ECONOMIC UPDATE

REGIONS

November 13, 2018

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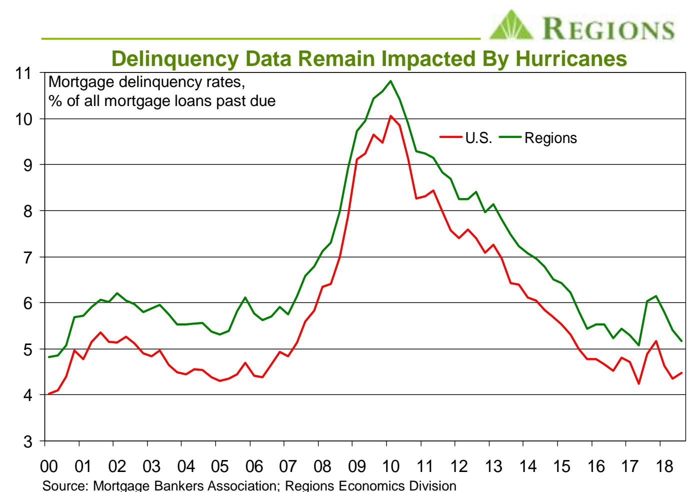
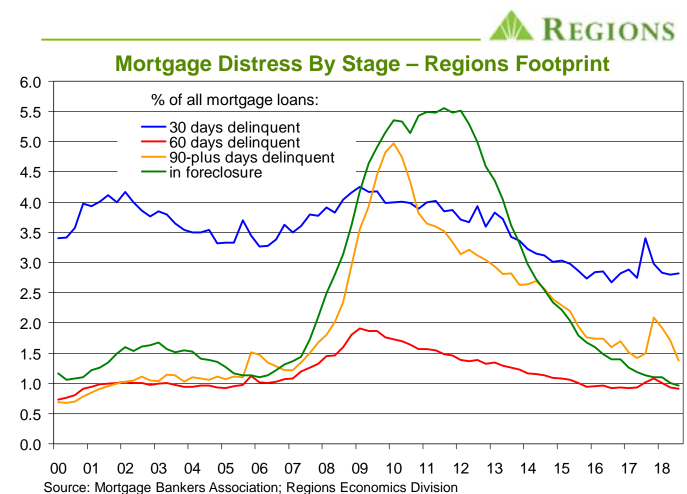
Q3 2018 Mortgage Delinquencies & Foreclosures: Regions Footprint

- For the U.S. as a whole the mortgage delinquency rate rose to 4.47 percent in Q3 2018 from 4.35 percent in Q2
- Within the Regions footprint, the mortgage delinquency rate fell to 5.18 percent in Q3 2018 from 5.40 percent in Q2
- Foreclosure starts were down 9.49 percent year-on-year for the U.S. as a whole, and down 3.00 percent for the Regions footprint

The Mortgage Bankers Association (MBA) recently released their data on mortgage delinquencies and foreclosures for Q3 2018. 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 4.47 percent in Q3 2018 from 4.35 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. The delinquency rate for the Regions footprint fell to 5.18 percent in Q3 2018 from 5.40 percent in Q2. As of Q3 2018, the MBA survey covers roughly 38.208 million first lien mortgage loans for the U.S. as a whole and roughly 14.337 million first lien mortgage loans within the Regions footprint.





The data on mortgage delinquencies continue to show the effects of hurricanes. As we have noted in these write-ups over the past few quarters, the MBA recognizes that forbearance is in place for borrowers impacted by events such as hurricanes yet, in keeping with their standard practice, requests that servicers report such loans as being delinquent when payments are not made in accordance with the original terms of the mortgage loans. Thus, the Q3 2018 data are impacted by Hurricane Florence and Tropical Storm Gordon, with the MBA citing Alabama, Arkansas, Mississippi, North Carolina, and South Carolina as those states in which reported delinquency rates are skewed higher. This is reflected in the slight uptick in the Q3 delinquency rate for the U.S. as a whole but, as seen in our top chart, this uptick is not seen in the delinquency rate for the Regions footprint. Recall that in the data for Q3 2017, delinquency rates for Florida and Texas increased sharply in the wake of Hurricanes Harvey and Irma, and the prominence of these states in the footprint meant there was a far greater impact on the weighted average delinquency rate for the Regions footprint than on the national average delinquency rate. As late-stage delinquency rates (i.e., those loans delinquent for more than 90 days) continue to fall for Florida and Texas, that is pulling the weighted average delinquency rate for the footprint lower despite the upturn in early-stage delinquency rates in Q3 seen in the states cited above.

These effects can be seen in the second chart above – while the spike seen in the 30-day delinquency rate in the wake of Harvey and Irma had been reversing, the upticks in 30-day delinquency rates in the handful of states listed above pushed the 30-day rate for the footprint slightly higher in the Q3 2018 data, but the declines in 90-day delinquency rates in Florida and Texas were far more pronounced, pulling the overall delinquency rate for the footprint lower in the Q3 2018 data. Keep in mind, however, that the effects of Hurricane Michael will not turn up in the mortgage delinquency data until the Q4 2018 data are released, as the storm came after the Q3 survey reporting period. As such, it will be several more quarters, even barring additional storms, until the effects of hurricanes dissipate from the mortgage delinquency data. We will again stress, however, that the noise in the data over recent and coming quarters should not deflect attention from what is the more relevant story, which is the longer-running downward drift in delinquency rates. This story is affirmed by what have been steady and sharp declines in foreclosure starts despite the noise in delinquency rates.

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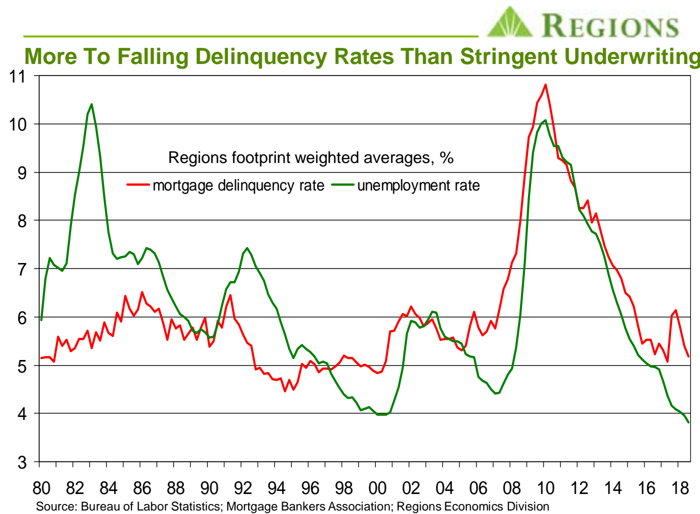
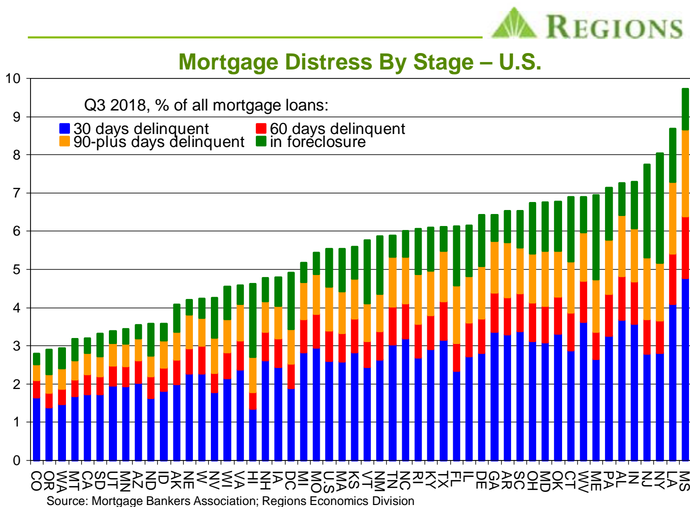
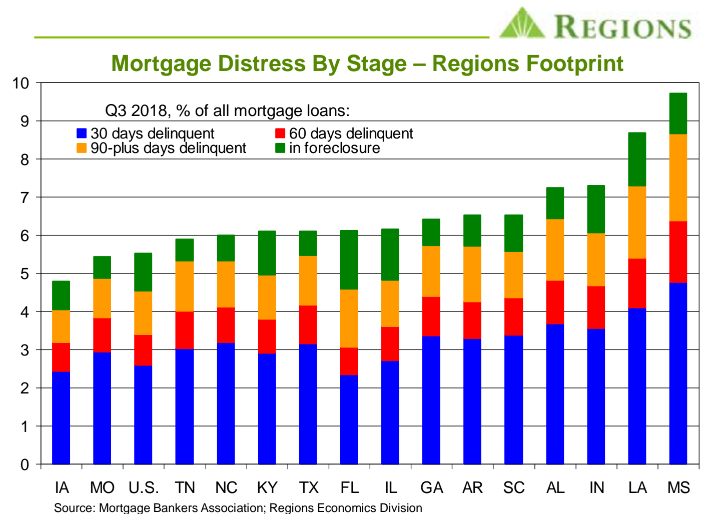
The noise in the data on delinquency rates over the past few quarters notwithstanding, the 30-day delinquency rate in each state in the Regions footprint is below the long-term average rate (we use the 1980 through 2006 period as the basis for long-term averages in the mortgage delinquency data). In other words, the spikes associated with the housing market collapse and the 2007-09 recession have more than been unwound, which to some extent reflects what, in the wake of the housing market collapse, have been much more stringent mortgage underwriting standards. For instance, as we have discussed in our write-ups of the Federal Reserve Bank of New York's quarterly reports on household debt, in the post-recession years mortgage loan originations have been heavily concentrated amongst borrowers with credit scores of 760 and higher. As such, one would expect mortgage loan performance to have improved. That said, it would be too simplistic to attribute the entire improvement in mortgage loan performance to these tougher underwriting standards given that the current economic expansion, now in its tenth year, has fostered a prolonged period of steady improvement in labor market conditions.



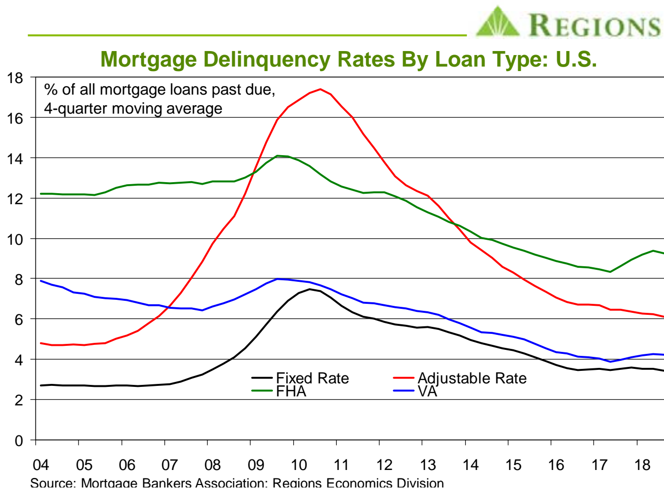
As seen in the chart to the side, the path of mortgage delinquency rates has been closely aligned with the unemployment rate, far more so since the 2007-09 recession (barring of course the hurricane-related spike in the delinquency rate in Q3 2017). The mortgage delinquency rate shown in the chart is the same weighted average rate encompassing all delinquency buckets (i.e., 30-day, 60-day, and 90-day rates) shown earlier, just with more history, and the unemployment rate is a weighted average rate for the footprint using the same (mortgage loan) weights for each state. In keeping with our baseline forecast, which anticipates the current economic expansion will endure at least through 2019 and will bring further reductions in unemployment rates, we think mortgage delinquency rates should continue to drift lower over coming quarters. It follows that when (and it is "when," not "if") the next recession does come, the more stringent underwriting standards that have prevailed over the past several years should mean that while delinquency rates and foreclosure rates will rise, those increases will not be of nearly the same magnitude as was the case with the 2007-09 recession.

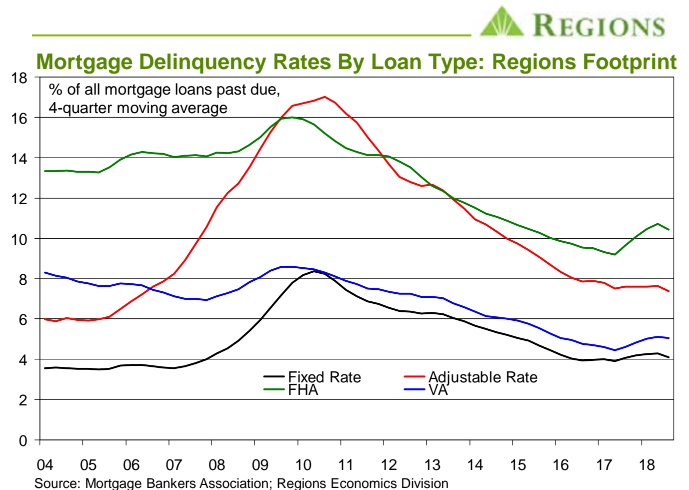


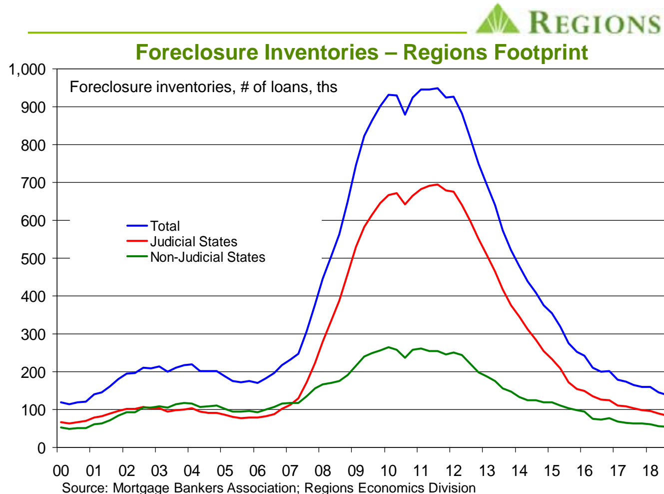


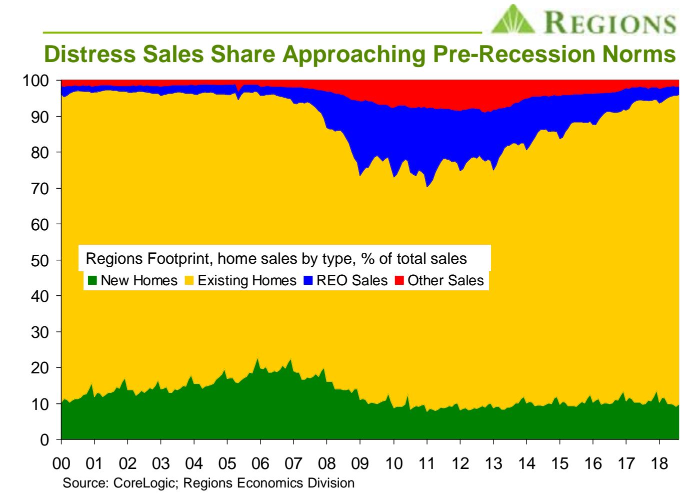
As to the Q3 2018 data, the two charts above show mortgage distress by stage on a state-by-state basis, the first shows all states and the second shows only the Regions footprint. As of Q3 2018, Mississippi (at 9.72 percent) and Louisiana (at 8.68 percent) had the highest and second highest incidence of mortgage distress in not only the Regions footprint but in the U.S. as a whole. At 4.77 percent, Mississippi's 30-day delinquency rate is the highest in the U.S., as are its 60-day (1.62 percent) and 90-day (2.28 percent) delinquency rates, but its foreclosure rate (1.05 percent) is only nominally above the U.S. average of 0.99 percent. Relatively few of the mortgage loans in Mississippi that lapse into delinquency progress to foreclosure, instead rotating between delinquent and current, which is actually a common pattern in the Southern states. In keeping with the sharp decline in its 90-day delinquency rate noted above, the overall incidence of mortgage distress in Florida fell sharply in Q3 and now stands at 6.12 percent, down from 6.81 percent as of Q2 2018. As we frequently note, Florida's foreclosure rate (1.53 percent as of Q3) tends to be well above the national average, but this is common for states with a judicial foreclosure process as is the case in Florida. At the same time, at 2.35 percent as of Q3, Florida's 30-day delinquency rate is below the U.S. average (2.44 percent) and is the lowest of any state in the Regions footprint.

The following charts show, for the U.S. as a whole and for the Regions footprint, mortgage delinquency rates by loan types, with the delinquency rates encompassing all stages of delinquency. We show four-quarter moving averages to smooth out the quarter-to-quarter swings in the data that are common with not seasonally adjusted data. As seen in the charts, delinquency rates on FHA loans are easily the highest of any loan type, both nationally and within the Regions footprint. Note that the MBA recently changed its reporting structure – the data were formerly presented on the basis of prime and subprime loans but that reporting was discontinued, though MBA does note that what are now reported as adjustable rate loans capture most of what were formerly reported as subprime loans. This helps account for delinquency rates on adjustable rate loans topping delinquency rates on FHA loans at the depths of the cycle. There has been some concern that in light of what have been more stringent underwriting standards, including more rigid down payment requirements, in the post-recession years, greater shares of more marginal borrowers have gravitated towards FHA loans than in past cycles, which would in turn mean FHA loans could see more significant hits to performance when the next downturn comes. To the extent this is the case, deterioration will likely be more apparent in FHA loans sooner than will be the case across other loan types.









As noted above, steadily declining delinquency rates have translated into a diminished flow of properties into foreclosure and, in turn, steadily declining foreclosure inventories. Foreclosure starts, both nationally and within the Regions footprint, are hovering at levels last seen in 2000, as are foreclosure inventories. Though reported as delinquencies, the vast majority of loans cast into delinquency by the recent hurricanes will not progress to foreclosure, so the data on foreclosure starts and inventories at present are a more telling marker of the overall improvement in mortgage loan performance. One implication of lower foreclosure inventories is that distress sales account for a much smaller share of total home sales, nationally and within the Regions footprint, than has been the case in the post-recession years. The above chart shows the breakdown of total home sales in the Regions footprint; as of Q3 2018 REO sales accounted for just 2.56 percent of all home sales in the footprint, while "other" sales (mainly short sales, also included in the "distress sales" category) accounted for 1.70 percent of all sales. Though still slightly above the pre-recession averages, these shares are nonetheless well below the cyclical peaks of 21.79 percent and 8.84 percent, respectively. With notably lean inventories of existing homes for sale and supply constraints holding down new home sales, the steadily fading share of distress has contributed to increasingly tight supplies of homes for sale. While there is little that is "normal" in the dynamics of the for-sale segment of the housing market, the performance of mortgage loans and the steady decline in distress sales is a happily normal sign, and one that should persist over coming quarters.

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Mortgage Distress, Regions Footprint

as of Q3 2018

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	3.68	1.14	1.61	0.82	7.25	4.82	2.43
Arkansas	3.30	0.97	1.45	0.81	6.53	4.27	2.26
Florida	2.35	0.72	1.52	1.53	6.12	3.07	3.05
Georgia	3.37	1.03	1.34	0.68	6.42	4.40	2.02
Iowa	2.44	0.76	0.85	0.74	4.79	3.20	1.59
Illinois	2.72	0.89	1.21	1.33	6.15	3.61	2.54
Indiana	3.57	1.11	1.39	1.23	7.30	4.68	2.62
Kentucky	2.92	0.89	1.15	1.14	6.10	3.81	2.29
Louisiana	4.10	1.31	1.89	1.38	8.68	5.41	3.27
Missouri	2.95	0.89	1.03	0.56	5.43	3.84	1.59
Mississippi	4.77	1.62	2.28	1.05	9.72	6.39	3.33
North Carolina	3.19	0.93	1.21	0.67	6.00	4.12	1.88
South Carolina	3.38	0.99	1.21	0.95	6.53	4.37	2.16
Tennessee	3.04	0.98	1.31	0.56	5.89	4.02	1.87
Texas	3.16	1.01	1.31	0.63	6.11	4.17	1.94
U.S.	2.60	0.80	1.14	0.99	5.53	3.40	2.13

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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Serious Delinquency Rates, Regions Footprint

	1980-2006	2006Q3	2007Q3	2008Q3	2009Q3	2010Q3	2011Q3	2012Q3	2013Q3	2014Q3	2015Q3	2016Q3	2017Q3	2018Q3
United States	1.75	2.00	2.95	5.17	8.85	8.70	7.89	7.03	5.65	4.65	3.57	2.96	2.52	2.13
Alabama	1.66	2.65	2.79	3.73	6.14	5.93	5.53	5.28	4.99	4.60	3.70	2.97	2.75	2.43
Arkansas	1.87	2.08	2.37	3.17	4.99	5.05	5.19	5.88	5.04	4.33	3.52	2.72	2.45	2.26
Florida	1.68	1.24	3.52	10.44	18.81	19.52	18.86	16.75	12.63	9.03	5.56	4.14	3.31	3.05
Georgia	1.81	2.75	3.48	4.85	8.60	8.79	7.73	6.72	5.26	4.31	3.36	2.72	2.36	2.02
Iowa	1.63	2.12	2.69	3.49	5.22	5.02	4.75	4.20	3.69	2.98	2.41	2.00	1.77	1.59
Illinois	2.41	2.30	3.38	5.43	10.01	10.77	10.97	9.98	7.74	6.01	4.36	3.47	2.97	2.54
Indiana	2.20	4.53	5.06	6.36	9.06	8.63	8.34	7.42	6.06	5.11	4.08	3.31	2.97	2.62
Kentucky	1.63	2.89	3.44	4.35	6.51	6.52	6.83	6.08	5.23	4.57	3.70	3.13	2.74	2.29
Louisiana	2.41	5.62	3.86	4.52	6.88	7.45	6.75	6.23	5.29	4.84	3.94	3.74	3.69	3.27
Missouri	1.41	2.06	2.66	3.49	5.64	5.28	4.94	4.32	3.81	3.36	2.66	2.18	1.88	1.59
Mississippi	2.42	5.79	4.73	5.52	8.30	8.39	8.00	7.39	6.23	5.71	4.74	3.96	3.60	3.33
North Carolina	1.47	2.29	2.34	3.08	5.67	5.89	6.11	5.51	4.39	3.66	2.90	2.36	2.14	1.88
South Carolina	2.09	2.67	2.90	3.86	6.97	7.27	7.39	6.56	5.35	4.45	3.51	2.89	2.51	2.16
Tennessee	2.16	2.77	3.18	4.11	6.53	6.40	6.34	5.47	4.77	4.08	3.17	2.53	2.21	1.87
Texas	2.09	2.74	2.81	3.41	5.34	5.18	4.68	4.14	3.57	3.09	2.52	2.18	2.06	1.94

NOTE: the serious delinquency rate is the sum of the 90-day delinquency rate and the foreclosure rate

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