

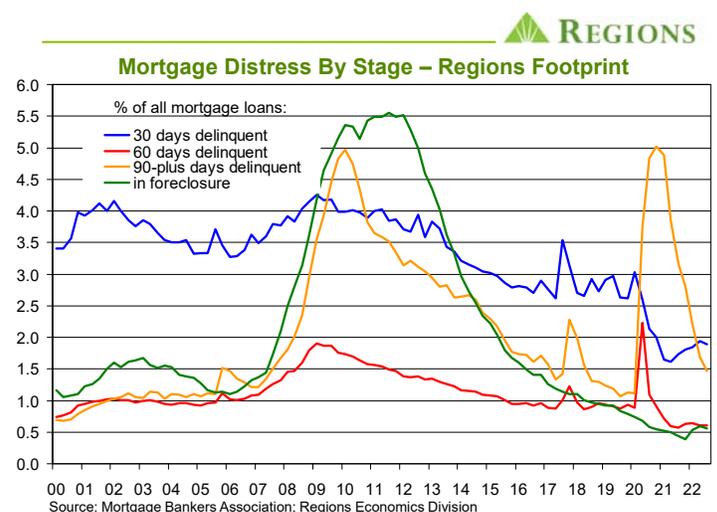
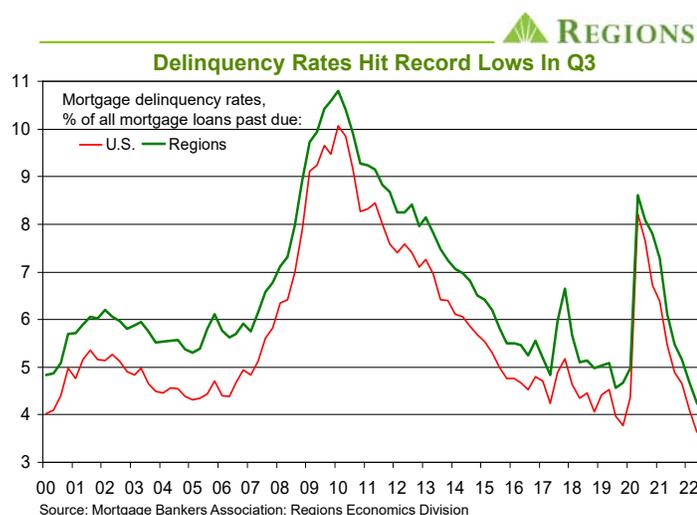
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Q3 2022 Mortgage Delinquencies & Foreclosures: Regions Footprint

- For the U.S. as a whole the mortgage delinquency rate fell to 3.46 percent in Q2 2022 from 3.64 percent in Q1
- Within the Regions footprint, the mortgage delinquency rate fell to 3.99 percent in Q3 2022 from 4.26 percent in Q2
- Early-stage delinquency rates continue to hover near all-time lows, nationally and across the Regions footprint

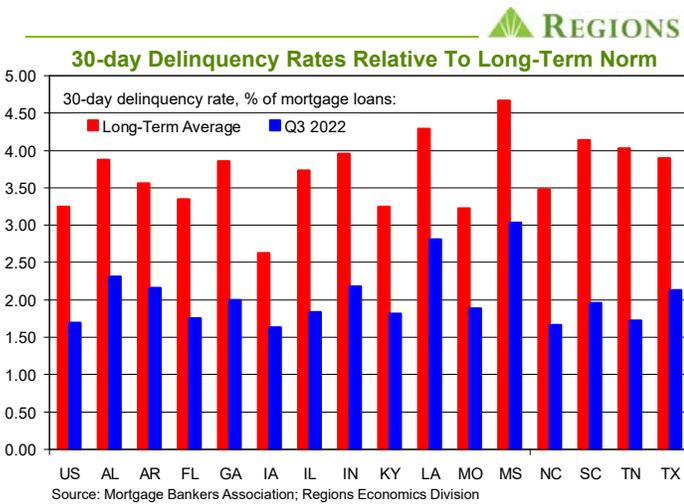
The Mortgage Bankers Association (MBA) has released their data on mortgage delinquencies and foreclosures for Q3 2022. For the U.S. as a whole the mortgage delinquency rate, which encompasses all stages of delinquency but not those loans in some stage of foreclosure, fell to 3.46 percent in Q3 2022 from 3.64 percent in Q2. At 3.46 percent, the Q3 delinquency rate is the lowest on record in the life of the data, which go back to 1979. 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 3.99 percent in Q3 from 4.26 percent in Q2, with the Q3 rate the lowest in the life of the data. The spike in mortgage delinquencies triggered by the pandemic and the efforts to stem its spread has for the most part subsided, but can still be seen in longer-term delinquency rates and foreclosure rates off their bottoms. Though the number of borrowers in forbearance has declined significantly, there are still borrowers who have not yet exited, and these loans are still included in 90-day delinquency rates, in keeping with the MBA's reporting conventions. At the same time, with the expiration of pandemic-related moratoria, foreclosure starts have increased from abnormally low levels, but foreclosure starts nonetheless declined in Q3. While there are some instances in which 30-day delinquency rates have turned slightly higher, these increases are coming off of all-time lows and still leave 30-day rates well below historical norms. As of Q3 2022, the MBA survey covers roughly 39.498 million first-lien mortgage loans for the U.S. as a whole and roughly 15.250 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. In many cases, however, that 90-day delinquency rates remain above pre-pandemic norms reflects those loans that remain in forbearance. With the various foreclosure moratoriums put in place in the early phases of the pandemic having expired at year-end 2021, there has been an uptick in foreclosure starts in 2022, but the increases seen to date have been modest and foreclosure starts declined in both the second and third quarters of 2022.



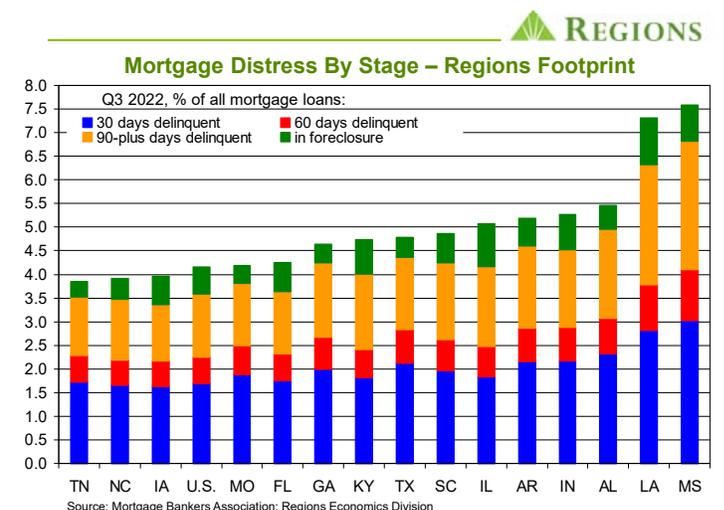
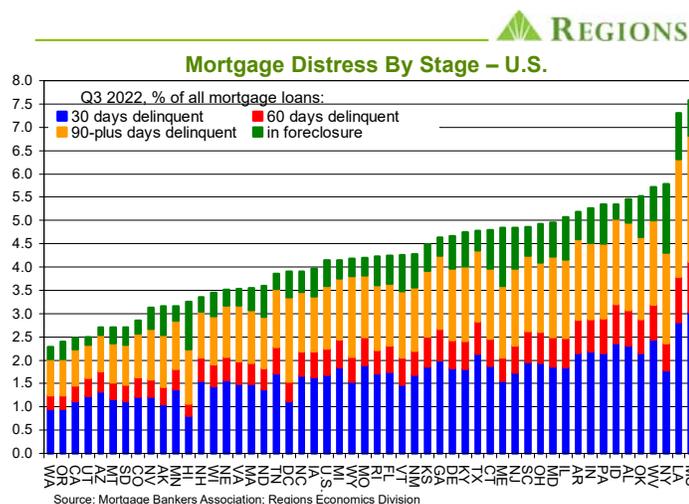
As a reminder, in their reporting on mortgage delinquencies, MBA asks servicers to report loans in forbearance as delinquent if payments have not been made based on the original terms of the mortgage loan. With the path to foreclosure having been blocked by the various moratoriums put in place in response to the pandemic, this reporting convention helps account for the initial spike in the 90-day

delinquency rate and why that rate still remains higher than pre-pandemic rates. elevated. As of the end of Q3, MBA estimates that there were 345,000 mortgage loans in forbearance – at the peak, there were over 4.5 million mortgage loans in forbearance. The MBA reporting conventions are worth keeping in mind given the disruptions stemming from Hurricane Ian; early-stage delinquency rates typically spike after severe storms as many loans go into forbearance, and that will likely be seen in the Q4 data, primarily for Florida.



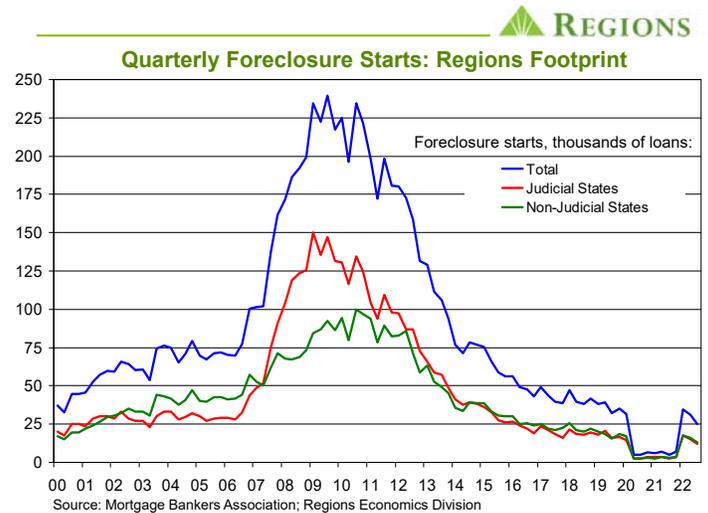
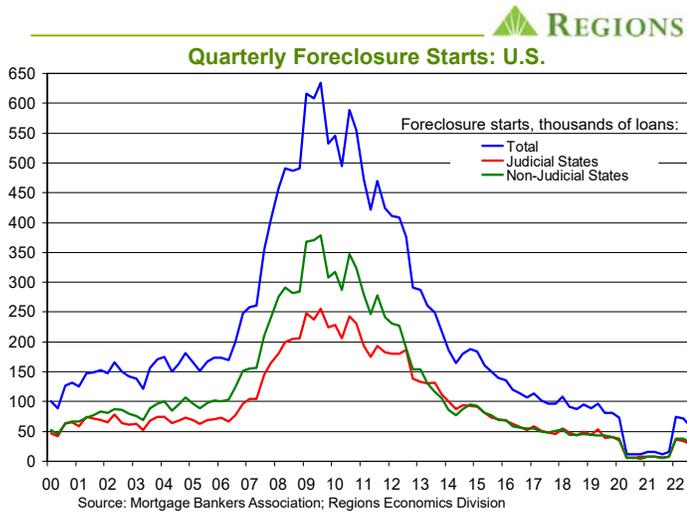
More fundamentally, it is not unreasonable to expect early-stage delinquency rates to increase over coming quarters the extent that labor market conditions deteriorate as the economy endures a run of little to no growth or possibly slips into recession. Still, should this prove to be the case, the starting point would be 30-day delinquency rates that remain at or near record-lows for the states within the Regions footprint. Barring a deep and debilitating recession, it could be that though increasing, 30-day delinquency rates will remain shy of longer-term historical norms, particularly if there are only moderate increases in the unemployment rate. For instance, many – us included – expect only moderate increases in the unemployment rate over coming quarters as firms make every attempt to retain workers. Given how difficult it has been to not only find to but retain workers, we think it unlikely firms would engage in large-scale layoffs if faced with what they expect would be a relatively brief and mild recession. To be sure, there have been several high-profile announcements of layoffs of late, but these have been mostly concentrated amongst tech companies.

That, of course, remains to be seen, but after successive quarters of new record-low delinquency rates, it does seem likely that with a slowing economy and at least some softening in the labor market, mortgage loan delinquencies will start to drift higher over coming quarters. That mortgage loan performance has been so stellar over the past several years is in large measure a function of what since the end of the financial crisis have been more stringent underwriting standards. Over the past several years, mortgage loan originations have been increasingly concentrated amongst borrowers with higher credit scores. That concentration has become greater as time has gone on. Data from Equifax/the Federal Reserve Bank of New York show that in 2020 and 2021 roughly seventy percent of all mortgage originations were to borrowers with credit scores of 760 or higher, and while that share has come down a bit thus far in 2022, it nonetheless remains strikingly elevated. At the same time, though a prolonged period of notably robust house price appreciation hasn't exactly done wonders for affordability, it has left owners' equity positions stronger than has been the case at any point since the early 1980s. This is a potentially important point given that the next several quarters could be rocky for the labor market and the broader economy at a time when house prices will, in many markets, be falling. What will likely be moderate declines in house prices will not be sufficient to push large numbers of borrowers underwater, and strong equity positions suggest that those homeowners who do run into financial distress have the means, and the incentive, to work around that without defaulting on their mortgage loan obligations. In all of the many ways that the current cycle is not the same as the last cycle, this is perhaps the single most overlooked difference.



As seen in the first chart above, Mississippi and Louisiana had the nation's highest rates of mortgage distress in Q3, a not unfamiliar position for either state. Mississippi posted the nation's highest 30-day, 60-day, and 90-day delinquency rates, with Louisiana posting the second highest rate in each of those buckets, while New York posted the highest foreclosure rate (i.e., percentage of first-lien loans

at some stage of foreclosure) of any state in the U.S. As we’ve often noted in these quarterly write-ups of the data on mortgage distress, though they tend to post delinquency rates that are either the highest or nearly the highest in the U.S., neither Louisiana nor Mississippi tends to see high foreclosure rates, suggesting a significant share of loans routinely migrate between current and delinquent. This could simply reflect higher shares of seasonal labor in these states yielding significant swings in financial fortunes. As noted earlier, the Q4 data will likely show an increase, perhaps a meaningful one, in Florida’s 30-day delinquency rate, with South Carolina possibly showing a notable increase, reflecting the effects of Hurricane Ian. In neither case, however, would such an increase suggest a fundamental deterioration in mortgage loan performance that would progress into significant numbers of new foreclosures.



Nationally, there were 59,248 total foreclosure starts in Q3 2022, down from 71,264 in Q2, the second straight quarterly decline. Foreclosure starts did jump in Q1 after the expiration of various foreclosure moratoriums at year-end 2021, but even that jump left the number of foreclosure starts in Q1 2022 below a typical pre-pandemic quarter. There were 24,951 total foreclosure starts within the Regions footprint in Q3, down from 31,200 in Q2 and, as was the case nationally, marking a second straight quarterly decline. Both nationally and within the Regions footprint, the level of foreclosure starts in Q3 2022 was not all that different than the level that would have prevailed had the steady downward trend in place prior to the pandemic continued uninterrupted. So, in essence, the pandemic and the policy response to the pandemic were detours that, once they worked their way through the system, basically left foreclosures where they would have been all along. The steady downward trend in foreclosure starts is clearly a reflection of the more stringent underwriting standards in place since the end of the financial crisis coupled with what had been a record-long expansion in the U.S. economy that fostered steady job growth and increasingly rapid wage growth. Even should delinquencies turn higher over coming quarters, there is little to suggest a spike in foreclosures anywhere near on the order as that seen in the last cycle.

The housing market is clearly being rocked by higher mortgage interest rates, and house prices are backing off recent peaks. Our baseline forecast anticipates little to no growth in real GDP over the next several quarters with a rising unemployment rate accompanied by decelerating growth in labor earnings. That will almost surely lead to a rising incidence of mortgage distress in the quarters ahead. That said, we routinely point out that starting points matter, and in this case the starting point is a record-low mortgage loan delinquency rate, both nationally and for the Regions footprint as a whole. This is not to suggest there is no cause for concern, but rather that healthier household balance sheets, stronger equity positions, and a higher share of fixed-rate mortgage debt will all conspire to mitigate the extent of mortgage distress as overall economic and labor market conditions soften further in the quarters ahead.

Mortgage Distress, Regions Footprint

as of Q3 2022

<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	2.31	0.77	1.88	0.50	5.46	3.08	2.38
Arkansas	2.16	0.70	1.74	0.59	5.19	2.86	2.33
Florida	1.75	0.56	1.33	0.61	4.25	2.31	1.94
Georgia	2.00	0.67	1.58	0.38	4.63	2.67	1.96
Iowa	1.63	0.55	1.19	0.59	3.96	2.18	1.78
Illinois	1.84	0.64	1.69	0.90	5.07	2.48	2.59
Indiana	2.18	0.70	1.64	0.75	5.27	2.88	2.39
Kentucky	1.82	0.59	1.60	0.73	4.74	2.41	2.33
Louisiana	2.81	0.98	2.53	0.98	7.30	3.79	3.51
Missouri	1.89	0.61	1.32	0.37	4.19	2.50	1.69
Mississippi	3.03	1.08	2.71	0.76	7.58	4.11	3.47
North Carolina	1.66	0.53	1.28	0.44	3.91	2.19	1.72
South Carolina	1.96	0.67	1.62	0.61	4.86	2.63	2.23
Tennessee	1.72	0.56	1.25	0.32	3.85	2.28	1.57
Texas	2.13	0.70	1.53	0.42	4.78	2.83	1.95
U.S.	1.69	0.56	1.34	0.56	4.15	2.25	1.90

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

Source: Mortgage Bankers Association; Regions Economics Division