

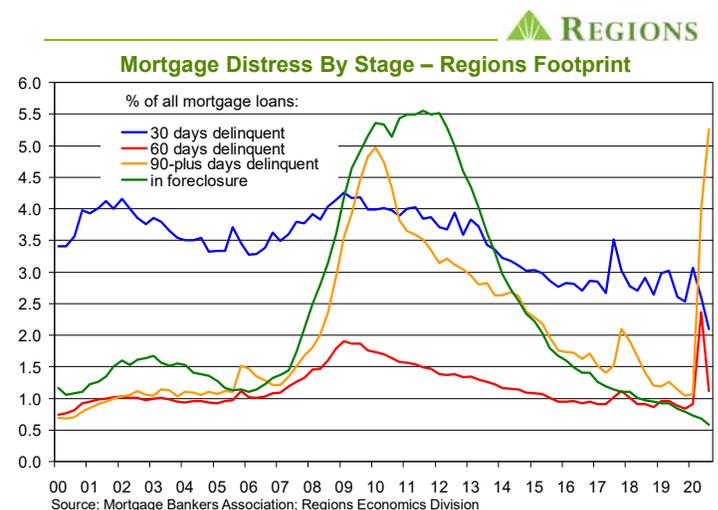
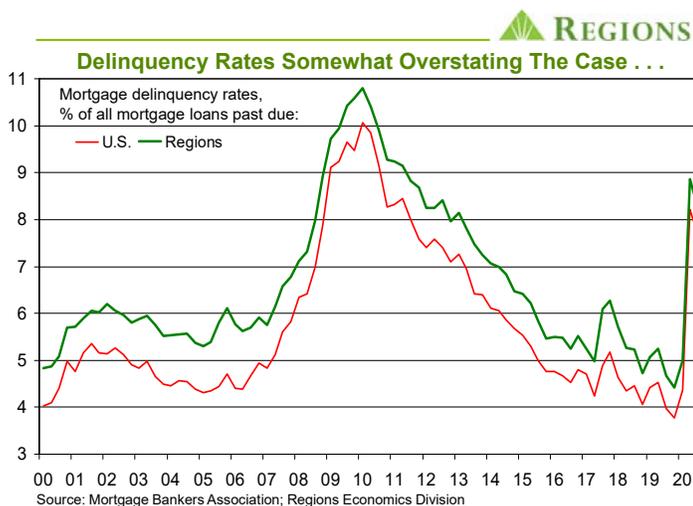
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## Q3 2020 Mortgage Delinquencies & Foreclosures: Regions Footprint

- For the U.S. as a whole the mortgage delinquency rate fell to 7.65 percent in Q3 2020 from 8.22 percent in Q2
- Within the Regions footprint, the mortgage delinquency rate fell to 8.23 percent in Q3 2020 from 8.86 percent in Q2
- Foreclosure starts declined further, reflecting moratoriums put in place in response to the COVID-19 pandemic

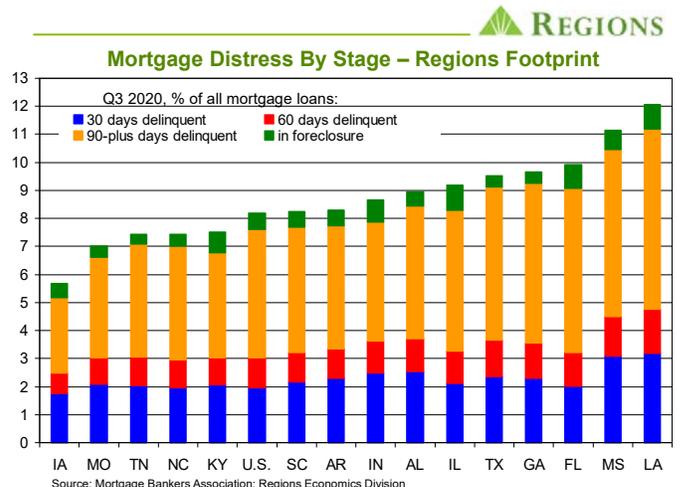
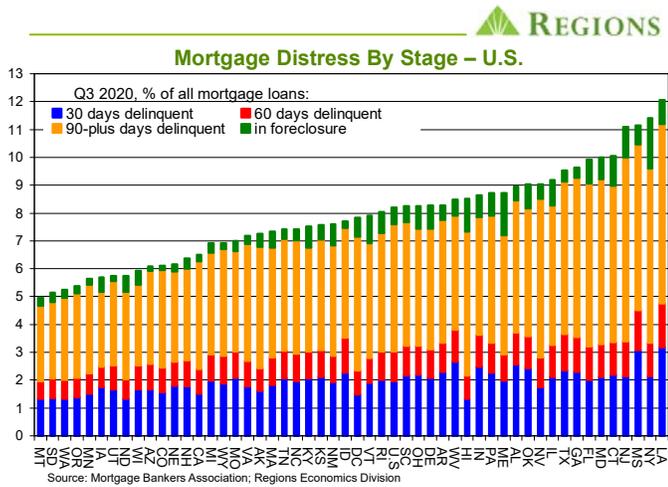
The Mortgage Bankers Association (MBA) has released their data on mortgage delinquencies and foreclosures for Q3 2020. For the U.S. as a whole the mortgage delinquency rate, which encompasses all stages of delinquency but not those loans in some stage of foreclosure, fell to 7.65 percent in Q3 from 8.22 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 8.23 percent in Q3 from 8.86 percent in Q2. The delinquency data continue to reflect the brief but violent economic downturn triggered by the pandemic and the efforts to stem its spread, which led to the spike in mortgage delinquencies in Q2. The beginning of the recovery in the labor market and the broader economy helped push the delinquency rate lower in Q3, but that the late-stage delinquency rate remains significantly elevated is a reminder that there is still a long way to go before the economy is fully healed.

MBA estimates that at the end of Q3, there were roughly 3.4 million homeowners in forbearance plans. Recall that in their reporting on mortgage delinquencies, MBA asks servicers to report loans in forbearance as delinquent if payments have not been made based on the original terms of the mortgage loan. This is an important point to keep in mind, as it tells us that not all of those loans currently reported as late-stage delinquencies will progress to foreclosure. Indeed, significant numbers of borrowers have already exited forbearance plans and are again making payments, and as the labor market continues to heal, growing numbers of borrowers still in forbearance plans will resume making payments. Still, the recent upturn in the number of COVID-19 cases is an unwelcome reminder that the sharp declines in 30-day delinquency rates, nationally and within the Regions footprint, seen in Q3 could easily reverse over the next quarter or two should the pandemic cause further disruptions in economic activity. As of Q3 2020, the MBA survey covers roughly 39.746 million first lien mortgage loans for the U.S. as a whole and roughly 15.0 million first lien mortgage loans within the Regions footprint.

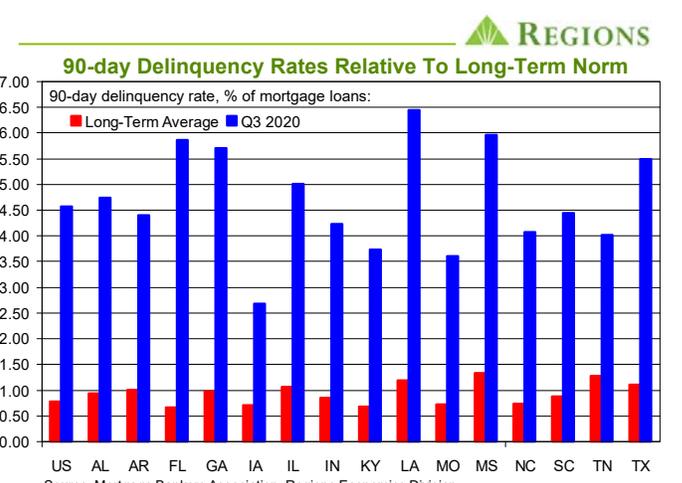
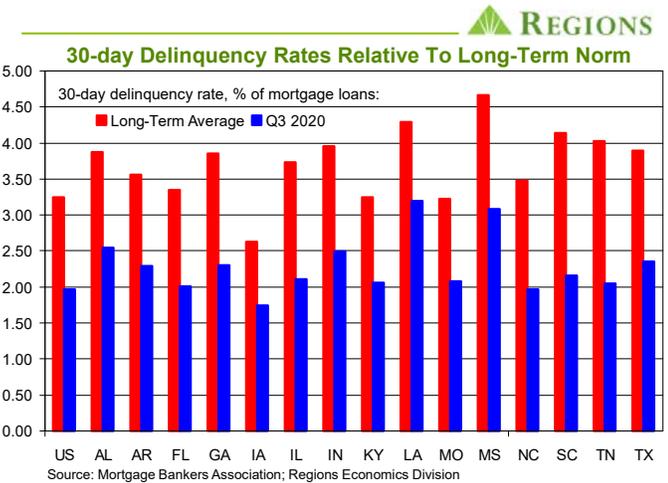


The second chart above shows delinquencies within the Regions footprint by stage. Keep in mind that the MBA reports the payment status of mortgage loans as of end of quarter, which helps account for why 60-day and 90-day delinquency rates spiked in Q2 without there first having been a meaningful increase in 30-day delinquency rates. While 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 was not until Q2 that the MBA delinquency data truly reflected the effects of the pandemic. The earliest borrowers to fall into delinquency or enter into forbearance plans had progressed into the 60-day (delinquent 60-89 days) or 90-day (delinquent 90 or more days) buckets by the end of Q2. As such, the 60-day delinquency rate as of Q2 2020 was the highest on record for the U.S. and for the Regions footprint, while the 90-day delinquency rate also rose sharply. The 90-day delinquency rates for the U.S. and for the Regions

footprint rose even further in Q3, while the 30-day and 60-day delinquency rates fell. Part of the decline in the 60-day rate, however, reflects some share of those loans in that bucket in Q2 advancing into the 90-day bucket in Q3. What is more telling is the sharp decline in the 30-day delinquency rate, which fell to the lowest on record in Q3. While some of this decline reflects improving labor market conditions, it should also be noted that lending standards, at least amongst banks, tightened considerably in Q2 and further still in Q3, which has likely contributed to improved mortgage loan performance. Either way, the improvement seen in Q3 may not be sustained should the recent, and ongoing, upturn in COVID-19 cases lead to another round of restrictions on economic activity and lead to another round of layoffs, even if not to the same degree as seen in the Spring.

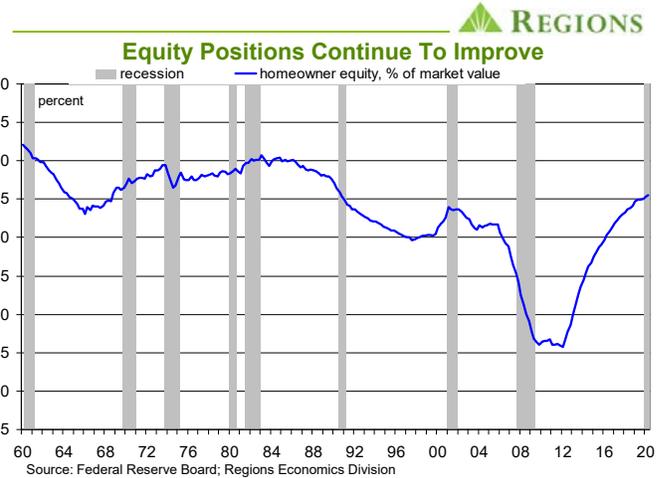
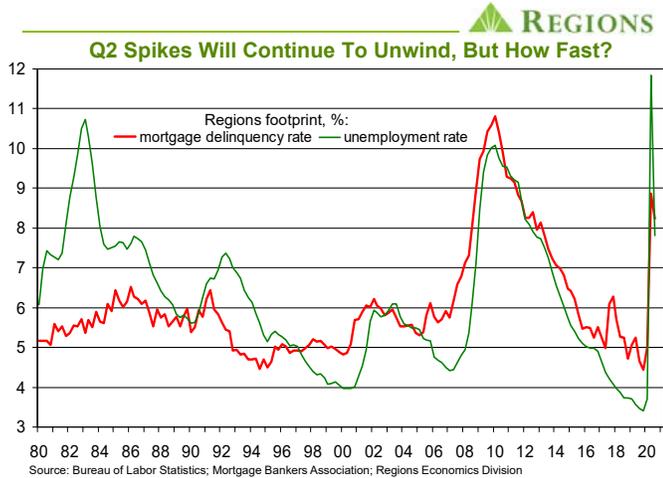


At 12.07 percent, Louisiana posted the nation’s highest rate of total mortgage distress (the percentage of all first lien mortgage loans in some stage of delinquency or in foreclosure), with Mississippi, Florida, Georgia, Texas, and Illinois amongst the ten highest rates. At 5.68 percent, Iowa posted the lowest rate of total mortgage distress within the Regions footprint in Q3 and the sixth lowest nationally. The five states with the largest increases in the rate of mortgage distress over the past year were Nevada (556 basis points), New Jersey (510 basis points), Hawaii (503 basis points), Florida (502 basis points), and New York (493 basis points). Again, though, it helps to recall that much of this increase comes from a higher 90-day delinquency rate, with loans in forbearance accounting for a large share of this increase. For instance, Florida’s 30-day delinquency rate fell to 2.01 percent in Q3, only slightly higher than the national rate of 1.97 percent and down from 2.31 percent in Q3 2019; as of Q3 Florida’s 90-day delinquency rate stood at 5.86 percent, compared to 0.96 percent in Q3 2019.

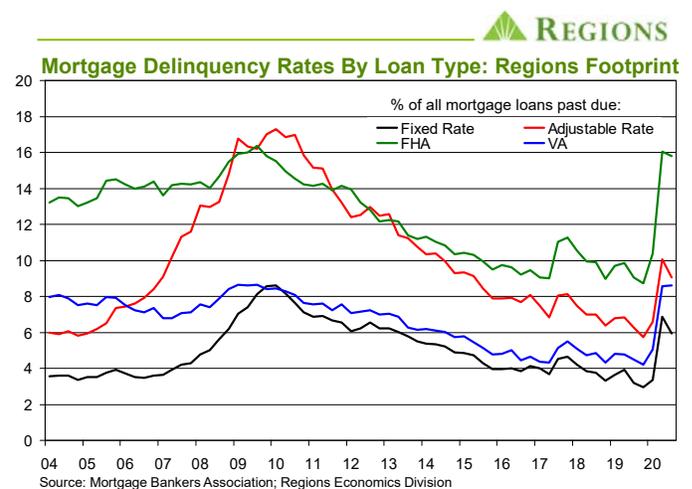
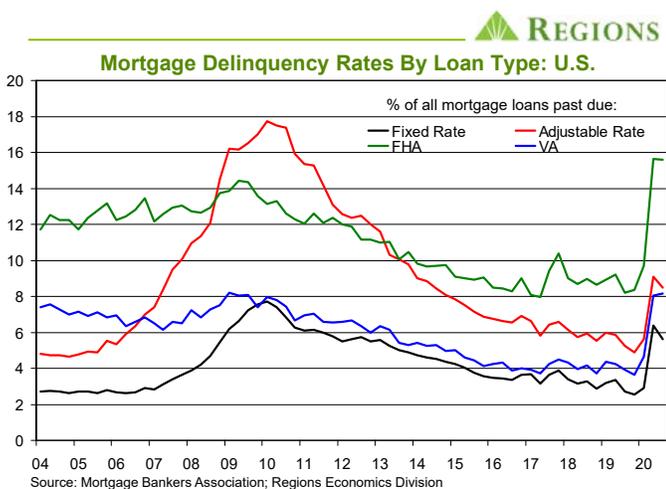


The two charts above illustrate our point that mortgage distress is heavily concentrated in the 90-day delinquency bucket while inflows into delinquency, as measured by the 30-day delinquency rate, continue to ebb. We have for some time highlighted the long-running decline in 30-day delinquency rates – the obvious outlier seen in the chart on Page 1 is Q3 2017, when Hurricanes Harvey and Irma led to a sharp, but transitory, increase. Nationally and across the Regions footprint, 30-day delinquency rates have for some time been below the long-term historical average (calculated over the 1980-2006 period), and that gap widened further in Q3 2020. At the same time, however, 90-day delinquency rates rose even further above long-term historical averages in Q3, and it won’t be a surprise if this

gap widens even more in the Q4 data, though any further increases will not be nearly as pronounced as those seen over the past two quarters. Though the data are somewhat clouded by moratoriums on foreclosures, the percentage of loans in the foreclosure process fell slightly in Q3 and stands at its lowest level since the early-1980s. What remains to be seen is what share of those loans now in the 90-day delinquency bucket will ultimately progress to foreclosure, and the fear seems to be that it is only a matter of time before we see a surge in foreclosures to rival that seen during the 2007-09 recession. We do not, however, expect this to be the case.



Though the upturn in COVID-19 cases may act as a drag on the pace at which the labor market continues to improve, the unemployment rate should continue to decline. As the first chart above illustrates, this should translate into a further decline in the delinquency rate on mortgage loans (and delinquency rates on other forms of consumer credit). What is unclear at this point, however, is the extent to which those who have been displaced from the labor market by the pandemic and the efforts to stem its spread have lost their job permanently. A greater share of job losses would imply a greater share of those loans now in forbearance plans may ultimately progress to foreclosure. Not all of those loans will, but even were that to be the case, at roughly 3.7 million as of the end of Q3, the number of loans in forbearance is no match for the more than 12 million foreclosures started over the 2007-2013 period (4.876 million within the Regions footprint). One mitigating factor will be equity positions that are significantly stronger than was the case leading into the 2007-09 recession, as shown in the second chart above. Note that the data presented in this chart come from the Federal Reserve’s quarterly “Flow of Funds” report, and the Q3 data are not yet available. But, the CoreLogic data show the rate of house price appreciation accelerated sharply in Q3, with year-on-year growth hitting 6.7 percent in September, meaning equity positions will have improved even further in Q3. This should work to the favor of distressed borrowers as forbearance periods come to an end in the months ahead.



As the above charts show, delinquency rates amongst fixed-rate and adjustable-rate loans declined in Q3, whereas rates on FHA and VA loans showed no signs of improvement. While the delinquency rate on FHA loans has been consistently higher than that on fixed-rate loans (which in the MBA’s former reporting structure would have mostly been characterized as “prime” mortgage loans), that spread has widened significantly over the past two quarters. This breakdown helps further identify potential risks in loan performance, and will bear watching closely in the quarters ahead.

## Mortgage Distress, Regions Footprint

as of Q3 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	2.55	1.16	4.74	0.50	8.95	3.71	5.24
Arkansas	2.29	1.05	4.40	0.54	8.28	3.34	4.94
Florida	2.01	1.20	5.86	0.84	9.91	3.21	6.70
Georgia	2.30	1.25	5.71	0.38	9.64	3.55	6.09
Iowa	1.74	0.75	2.69	0.50	5.68	2.49	3.19
Illinois	2.11	1.16	5.01	0.91	9.19	3.27	5.92
Indiana	2.49	1.15	4.23	0.78	8.65	3.64	5.01
Kentucky	2.06	0.98	3.73	0.75	7.52	3.04	4.48
Louisiana	3.19	1.56	6.45	0.87	12.07	4.75	7.32
Missouri	2.08	0.95	3.60	0.37	7.00	3.03	3.97
Mississippi	3.08	1.43	5.96	0.67	11.14	4.51	6.63
North Carolina	1.97	0.98	4.07	0.40	7.42	2.95	4.47
South Carolina	2.16	1.07	4.45	0.56	8.24	3.23	5.01
Tennessee	2.05	1.01	4.02	0.34	7.42	3.06	4.36
Texas	2.35	1.30	5.49	0.39	9.53	3.65	5.88
U.S.	1.97	1.06	4.57	0.59	8.19	3.03	5.16

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

Source: Mortgage Bankers Association; Regions Economics Division