ECONOMIC UPDATE

REGIONS

February 13, 2018

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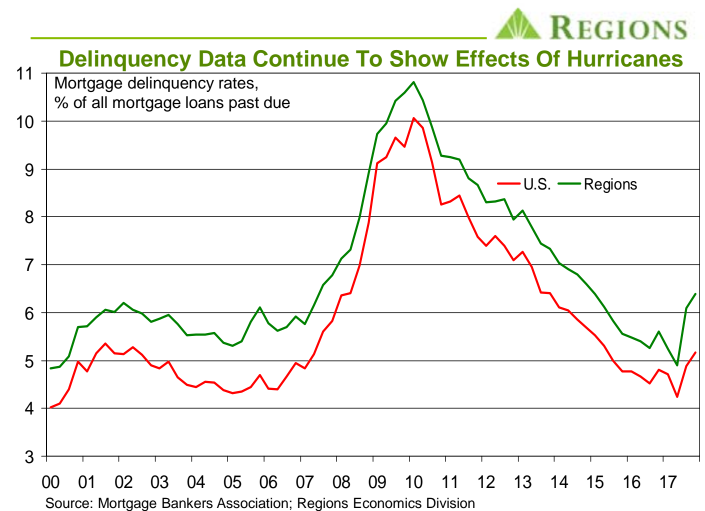
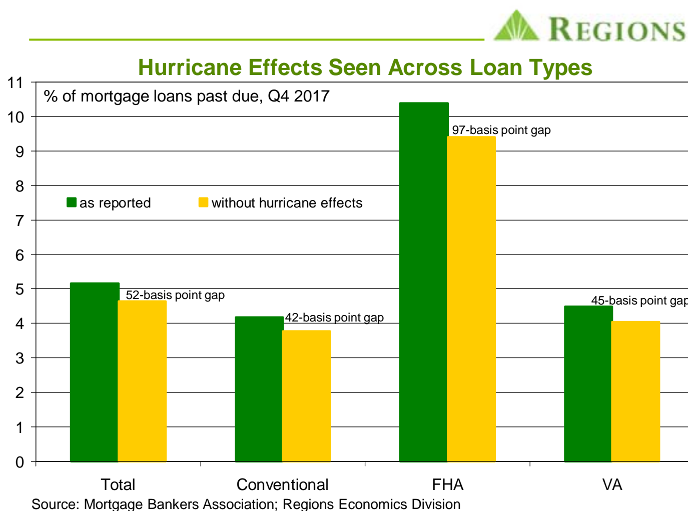
Q4 2017 Mortgage Delinquencies & Foreclosures

- For the U.S. as a whole the mortgage delinquency rate rose to 5.17 percent in Q4 2017 from 4.88 percent in Q3.
- Within the Regions footprint, the mortgage delinquency rate rose to 6.38 percent in Q4 2017 from 6.09 percent in Q3.
- Both nationally and within the Regions footprint, foreclosure starts fell to their lowest level since Q2 2000.

The Mortgage Bankers Association (MBA) recently released their data on mortgage delinquencies and foreclosures for Q4 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, rose to 5.17 percent in Q4, the highest since Q2 2015. 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 jumped to 6.38 percent in Q4 2017 from 6.09 percent in Q3. These rates, however, come with a significant caveat, as both Q3 and Q4 delinquency rates were pushed higher by 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 rate we construct for the footprint is weighted by total mortgage loans. As is consistent with what prior to the hurricanes had been a steadily declining delinquency rate, foreclosure starts continue to trend lower for the U.S. as a whole and for the Regions footprint. As of Q4 2017, the MBA survey covers roughly 38.765 million first lien mortgage loans for the U.S. as a whole and over 14.482 million first lien mortgage loans within the Regions footprint.





It should be noted that, in keeping with their standard practice, the MBA recognizes that forbearance is in place for borrowers impacted by the hurricanes yet requests that servicers report such loans as delinquent if the payment was not made based on the original terms of the mortgage loan. As such, reported delinquency rates are at present not as reliable an indicator of the incidence of mortgage distress as is normally the case. Also, while early-stage delinquency rates for Q4 include some borrowers, again primarily in Florida and Texas, impacted by the storms, the larger share were reported in the early-stage delinquency data for Q3. With an additional quarter having passed, what were reported as 30-day delinquencies in the Q3 data have migrated into the 60-day and 90-day delinquency buckets in the Q4 data. To that point, the MBA estimates that absent the effects of the hurricanes, the overall mortgage delinquency rate as of Q4 2017 would have been 4.65 percent rather than the reported rate of 5.17 percent (we do not have access to the data that would allow us to make similar calculations for Florida and Texas). As seen in the chart to the side, the most significant impact falls on FHA loans, which came with a reported Q4 delinquency rate of 10.38 percent but which the MBA estimates would have been 9.41 percent absent the effects of the hurricanes. Even so, those loans now in some stage of delinquency due to the hurricanes will not, at least to any significant degree, progress all the way to foreclosure, so foreclosure rates are the one segment of the delinquency data that will remain untouched by the effects of the hurricanes. As such, ongoing declines in both foreclosure starts and foreclosure inventories are a better reflection of the longer-term trends in mortgage distress. It will take a few more quarters before reported delinquency rates are free of the effects of the hurricanes.

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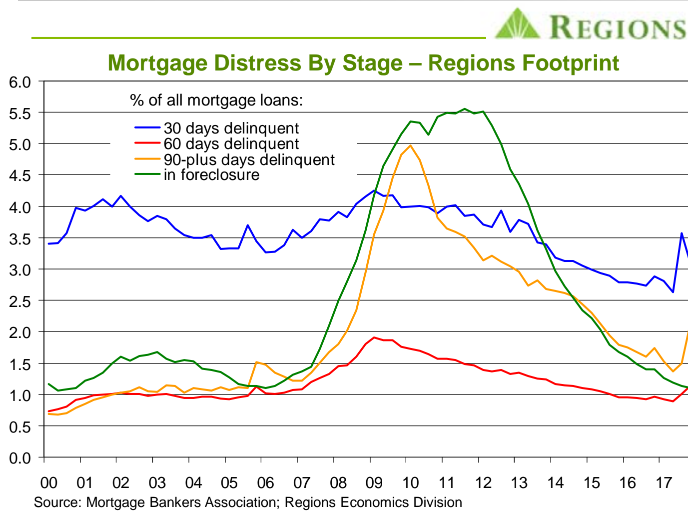
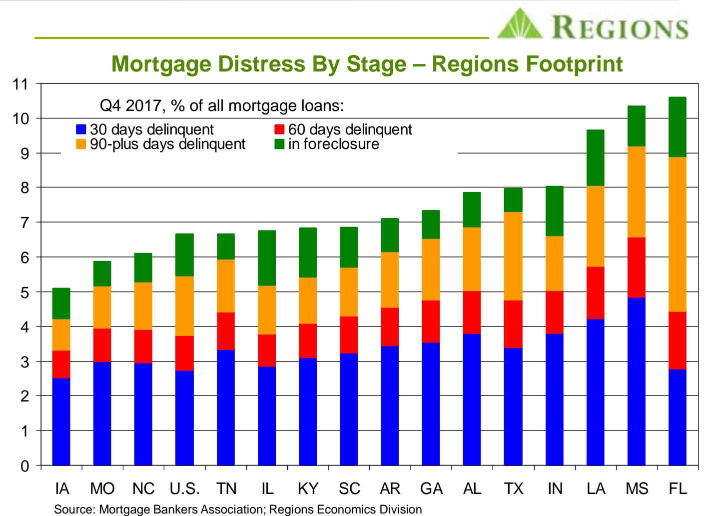
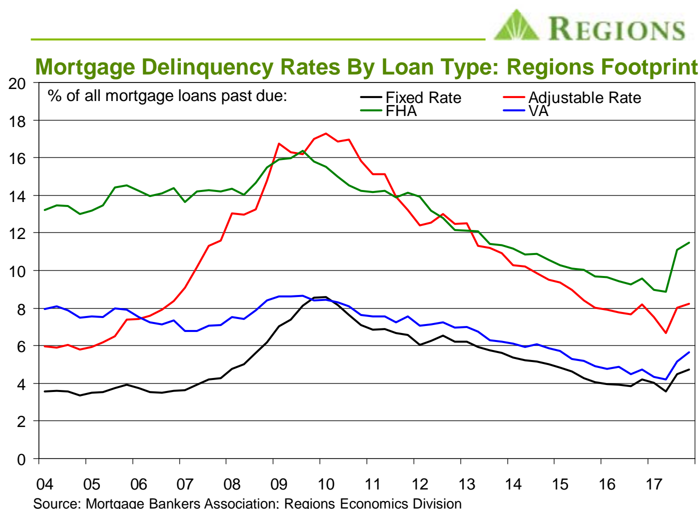




The first chart above illustrates our point about how the effects of the hurricanes are impacting the various delinquency buckets. For the Regions footprint as a whole, the 30-day delinquency rate shot up from 2.63 percent in Q2 2017 to 3.57 percent in Q3 then fell to 3.06 percent in Q4. At the same time, the 60-day and 90-day delinquency rates rose sharply in Q4, with the former now standing at 1.15 percent and the latter at 2.17 percent. These are the highest rates in these buckets since mid-2014 but obviously the story around them is different now than was the case then. To our earlier point about foreclosure rates emerging from the hurricanes relatively unscathed, the percentage of mortgage loans in the Regions footprint in some stage of foreclosure fell to 1.10 percent in Q4 2017, a value last seen in 2000 and below the 1.19 percent rate for the U.S as a whole (the data in these charts are not seasonally adjusted).

The second chart above shows a snapshot as of Q4 2017 of the delinquency rates in the various buckets for each state in the Regions footprint, with the sum of the bars being the total rate of mortgage distress (i.e., delinquency and foreclosure). Florida's overall rate of mortgage distress stood at 10.60 percent in Q4, not only the highest rate in the Regions footprint but the highest rate in the U.S. While the state's 30-day delinquency rate fell sharply in Q4 – to 2.78 percent from 4.64 percent in Q3 – the 60-day and 90-day delinquency rates spiked, again as the hurricane-related distortions migrated up the ladder. More significantly, Florida's foreclosure rate fell to 1.70 percent in Q4 2017, the lowest since Q2 2007. The same effects are apparent in the data for Texas, for which the overall rate of mortgage distress came in at 7.97 percent in Q4. At 2.55 percent, the 90-day delinquency rate in Texas is at its highest since Q4 2011. Again, though, the foreclosure rate in Texas was 0.65 percent in both Q3 and Q4 2017, the lowest rate since Q3 1985.

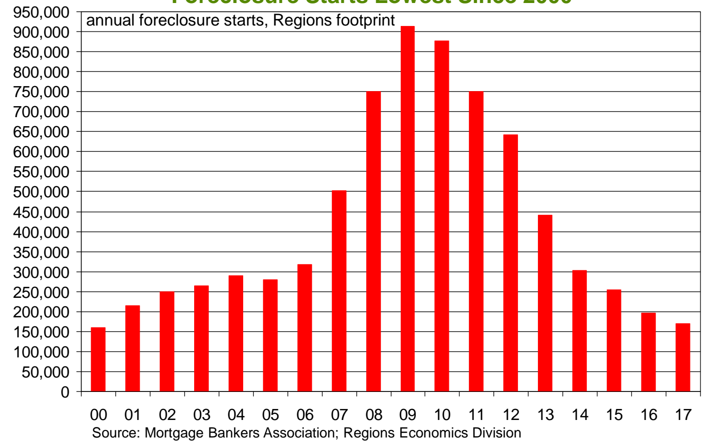
Elsewhere in the Regions footprint, Mississippi has seen a marked increase in its 30-day delinquency rate over the past three quarters, from 3.72 percent (the lowest since Q2 1995) in Q1 2017 to 4.84 percent in Q4 2017. To be sure, there are clearly seasonal patterns in the data (which are reported on a not seasonally adjusted basis), but given persistently lackluster job and income growth in the state we'd be hesitant to attribute the higher 30-day delinquency rate solely to seasonal patterns. Moreover, the state's 60-day and 90-day delinquency rates have also risen, though not as markedly as the 30-day rate. We have repeatedly noted in these summaries that Mississippi tends to have a significantly above-average incidence of early-stage delinquency but sees relatively little pass-through to foreclosure, and indeed the state's foreclosure rate did not budge over the course of 2017. Still, this bears watching over coming quarters, i.e., whether the more recent rise in delinquencies ultimately triggers a higher incidence of foreclosure than has typically been the case. At 10.35 percent in Q4, Mississippi had the second highest rate of overall mortgage distress, both in the Regions footprint and in the U.S. Louisiana posted the third highest rate of overall mortgage distress – 9.65 percent – in the Regions footprint and in the U.S. in Q4. The increase in mortgage distress seen over the course of 2017 reflects a rising incidence of delinquency while the foreclosure rate was basically flat. It could be that a slow and uneven recovery in the state's energy sector continues to weigh on household income, which in turn is pushing delinquency rates higher. As is the case in almost any given quarter, Iowa posted the lowest incidence of overall mortgage distress – 5.10 percent – in the Regions footprint in Q4.

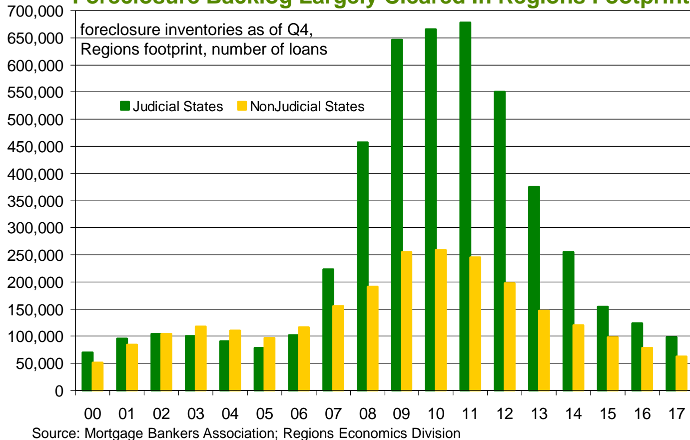


The chart to the side shows overall delinquency rates by loan type for the Regions footprint, and illustrates the point made above about the hurricanes impacting all loan types but having the most pronounced impact on FHA loans. According to the MBA, though, other factors are also helping push delinquencies on FHA loans higher, such as lower average credit scores on FHA endorsements since 2014 – as those loans season, a higher share can be expected to become delinquent. In addition, rising household debt-to-income

ratios are also impacting the performance of FHA loans to a greater extent than that of other loan classes. For each of the loan types shown in the chart above, the incidence of delinquency within the Regions footprint is greater than the corresponding delinquency rate for the U.S. as a whole, with the largest disparity in delinquency rates on adjustable rate mortgages. Keep in mind that a considerable share of what the MBA now classifies as adjustable rate loans in their current reporting system were classified as subprime loans in the old reporting system, and data based on the old reporting system consistently showed significantly higher delinquency rates on subprime mortgage loans within the Regions footprint relative to the U.S. as a whole.

Total foreclosure starts for the U.S. as a whole fell to 96,912 in Q4 2017, the lowest quarterly total since Q2 2000, and put the total for 2017 as a whole at 408,405, a 14.57 percent decline from 2016. In the Regions footprint, there were 38,462 foreclosure starts in Q4 2017, also the lowest quarterly total since Q2 2000. For 2017 as a whole, there were 170,376 foreclosure starts in the footprint, a 13.21 percent decline from 2016. As a point of reference, foreclosure starts peaked at 913,982 in 2009. Louisiana was the only state in the footprint to post an increase in foreclosure starts in 2017 (while the foreclosure rate was flat, that rate was in effect applied to a larger base, hence the increase in starts), with the 7,247 starts reflecting a 4.89 percent increase from 2016. This was the first annual increase in foreclosure starts in any state in the Regions footprint since 2011, when Tennessee saw an increase in foreclosure starts. Florida posted the largest decline in foreclosure starts in the Regions footprint in 2017, with starts dropping by 21.72 percent from 2016. The 29,385 foreclosure starts in Florida in 2017 marks the lowest annual total since 2005, and is a drastic decline from the peak of 370,907 starts in 2009.





That foreclosure starts have steadily drifted lower is a natural extension of what, save for the hurricane related distortions in the most recent quarters, has been a prolonged decline in early-stage delinquencies. Another natural progression is the steady decline in foreclosure inventories, which has been the case nationally and within the Regions footprint. The drawdown in foreclosure inventories, however, has been a bit slower in progressing. To a large measure, this reflects the much lengthier process in the judicial states, which includes Florida. The chart to the side breaks down total foreclosure inventories in the Regions footprint on the basis of judicial vs. nonjudicial states. While foreclosure inventories in the nonjudicial states have actually fallen below pre-crisis levels, inventories in the judicial states remain slightly higher. Still, both have declined dramatically over the past few years. As of Q4 2017, the total foreclosure inventory for the Regions footprint stood at 160,139 loans, the lowest since Q2 2001. The judicial states accounted for 61.07 percent of total foreclosure inventories in the Regions footprint in Q4, down from the peak of 73.6 percent in Q4 2012 but still above the pre-crisis norms of around 50.0 percent.

It is, for lack of a better term, interesting that we are inundated with stories about "record" levels of household debt and deteriorating performance on auto and credit card debt. Aside from those bleating on about record levels of household debt never seeming to mention the fact that, when scaled to disposable personal income, household debt is nowhere near being at a record high, the other glaring omission in these accounts is any mention of the steady improvement in mortgage loan performance (again, excepting the recent rise in delinquencies stemming from the hurricanes). At the same time, aggregate housing equity has surpassed its pre-recession peak, leaving most, though not all, homeowners on much more solid footing. This does not, however, mean that mortgage loan performance is immune to the deterioration seen in other forms of consumer debt, particularly given what over recent quarters have been less stringent (though by no means relaxed) mortgage underwriting standards and the threat posed to adjustable rate mortgage loans by higher mortgage interest rates. To be sure, we are closer to the end of the current economic expansion than to the beginning, and when that end comes it will bring with it higher delinquency and foreclosure rates on mortgage loans. That said, the current expansion has been largely free of the excesses in mortgage lending practices and unsustainable rates of house price appreciation seen in the build-up to the 2007-09 recession. As such, it is perfectly reasonable to expect that, whenever the next downturn comes, the consequences will not be nearly as severe as was the case the last time around.

Mortgage Distress, Regions Footprint

as of Q4 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	3.81	1.23	1.83	0.98	7.85	5.04	2.81
Arkansas	3.45	1.11	1.59	0.95	7.10	4.56	2.54
Florida	2.78	1.65	4.47	1.70	10.60	4.43	6.17
Georgia	3.55	1.21	1.79	0.79	7.34	4.76	2.58
Iowa	2.53	0.79	0.91	0.87	5.10	3.32	1.78
Illinois	2.85	0.94	1.40	1.57	6.76	3.79	2.97
Indiana	3.80	1.23	1.59	1.40	8.02	5.03	2.99
Kentucky	3.11	0.98	1.33	1.42	6.84	4.09	2.75
Louisiana	4.23	1.50	2.34	1.58	9.65	5.73	3.92
Missouri	3.00	0.96	1.22	0.68	5.86	3.96	1.90
Mississippi	4.84	1.75	2.61	1.15	10.35	6.59	3.76
North Carolina	2.96	0.96	1.36	0.82	6.10	3.92	2.18
South Carolina	3.24	1.07	1.41	1.13	6.85	4.31	2.54
Tennessee	3.33	1.09	1.53	0.71	6.66	4.42	2.24
Texas	3.40	1.37	2.55	0.65	7.97	4.77	3.20
U.S.	2.75	0.99	1.72	1.19	6.65	3.74	2.91

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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