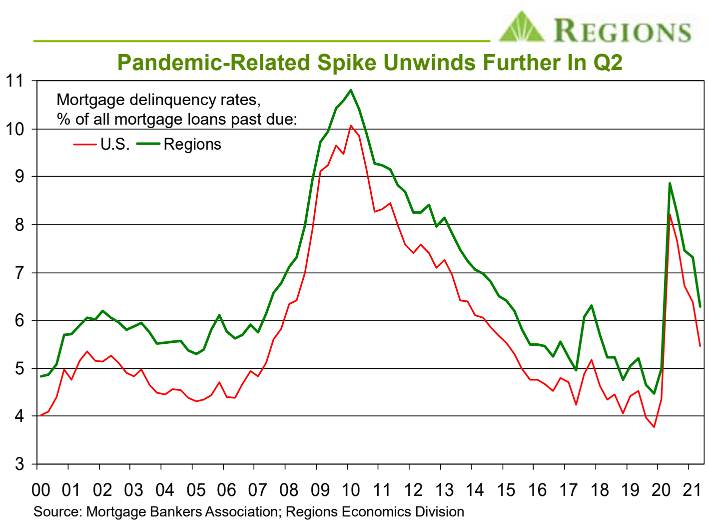
ECONOMIC UPDATE
REGIONS
August 25, 2021

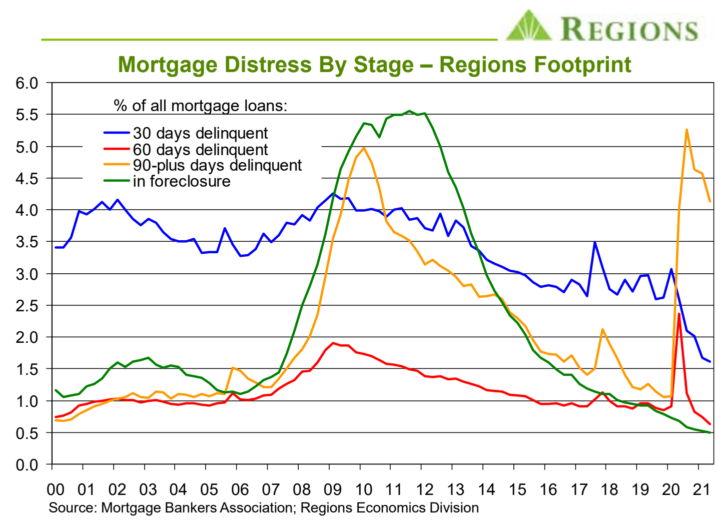
Q2 2021 Mortgage Delinquencies & Foreclosures: Regions Footprint

- For the U.S. as a whole the mortgage delinquency rate <u>fell</u> to 5.46 percent in Q2 2021 from 6.38 percent in Q1
- Within the Regions footprint, the mortgage delinquency rate <u>fell</u> to 6.29 percent in Q2 2021 from 7.32 percent in Q1
- Early-stage delinquency rates continue to hover near all-time lows, nationally and across the Regions footprint

The Mortgage Bankers Association (MBA) has released their data on mortgage delinquencies and foreclosures for Q2 2021. 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 5.46 percent in Q2 2021 from 6.38 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 fell to 6.29 percent in Q2 from 7.32 percent in Q1. The spike in mortgage delinquencies triggered by the pandemic and the efforts to stem its spread is still visible in the delinquency data, with the 90-day delinquency rate remaining significantly elevated, nationally and within the Regions footprint. This mostly reflects those loans still in forbearance programs, many of which will expire over coming months. Still, continued improvement in labor market conditions and the broader economy and significant fiscal transfers have helped push overall delinquencies lower, with 30-day delinquency rates remaining at or near all-time lows. As of Q2 2021, the MBA survey covers roughly 39.445 million first lien mortgage loans for the U.S. as a whole and roughly 15.053 million first lien mortgage loans within the Regions footprint.

After spiking in the early phases of the pandemic, mortgage delinquency rates have fallen rapidly in subsequent quarters. After spiking over the first half of 2020, both 30-day and 60-day delinquency rates quickly reversed course and, as of Q2 2021, were lower than they were prior to the pandemic. The obvious outlier, as seen in the second chart below, is the 90-day delinquency rate (i.e., those loans delinquent 90 days or longer), which remains far above its pre-pandemic reading. Clearly, part of the decline in the 30-day and 60-day buckets reflects some of those loans advancing into the 90-day bucket. That said, there are two main factors behind the still-elevated 90-day delinquency rate – loans that remain in forbearance and the foreclosure moratoriums put in place in the early phases of the pandemic. With both forbearance periods and foreclosure moratoriums nearing their end, it remains to be seen how the backlog of loans now in the 90-day delinquency bucket will be resolved.





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. With the path to foreclosure having been blocked, this reporting convention helps account for why the 90-day delinquency rate remains elevated. MBA estimates that as of mid-August there were roughly 1.6 million mortgage loans now in forbearance – at the peak, there were over 4.5 million mortgage loans in forbearance. There are some who worry that the end of forbearance periods will trigger a wave of foreclosures which will ultimately result in sharp declines in house prices. With all due respect to the experience of the Great Financial Crisis (GFC), we see such worries as more than a little

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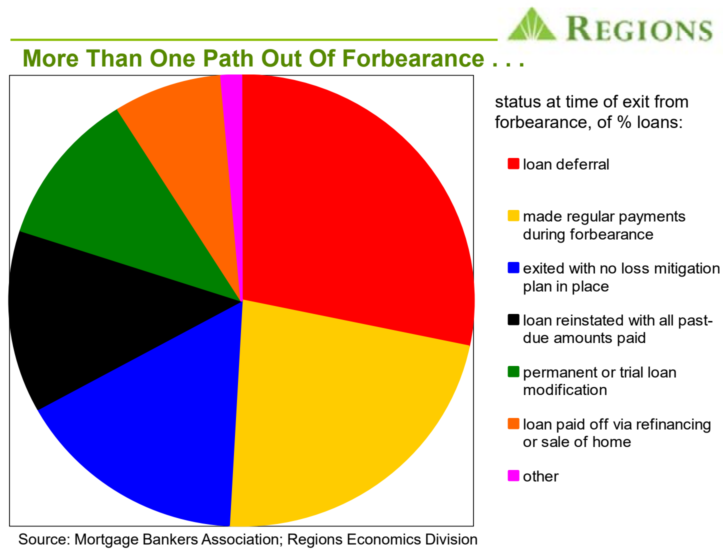
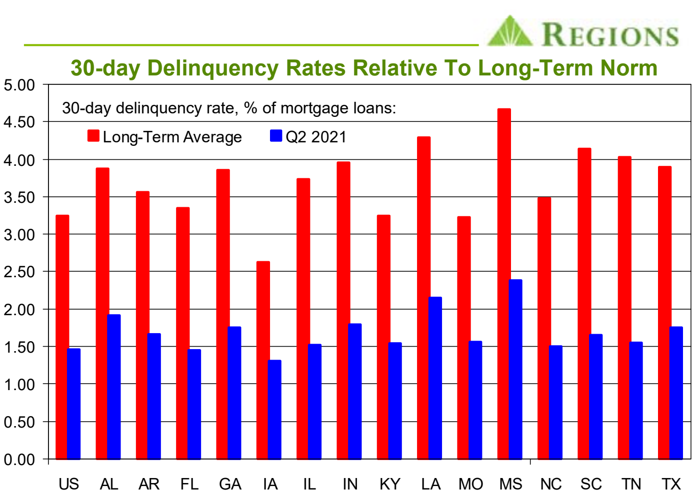
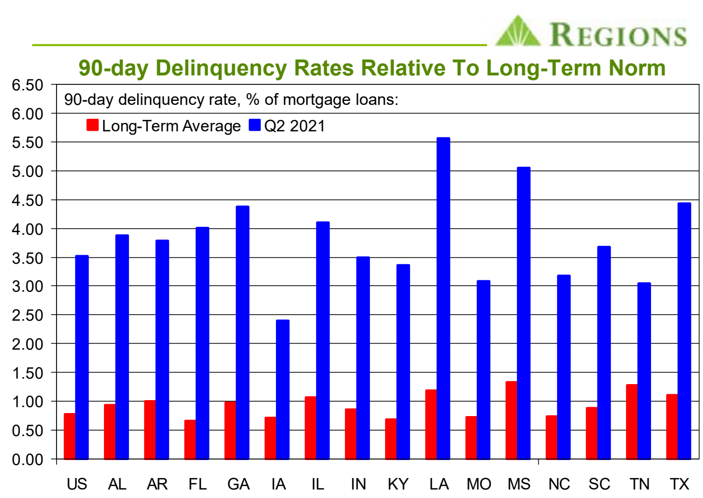
overblown. One way to tackle this question is with simple math. Recall that it was Q3 2006 when foreclosures began to accelerate sharply, with foreclosures not falling back to pre-GFC norms until 2014. Over the Q3 2006 through Q4 2013 period, there were over 12.515 million foreclosures, and the number of foreclosures in the first six quarters of this period (1.727 million) tops the total number of mortgage loans now in forbearance. The point being that there is nowhere near the same potential for disruption in the housing market today as was the case during the GFC. Moreover, aggregate equity positions are much stronger today than has been the case in over 30 years, while inventories of homes for sale are hovering near the lowest levels in the life of the data, both in stark contrast to the conditions that prevailed at the start of the GFC. As such, it is reasonable to think that those borrowers who are unable to come to terms with their lenders/servicers could sell their home and potentially walk away with cash, and in many markets the added inventory could be absorbed without disrupting current market dynamics.

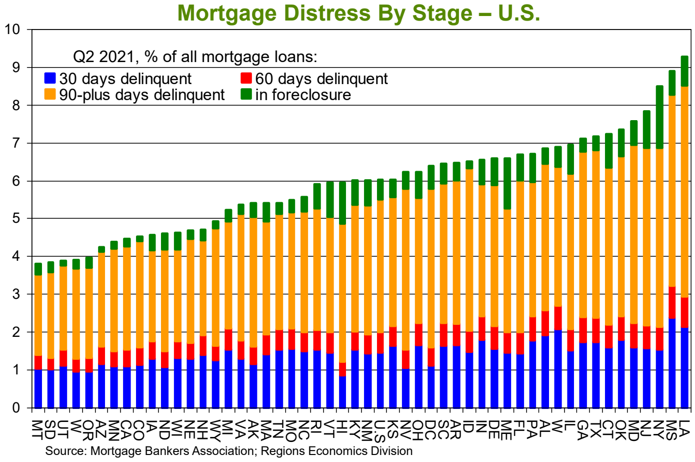
In reality, however, not all loans now in forbearance will end up in foreclosure, and neither will all of these homes be placed on the market for sale as a means of resolving forbearance. This is seen in the MBA data on the status of all mortgage loans that exited forbearance between June 1, 2020 and August 15, 2021, which we illustrate in the chart to the side. As the chart illustrates, there are many possible paths out of forbearance, many of which pose no threat to current market dynamics. Over one-fifth of those with loans in forbearance exited after having made their normal monthly payments during their forbearance period, with 13.1 percent exiting with their loan reinstated after they fully paid past-due amounts, 11.1 percent exiting with a loan modification in place, and 7.4 percent of exits accounted for by loans having been paid off either by way of the original loan having been refinanced or the sale of the home. Combined, these loans account for 54.2 percent of all mortgage loans having thus far exited forbearance and this block poses no threat to market dynamics. The two areas of concern are the 28.3 percent of loans that went into deferral and the 16.1 percent of loans that exited forbearance with no loss mitigation plan in place, so the ultimate fate of these loans remains to be seen. To be sure, there is nothing that says the 1.6 million loans remaining in forbearance will take the same paths to the same degree as those loans which have already exited. It should, however, be clear that not all loans remaining in forbearance will progress to foreclosure and thus trigger a significant disruption in current housing market dynamics.

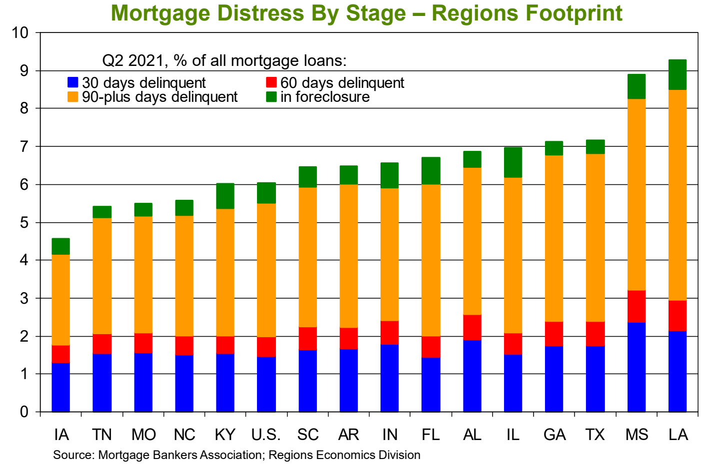




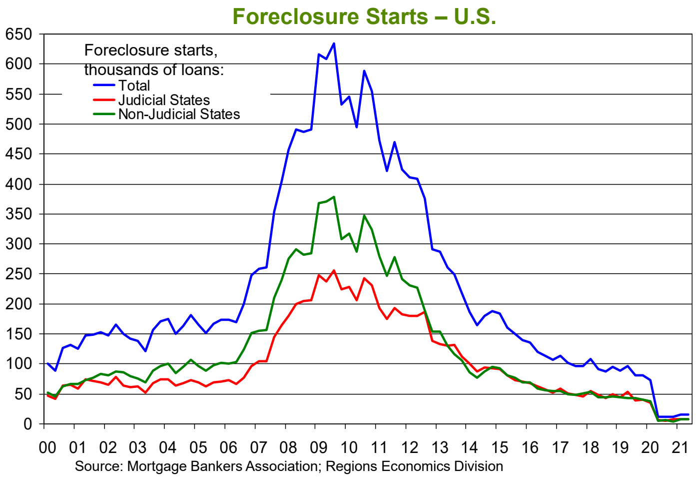


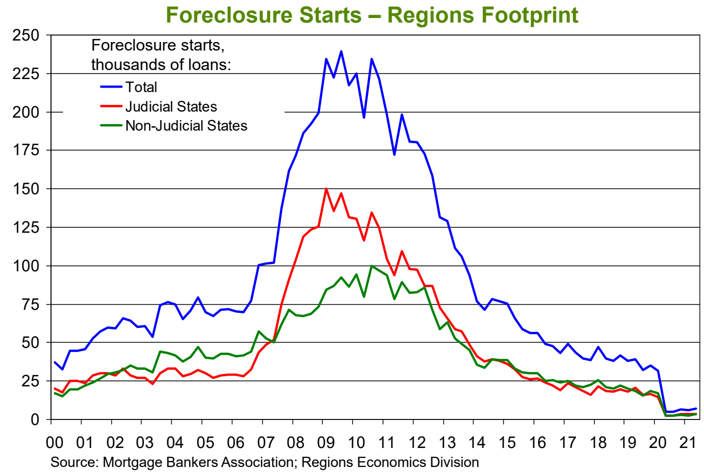
The first chart above highlights a pattern we had been pointing to for some time prior to the pandemic. A prolonged period of steady declines not only left 30-day delinquency rates well below longer-term averages but left them at all-time lows. To some extent, this reflects more stringent underwriting standards in the years following the Great Financial Crisis, with mortgage originations having become increasingly concentrated amongst borrowers with higher credit scores, to the point that 70 percent of mortgage originations in 2020 went to borrowers with credit scores of 760 or higher according to data from Equifax and the Federal Reserve Bank of New York. Up until the pandemic, 90-day delinquency rates exhibited a similar prolonged downward drift but, while off their recent highs, 90-day delinquency rates remain well above historical norms, nationally and in each state in the Regions footprint. It will be several quarters before 90-day rates are back in line with pre-pandemic norms.





At 9.28 percent, Louisiana posted the nation's highest rate of mortgage distress (the percentage of all first-lien mortgage loans in some stage of delinquency or foreclosure) in Q2 2021, followed by Mississippi at 8.89 percent, with Texas, Georgia, and Illinois also in the top-ten. At 4.56 percent, Iowa posted the lowest rate of mortgage distress within the Regions footprint in Q2 2021. Mississippi posted the nation's highest 30-day (2.38 percent) and 60-day (0.84 percent) delinquency rates in Q2, with Louisiana posting the nation's highest 90-day delinquency rate (5.57 percent). Following up on the earlier discussion, as remaining loans exit forbearance in the months ahead, 90-day delinquency rates will begin to fall, but part of this will reflect a progression into foreclosure for some segment of these loans. Still, the net result will be a decline in overall mortgage distress.





Obviously, various moratoriums in place over the past several quarters have held down foreclosure starts. This should not, however, deflect attention away from the sustained decline in starts over the prior several years that left foreclosure inventories bumping along near the lowest levels in the life of the data. As noted above, even if every mortgage loan now in forbearance were to progress to foreclosure, the number of foreclosures would come nowhere near the number seen in the prior cycle. This isn't to minimize the issue, but instead to help put it in proper perspective. And, while no one wants such an outcome, in light of current market conditions – robust demand, extraordinarily lean inventories, and double-digit house price appreciation – an increase in foreclosures could contribute to moderation in the pace of house price appreciation as opposed to triggering a substantial decline in house prices.

Mortgage Distress, Regions Footprint

as of Q2 2021

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	1.92	0.66	3.87	0.41	6.86	2.58	4.28
Arkansas	1.66	0.57	3.79	0.46	6.48	2.23	4.25
Florida	1.45	0.56	4.01	0.68	6.70	2.01	4.69
Georgia	1.75	0.65	4.38	0.34	7.12	2.40	4.72
Iowa	1.31	0.46	2.40	0.39	4.56	1.77	2.79
Illinois	1.52	0.57	4.10	0.77	6.96	2.09	4.87
Indiana	1.80	0.62	3.50	0.64	6.56	2.42	4.14
Kentucky	1.54	0.48	3.36	0.63	6.01	2.02	3.99
Louisiana	2.15	0.80	5.57	0.76	9.28	2.95	6.33
Missouri	1.56	0.54	3.08	0.31	5.49	2.10	3.39
Mississippi	2.38	0.84	5.05	0.62	8.89	3.22	5.67
North Carolina	1.50	0.51	3.18	0.38	5.57	2.01	3.56
South Carolina	1.65	0.60	3.68	0.53	6.46	2.25	4.21
Tennessee	1.55	0.53	3.05	0.28	5.41	2.08	3.33
Texas	1.75	0.64	4.43	0.35	7.17	2.39	4.78
U.S.	1.46	0.54	3.52	0.51	6.03	2.00	4.03

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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