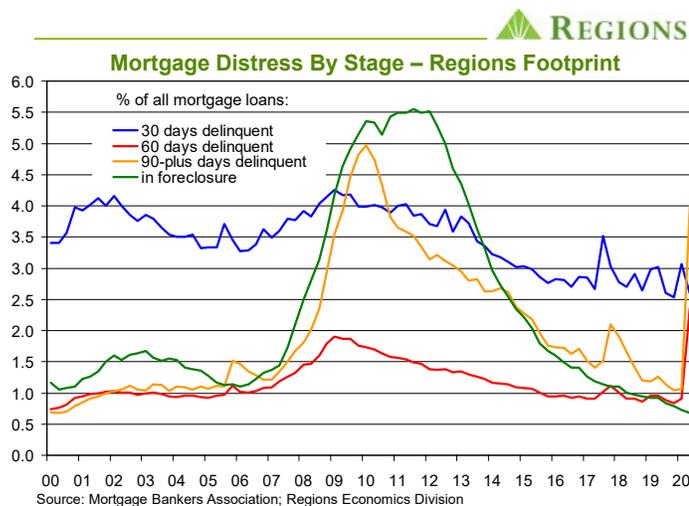
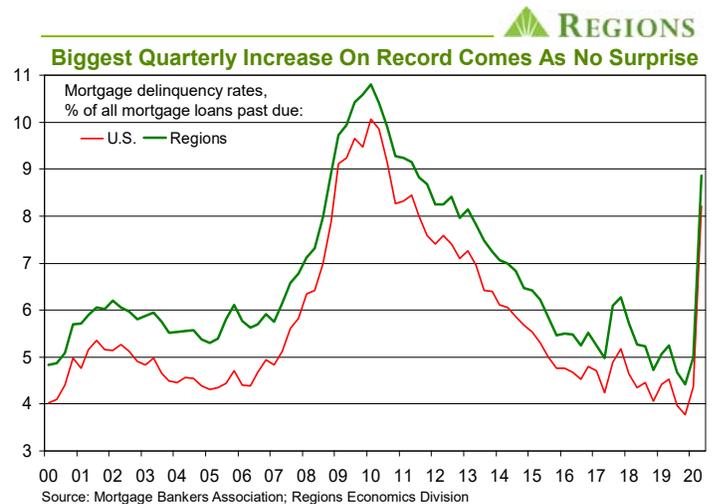


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Q2 2020 Mortgage Delinquencies & Foreclosures: Regions Footprint

- For the U.S. as a whole the mortgage delinquency rate rose to 8.22 percent in Q2 2020 from 4.37 percent in Q1
- Within the Regions footprint, the mortgage delinquency rate rose to 8.86 percent in Q2 2020 from 5.00 percent in Q1
- Foreclosure starts declined dramatically, reflecting moratoriums put in place in response to the COVID-19 pandemic

The Mortgage Bankers Association (MBA) has released their data on mortgage delinquencies and foreclosures for Q2 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 8.22 percent in Q2 2020 from 4.37 percent in Q1. 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 8.86 percent in Q1 2020 from 5.00 percent in Q1. The COVID-19 pandemic and the efforts to stem its spread triggered the largest quarterly increase in delinquency rates on record. MBA estimates that, as of the end of Q2, roughly 4.2 million homeowners were on forbearance plans, and MBA reporting conventions show loans in forbearance as being delinquent. It is worth noting that the 30-day delinquency rate fell in Q2, both nationally and for the Regions footprint as a whole, which suggests that inflows into mortgage distress are abating to at least some degree, though this could easily reverse in the months ahead. As of Q2 2020, the MBA survey covers roughly 38.940 million first lien mortgage loans for the U.S. as a whole and roughly 14.544 million first lien mortgage loans within the Regions footprint.

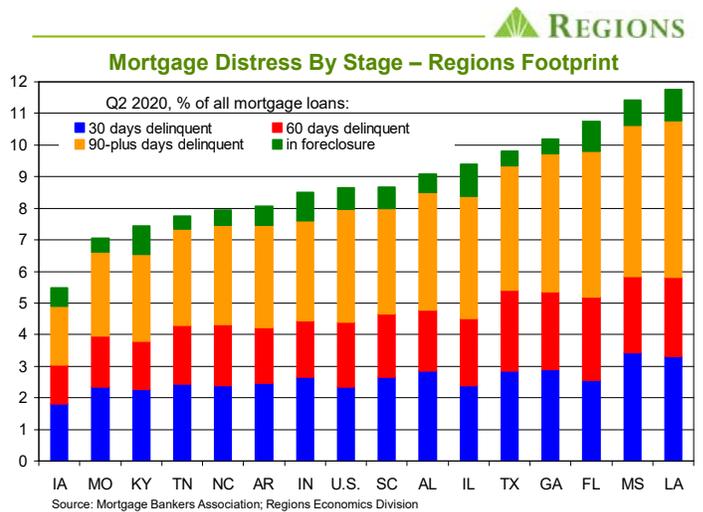
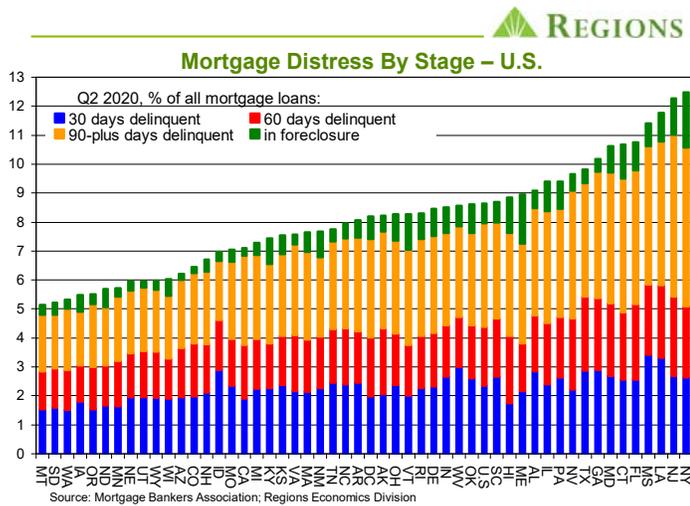


The MBA data report the payment status of mortgage loans as of end of quarter, which helps account for the perhaps strange-looking patterns seen in the chart to the side. Specifically, that 60-day and 90-day delinquency rates spiked in Q2 without there first having been a meaningful increase in 30-day delinquency rates. Though the 30-day delinquency rate for the Regions footprint as a whole did increase in Q1 2020, we attributed most of this increase to seasonal adjustment noise, as we discussed in last quarter's write-up of the MBA data. Though by the end of March large swaths of economic activity had been shut down and layoffs had increased dramatically, the impact on March mortgage payments was relatively limited, meaning that it would not be until Q2 that the MBA delinquency data truly reflected the effects of the pandemic. But, borrowers amongst those falling into delinquency or entering into forbearance plans the earliest would, by the end of Q2, have progressed into the 60-day (delinquent 60-89 days) or 90-day (delinquent 90 or more days) buckets. Indeed, nationally and for the Regions footprint, the 60-day delinquency rate as of Q2 2020 is the highest on record while the 90-day delinquency rates for the U.S. and the Regions footprint are higher than at any time since 2010.

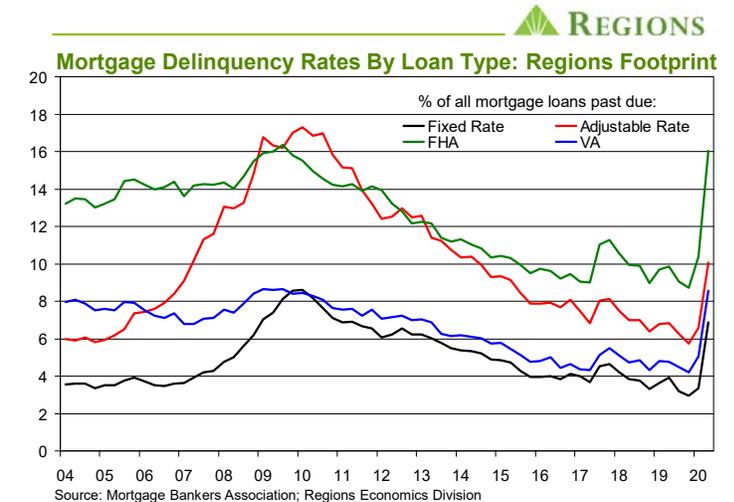
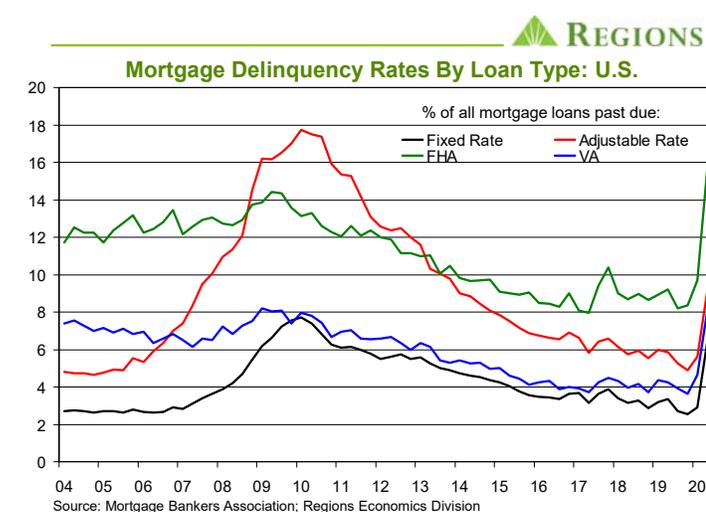
As noted above, the 30-day delinquency rate declined in Q2 for the U.S. as a whole and for 14 of the 15 in-footprint states (North Carolina being the sole exception). This is another instance of the delinquency data bucking typical seasonal patterns; in a typical year the 30-day delinquency rate declines during Q2, and the seasonal adjustment process is geared for these declines. That the 30-day rate fell on a not seasonally adjusted basis in Q2 2020 means the extent of the decline is exaggerated in the seasonally adjusted data. Still,

that the unadjusted rates fell is noteworthy, as it implies a slower inflow into mortgage distress. That is not cause to sound the “all’s clear” signal, however, given that the unemployment rate was, as of July, still in double-digits and the level of nonfarm employment as of July was 12.881 million jobs below that of February. Moreover, at this point in time it is not clear whether, or to what extent, the considerable financial support provided to households via the Economic Impact Payments (EIP) and the \$600 per week in supplemental Unemployment Insurance (UI) benefits that were part of the CARES Act will be repeated in Q3. The magnitude of that support was such that, despite a significant decline in labor earnings, far and away the single largest component of personal income, the level of disposable personal income increased dramatically in Q2 2020.

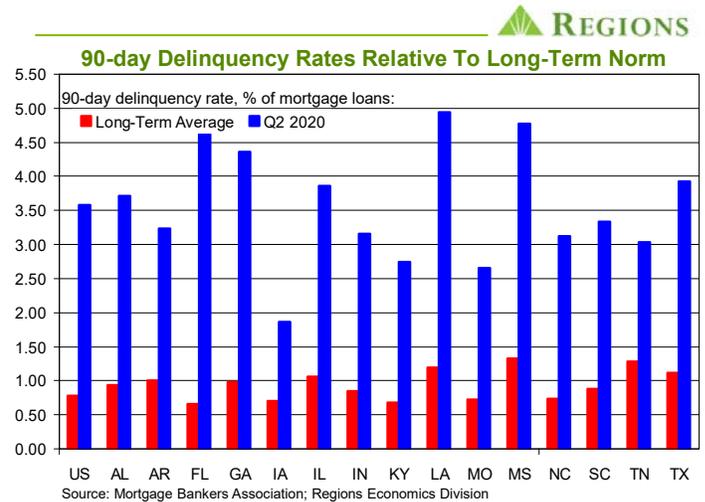
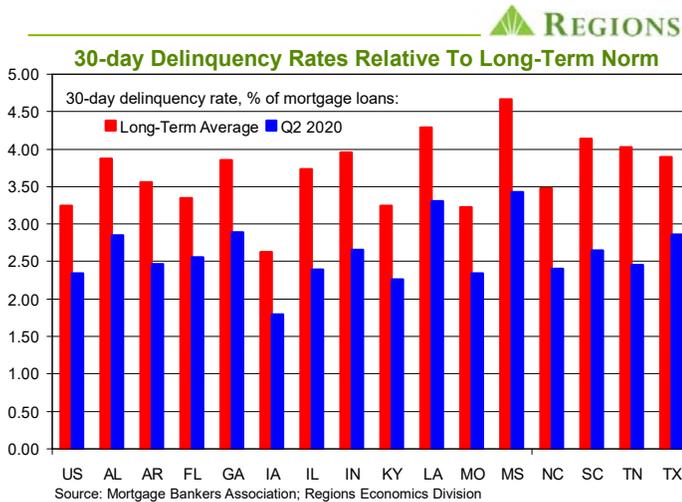
Without another round of aid to households, disposable personal income will fall sharply in Q3, and while there is at least somewhat of a buffer in the form of higher household savings, that buffer will not last long, particularly for lower income households, without more meaningful improvement in labor market conditions than has been seen to date. Should there be a significant decline in disposable personal income, that could push another wave of mortgage loans into delinquency or keep some portion of those borrowers now on forbearance plans from reverting to current. Moreover, to the extent that foreclosure moratoria are allowed to expire, the inflow from late-stage delinquency into foreclosure could pick up dramatically after having virtually dried up in Q2. In short, we’d caution against taking too much comfort from the drop in the 30-day delinquency rate in Q2 in light of still formidable downside risks.



The above charts present our usual state-by-state looks at total mortgage distress, nationally and within the Regions footprint. Mississippi posted the fourth-highest rate of mortgage distress in Q2, marking the first time since Q4 2017 Mississippi did not have the nation’s highest rate of mortgage distress. That Florida, Georgia, and Texas rank amongst the 10 states with the highest rates of mortgage distress in Q2 is notable. Keep in mind that in addition to coping with the fallout from the pandemic, Louisiana and Texas were also contending with a pronounced slump in the energy sector in Q2 which would have further contributed to deterioration in labor market conditions and in turn likely compounded the degree of mortgage distress. At 5.15 percent, Montana posted the nation’s lowest rate of mortgage distress in Q2, but it is interesting to note that the lowest rate in Q1 2020 was 2.42 percent (Washington); that Q2’s low is so far above Q1’s low is a testament to how much more severe and widespread mortgage distress has become relative to rates seen at year-end 2019 after a multi-year run of diminishing distress.

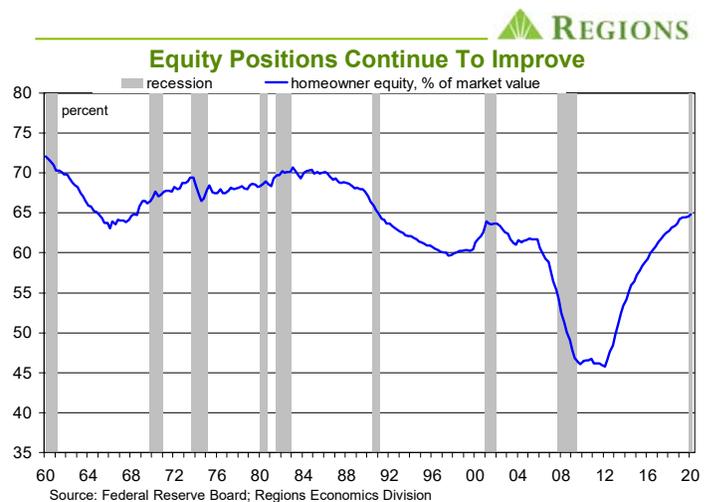


Delinquency rates increased sharply across all loan types in Q2, nationally and within the Regions footprint, which can be seen in the charts at the bottom of Page 2. Note that the relative ranking of delinquency rates across loan types did not change in Q2 and has not changed since 2014. Nationally, the delinquency rate on FHA loans rose to 15.65 percent in Q2, an increase of 596 basis points, easily the largest increase amongst the various loan types – the delinquency rate on fixed-rate loans rose by 350 basis points, the rate on adjustable-rate loans rose by 348 basis points, and the rate on VA loans rose by 340 basis points. Within the Regions footprint, the delinquency rate on FHA loans rose to 16.04 percent in Q2, an increase of 567 basis points from Q1. The delinquency rate on fixed-rate loans within the footprint rose by 352 basis points, the rate on adjustable-rate loans rose by 347 basis points, and the rate on VA loans rose by 353 basis points.



The two charts above offer updates of a couple of patterns in the MBA delinquency data that we’ve highlighted over the past several quarters. As shown in the first chart, 30-day delinquency rates remain easily below the long-term average (calculated over the Q1 1980 through Q4 2006 period) in each of the in-footprint states, and with the declines in 30-day delinquency rates, the disparities are even larger as of Q2 2020. Again, North Carolina is the exception given the modest increase in its 30-day delinquency rate in Q2. At the same time, however, despite having been on a prolonged downward trend, 90-day delinquency rates nonetheless remained above their longer-term average in each of the in-footprint states as of Q1 2020. With the increase in 90-day rates in Q2, those disparities are now larger, and significantly so given the magnitude of the increase in 90-day delinquency rates in Q2. Still, the data also tell us that an increasingly smaller share of loans in the 90-day delinquency bucket had been progressing into foreclosure over recent years. What remains to be seen is whether, or to what extent, this pattern will change over coming quarters.

Given the (ultimate) expiration of foreclosure moratoriums amidst what we anticipate will be only a gradual recovery in the labor market, it is reasonable to expect an upturn in foreclosure rates over coming quarters. It seems highly unlikely, however, that any such increase in foreclosures will come close to rivaling that seen amidst the 2007-09 recession. One mitigating factor is that equity positions are much stronger at present than was the case leading up to the 2007-09 recession while, as of June, the CoreLogic data show house price appreciation still running at a better than 4.0 percent pace. This in part reflects what has been a persistent and chronic undersupply of existing homes for sale (new home inventories have also been notably lean, though this does not directly factor into the CoreLogic HPI). This is in stark contrast to the prior cycle, in which the starting point was one of significant oversupply. Thus, while we do expect house price appreciation to slow over coming months, lean inventories figure to blunt any downward pressure on house prices and also suggest that those homes that do fall into foreclosure will be absorbed with much less of a disruption in house prices.



In the conclusion to our write-up of the Q1 data on mortgage delinquencies, we noted the considerable degree of uncertainty in the outlook for mortgage delinquencies and foreclosures. That remains the case, as it does for the broader economic outlook. So, we’ll conclude this quarter’s write-up by repeating what we said the last time around – at this point, all we can do is wait and watch.

Mortgage Distress, Regions Footprint

as of Q2 2020

| <u>STATE</u> | <u>30-day delinquency rate</u> | <u>60-day delinquency rate</u> | <u>90-day delinquency rate</u> | <u>foreclosure inventory</u> | <u>total mortgage distress rate</u> | <u>"early stage" delinquency rate</u> | <u>"serious" delinquency rate</u> |
|----------------|--|--|--|----------------------------------|---|---|---|
| Alabama | 2.85 | 1.92 | 3.72 | 0.59 | 9.08 | 4.77 | 4.31 |
| Arkansas | 2.46 | 1.77 | 3.23 | 0.61 | 8.07 | 4.23 | 3.84 |
| Florida | 2.56 | 2.62 | 4.62 | 0.95 | 10.75 | 5.18 | 5.57 |
| Georgia | 2.89 | 2.48 | 4.36 | 0.46 | 10.19 | 5.37 | 4.82 |
| Iowa | 1.80 | 1.25 | 1.86 | 0.57 | 5.48 | 3.05 | 2.43 |
| Illinois | 2.39 | 2.12 | 3.86 | 1.03 | 9.40 | 4.51 | 4.89 |
| Indiana | 2.66 | 1.79 | 3.16 | 0.89 | 8.50 | 4.45 | 4.05 |
| Kentucky | 2.26 | 1.54 | 2.75 | 0.88 | 7.43 | 3.80 | 3.63 |
| Louisiana | 3.31 | 2.52 | 4.94 | 1.00 | 11.77 | 5.83 | 5.94 |
| Missouri | 2.34 | 1.62 | 2.66 | 0.44 | 7.06 | 3.96 | 3.10 |
| Mississippi | 3.43 | 2.42 | 4.77 | 0.80 | 11.42 | 5.85 | 5.57 |
| North Carolina | 2.40 | 1.93 | 3.12 | 0.50 | 7.95 | 4.33 | 3.62 |
| South Carolina | 2.65 | 2.01 | 3.34 | 0.68 | 8.68 | 4.66 | 4.02 |
| Tennessee | 2.45 | 1.85 | 3.04 | 0.40 | 7.74 | 4.30 | 3.44 |
| Texas | 2.86 | 2.56 | 3.93 | 0.46 | 9.81 | 5.42 | 4.39 |
| U.S. | 2.34 | 2.05 | 3.58 | 0.68 | 8.65 | 4.39 | 4.26 |

NOTE: all rates expressed as a percentage of outstanding mortgage loans, not seasonally adjusted

Source: Mortgage Bankers Association; Regions Economics Division