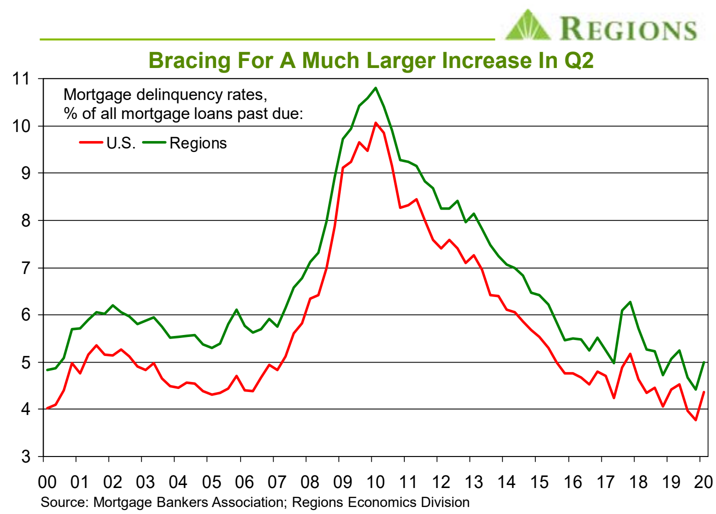
ECONOMIC UPDATE
REGIONS
May 13, 2020

Q1 2020 Mortgage Delinquencies & Foreclosures: Regions Footprint

- For the U.S. as a whole the mortgage delinquency rate rose to 4.36 percent in Q1 2020 from 3.77 percent in Q4 2019
- Within the Regions footprint, the mortgage delinquency rate rose to 5.00 percent in Q1 2020 from 4.43 percent in Q4 2019
- Foreclosure starts were down 17.6 percent year-on-year for the U.S. as a whole, and down 16.8 percent for the Regions footprint



The Mortgage Bankers Association (MBA) has released their data on mortgage delinquencies and foreclosures for Q1 2020. 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 4.36 percent in Q1 2020 from 3.77 percent in Q4 2019. 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 rose to 5.00 percent in Q1 2020 from 4.43 percent in Q4 2019. Nationally and for the Regions footprint, the increase in delinquencies in Q1 is a function of a spike in 30-day delinquency rates, though not for the seemingly obvious reason. The increase in 30-day delinquency rates in Q1 seems more a function of data issues, though, to be clear, not pertaining to the quality of the data, than of the sudden stop in a wide swath of economic activity related to the COVID-19 virus and the efforts to stem its spread. Recall that it was not until the second half of March that wide segments of the economy began to shut down, and very little of that would have been captured in the Q1 data on mortgage delinquencies. That said, those effects will be painfully apparent in the Q2 data and, as such, the increase in mortgage delinquency rates in Q2 will be far more dramatic than that seen in Q1. As of Q1 2020, the MBA survey covers roughly 38.378 million first lien mortgage loans for the U.S. as a whole and roughly 14.413 million first lien mortgage loans within the Regions footprint.

As we have noted in prior editions of these writeups of the MBA data, there are clear seasonal patterns in mortgage delinquency rates, particularly 30-day delinquency rates. In a typical year, 30-day delinquency rates tend to fall, often sharply, in the first quarter. This seasonal decline is compensated for in the seasonal adjustment process intended to smooth out seasonal noise in the data and highlight the underlying trend. Where you run into problems, however, is when the raw, or, unadjusted data, do not conform to typical seasonal patterns, as was the case with the Q1 2020 mortgage delinquency data. For the U.S. as a whole, the unadjusted 30-day delinquency rate rose in Q1 2020, as was the case in many of the states within the Regions footprint, while in the remaining states 30-day delinquency rates were either flat or fell by less than is typical in the first quarter of any given year. This led to an overstated increase in 30-day delinquency rates in the seasonally adjusted data, as is evident in the chart above.

It is reasonable to ask whether the behavior of unadjusted 30-day delinquency rates in Q1 is symptomatic of broader economic ills. After all, we know that, in March, nonfarm employment fell, the unemployment rate rose, personal income fell, and personal spending fell, all of which reflect the early effects of the sudden stop in economic activity related to the COVID-19 virus. While this may have contributed to the behavior of 30-day mortgage delinquency rates, any such contribution is likely to have been very small. Keep in mind that it was not until the second half of March when economic activity dropped off dramatically. As such, it is more likely that any related stresses on mortgage payments would have begun to turn up to a material degree in the month of April.

If not underlying economic/financial stress, then how would we account for the fact that the typical Q1 declines in 30-day delinquency rates went missing this year? As we often point out, starting points matter, and the starting point in Q1 2020 was 30-day delinquency rates well below historical norms, which was the case nationally and for the states within the Regions footprint. As such, it could be that there just wasn't much, if any, further room to the downside. That any increases there were in 30-day delinquency rates in Q1 were modest to the point they could be considered little more than noise supports our contention. Given the magnitude of the typical Q1 decline that seasonal adjustment is geared to compensate for, this could easily account for the increases we see in the seasonally adjusted 30-day delinquency rates in Q1.

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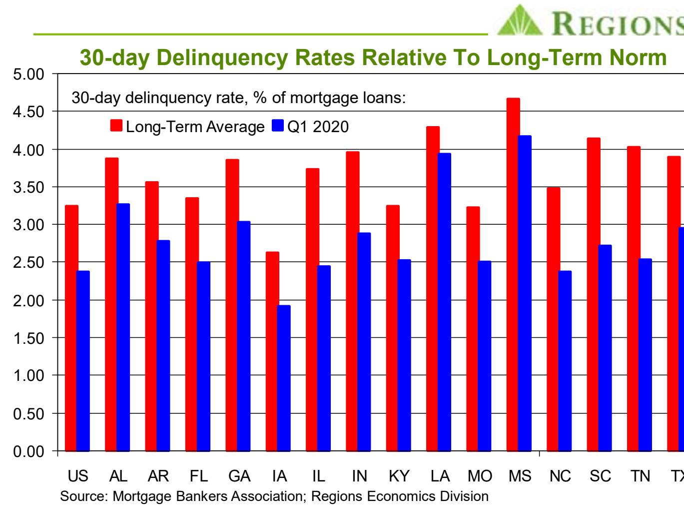
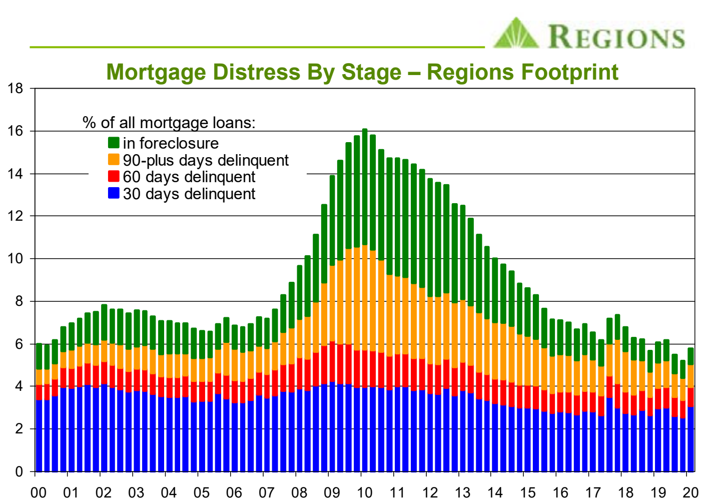
The chart to the side illustrates our point. As of Q1 2020, 30-day delinquency rates are easily below longer term historical norms, which we measure by the average over the 1980-2006 period, even in those states in which 30-day delinquency rates ticked higher in Q1. This is not to dismiss the clear deterioration apparent in much of the macro data for the month of March, which again reflected conditions over the back half of the month, but instead to make the point that it is unlikely that much, if any, of this deterioration was picked up in the MBA data for Q1 2020. That will clearly change with the Q2 data.



The COVID-19 virus and the efforts to stem its spread have taken a harsh toll on the labor market. Nonfarm employment fell by 20.5 million jobs in April, the unemployment rate rose to 14.7 percent (though BLS notes that, absent reporting errors, the actual rate would be roughly five percentage points higher), and the broader U6 measure rose to 22.8 percent. The sudden loss of jobs and income has left large numbers of homeowners unable to make their mortgage payments. Under the provisions of the CARES Act, however, those homeowners experiencing a COVID-19-related financial hardship are permitted to seek forbearance of their loan. The initial forbearance period is up to 180 days, after which borrowers can request an extension of up to 180 days, putting the maximum forbearance period at 12 months. During the forbearance period, mortgage payments are suspended without the threat of foreclosure on the home. Though estimates vary across data providers, MBA's estimate is that, as of May 3, roughly four million homeowners were on forbearance plans.

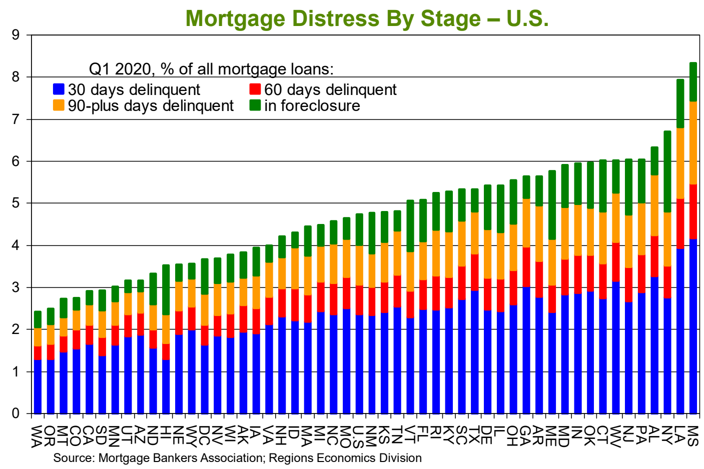
When interpreting what will be dramatic increases in mortgage delinquency rates in the Q2 data and what could be further, though smaller, increases in the Q3 data, it is important to be mindful of MBA reporting conventions. In the MBA data, those mortgage loans in forbearance are reported as delinquent, as payments are not being made in accordance with the original terms of the mortgage loan. This is the same scenario we see after events such as hurricanes (captured in the spike in delinquency rates in Q3 2017 in the chart on Page 1). In those instances, few of the mortgage loans reported as being delinquent ever progress to foreclosure, so any such jumps in delinquency rates are generally seen as transitory movements that will ultimately be reversed, as opposed to being seen as signs of underlying economic or financial stress. Whether, or to what extent, that proves to the case in the current cycle remains to be seen.

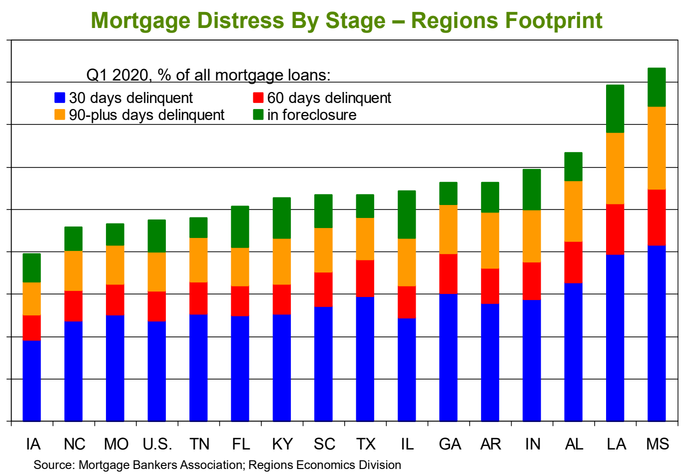
Forbearance means that mortgage payments are suspended, not forgiven and, as such, any mortgage payments suspended during the forbearance period must ultimately be made. Though the CARES Act did not provide uniform guidance, there are basically three manners in which suspended payments will ultimately be made: 1) a lump-sum payment of all deferred amounts; 2) an extension of the original loan term equal to the number of months that payments have been deferred; or, 3) the amount of deferred payments is amortized over the remaining life of the loan. Clearly, lump-sum payments will not be feasible for borrowers in forbearance for longer periods or those whose job loss ends up being permanent, and widespread impositions of lump-sum repayments could trigger a significant wave of foreclosures. It seems more likely that most borrowers will end up under one of the latter two alternatives, with policy makers acting to ensure this if necessary, which would mitigate the number of foreclosures ultimately resulting from the current downturn.



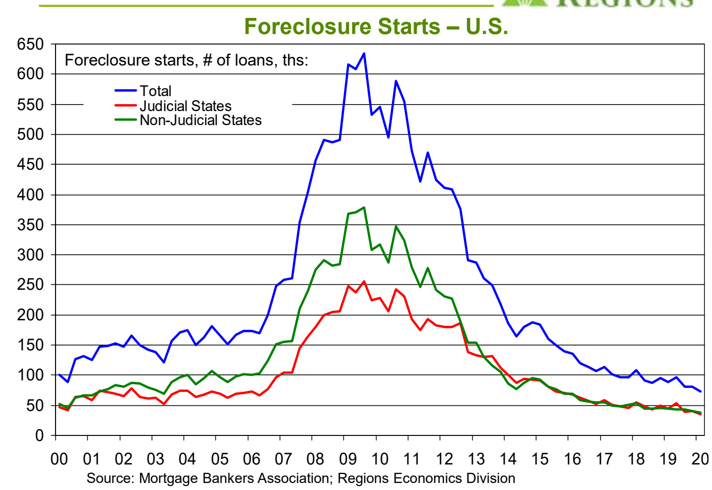
In terms of the MBA data, forbearance will result in a major increase in 30-day delinquency rates in the Q2 2020 data, with migration into the 60-day and 90-day buckets over time until borrowers exit forbearance. This could lead to overall mortgage delinquency rates, i.e., encompassing all stages of delinquency, remaining elevated for over the next several quarters. Whether or not the overall incidence of mortgage distress for the Regions footprint tops the peak rate of 16.05 percent seen in Q1 2010 remains to be seen. This will take time to play out, and there are likely to be meaningful differences in delinquency patterns across individual states given that there are differences in the rates at which states are opening back up. Moreover, given that different industry groups will be slower to recover than others, differences in the industrial make-up of the individual states will also play a role in how mortgage delinquency rates evolve. For instance, states with heavier exposures to leisure and hospitality services, retail trade, and energy may see more, and more persistent, stress on mortgage loan performance than those states more exposed to technology and finance.

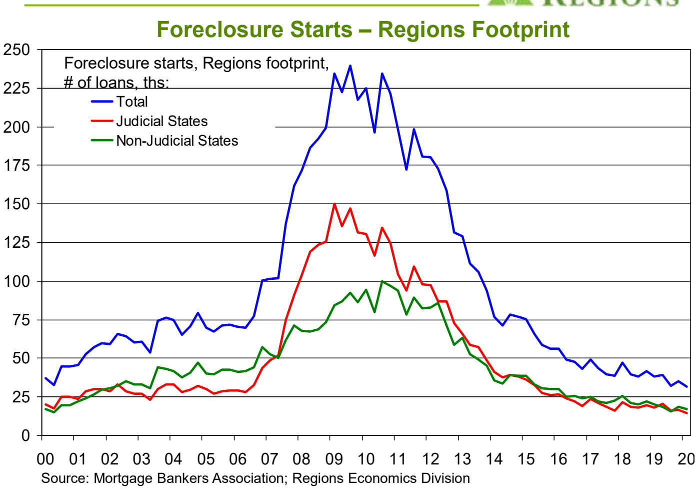
The charts below present our usual state-by-state looks at total mortgage distress, nationally and within the Regions footprint. As seen in the first chart, Mississippi continues to post the nation's highest incidence of overall mortgage distress, with 8.33 percent of all outstanding mortgage loans in some stage of delinquency or foreclosure. At the other end of the spectrum, Washington boasts the nation's lowest overall rate of mortgage distress (2.42 percent) as of Q1 2020. In addition to Mississippi, the list of the ten states with the highest incidence of total mortgage distress includes Louisiana, Alabama, and Indiana. At 3.94 percent, Iowa posted the lowest incidence of total mortgage distress within the Regions footprint in Q1 2020. It is worth noting that, at 0.96 percent in Q1, Florida's foreclosure rate fell to its lowest point since Q4 2006.





Nationally, there were a total of 72,918 foreclosure starts in Q1 2020, down 17.6 percent year-on-year. In total, there were 280,158 mortgage loans in some stage of foreclosure in Q1 2020, down 20.9 percent year-on-year and the lowest foreclosure inventory in over 20 years. The foreclosure rate for the U.S. as a whole fell to 0.73 percent in Q1, the lowest foreclosure rate since Q3 1984. Within the Regions footprint, there were a total of 31,756 foreclosure starts in Q1, a 16.8 percent year-on-year decline. Within the footprint, there were 105,746 mortgage loans in some stage of foreclosure in Q1 2020, down 20.8 percent year-on-year. At 0.73 percent, the foreclosure rate for the Regions footprint as a whole matched the U.S. average in Q1 2020.





As of Q4 2019, the mortgage delinquency rate for the U.S. was the lowest on record in the MBA data, which go back to 1979. Within the Regions footprint, 30-day delinquency rates were either at or close to all-time lows as of Q4 2019. For as much as we stress that starting points matter, however, that seems pointless at present. The uptick seen in 30-day, and in turn, total, delinquency rates in Q1 2020 is nothing compared to what the Q2 data will bring. What cannot be stressed enough at present is that the coming surge in delinquencies need not, and most likely will not, spark a wave of foreclosures such as that seen during the 2007-09 recession and its aftermath. Forbearance and foreclosure mitigation efforts will limit the incidence of foreclosure, though the extent to which these efforts will be successful depends on the breadth and vigor of the rebound in the U.S. economy. At this point, all we can do is wait and watch.

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Mortgage Distress, Regions Footprint

as of Q1 2020

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	3.27	0.98	1.44	0.64	6.33	4.25	2.08
Arkansas	2.78	0.85	1.32	0.69	5.64	3.63	2.01
Florida	2.50	0.70	0.91	0.96	5.07	3.20	1.87
Georgia	3.03	0.94	1.16	0.51	5.64	3.97	1.67
Iowa	1.92	0.59	0.78	0.65	3.94	2.51	1.43
Illinois	2.44	0.77	1.11	1.11	5.43	3.21	2.22
Indiana	2.88	0.89	1.22	0.95	5.94	3.77	2.17
Kentucky	2.53	0.72	1.08	0.94	5.27	3.25	2.02
Louisiana	3.94	1.20	1.68	1.12	7.94	5.14	2.80
Missouri	2.51	0.74	0.91	0.49	4.65	3.25	1.40
Mississippi	4.17	1.31	1.96	0.89	8.33	5.48	2.85
North Carolina	2.37	0.73	0.94	0.54	4.58	3.10	1.48
South Carolina	2.72	0.81	1.06	0.75	5.34	3.53	1.81
Tennessee	2.54	0.76	1.05	0.45	4.80	3.30	1.50
Texas	2.95	0.87	0.99	0.53	5.34	3.82	1.52
U.S.	2.37	0.70	0.94	0.73	4.74	3.07	1.67

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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