above pre-crisis norms in both the judicial and non-judicial states.

It has been a long, hard slog, but the recovery from the housing market bust associated with the 2007-09 recession is largely complete. A prolonged economic expansion that has fostered steady improvement in labor market conditions and what, post-crisis, has been a more stringent mortgage underwriting environment have laid the groundwork for steadily improving mortgage loan performance. It is certainly worth noting that while performance across other forms of consumer credit, specifically auto loans and credit card debt, has deteriorated over recent quarters, mortgage loan performance continues to improve and has even, in many states, surpassed pre-crisis norms. We will also note that while the MBA does not provide data on a metro area level, we do track CoreLogic data for 90-plus day delinquency rates on the metro area level within the Regions footprint (data are included with our monthly Metro Area Data Updates). As of this writing the May 2017 data are the latest available, and as of May the late-stage delinquency rate stood at the post-crisis low in 91 of the 103 metro areas we track in our monthly updates. While early-stage delinquency data are not available, the steady decline in late-stage delinquency rates implies that early-stage rates are also declining steadily, which is consistent with the national and state level data available from the MBA. This is not by any means to say mortgage loan performance is immune to deterioration. Indeed, as mortgage delinquency rates tend to move hand-in-hand with unemployment rates in the individual states and metro areas, the end of the current economic expansion, now in its ninth year, will surely bring about an increase in mortgage delinquency rates. That said, the lack of the excesses that fueled unstainable growth in mortgage credit and unsustainable rates of house price appreciation in the prior cycle mean that when the next downturn does come, the consequences won't be nearly as severe as those associated with the 2007-09 recession.

Finally, in light of the epic flooding associated with Hurricane Harvey, we think it worth recalling how Hurricane Katrina impacted mortgage delinquency rates in Louisiana and Mississippi. In Q2 2005 the mortgage delinquency rate in Louisiana stood at 7.02 percent but shot up to 22.59 percent in Q3 2005; in Mississippi the delinquency rate stood at 8.79 percent in Q2 2005 and jumped to 16.34 percent in Q3 2005. Rates remained significantly elevated in both states for three quarters before beginning to quickly decline over subsequent quarters, though the onset of the 2007-09 recession meant delinquency rates remained above pre-Katrina norms in each state. In both states the same progression was seen in 60 and 90 day delinquency rates, but neither state saw foreclosure rates fall out of line with pre-Katrina patterns. Though it is of course too soon to assess the impact on housing markets, and the broader economies, of those areas hit hard by Hurricane Harvey, it is not unreasonable to expect a transitory spike in mortgage delinquency rates across parts of Texas over coming months.

Mortgage Distress, Regions Footprint

as of Q2 2017

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	3.21	1.06	1.74	0.97	6.98	4.27	2.71
Arkansas	2.73	0.85	1.46	0.97	6.01	3.58	2.43
Florida	2.12	0.68	1.27	1.97	6.04	2.80	3.24
Georgia	2.99	0.99	1.48	0.86	6.32	3.98	2.34
Iowa	2.07	0.65	0.79	0.96	4.47	2.72	1.75
Illinois	2.24	0.77	1.29	1.67	5.97	3.01	2.96
Indiana	3.14	1.00	1.44	1.49	7.07	4.14	2.93
Kentucky	2.52	0.80	1.24	1.47	6.03	3.32	2.71
Louisiana	3.41	1.18	2.15	1.54	8.28	4.59	3.69
Missouri	2.47	0.79	1.17	0.67	5.10	3.26	1.84
Mississippi	4.19	1.43	2.37	1.12	9.11	5.62	3.49
North Carolina	2.52	0.83	1.26	0.85	5.46	3.35	2.11
South Carolina	2.68	0.85	1.23	1.26	6.02	3.53	2.49
Tennessee	2.78	0.92	1.43	0.72	5.85	3.70	2.15
Texas	2.91	0.97	1.17	0.69	5.74	3.88	1.86
U.S.	2.27	0.74	1.20	1.29	5.50	3.01	2.49

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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