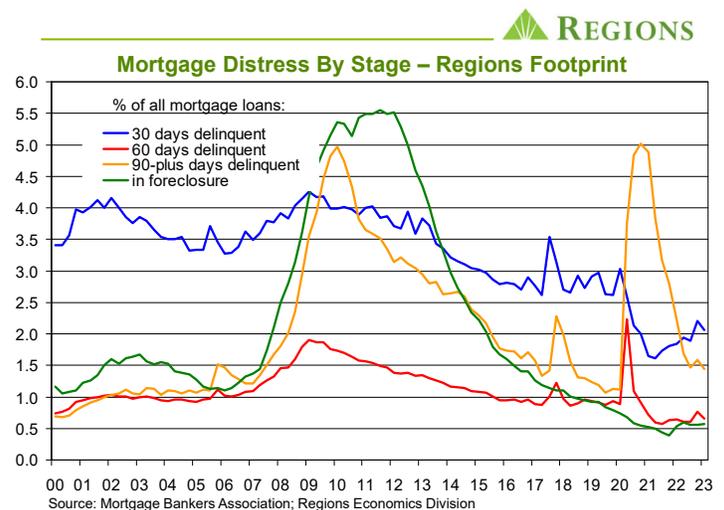
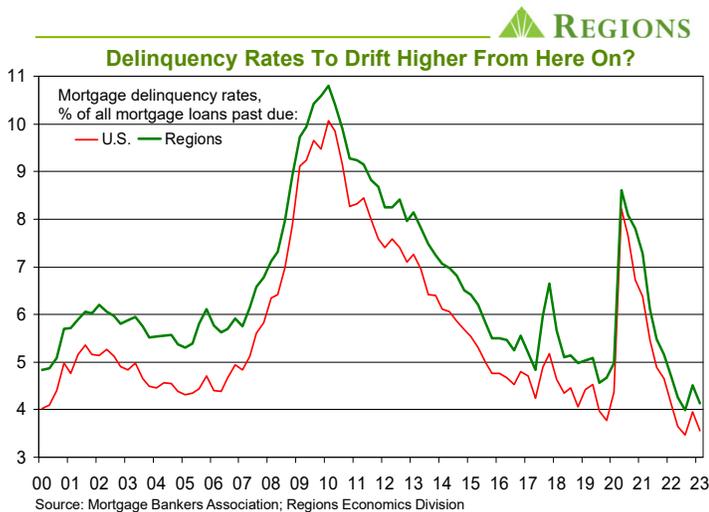


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Q1 2023 Mortgage Delinquencies & Foreclosures: Regions Footprint

- For the U.S. as a whole the mortgage delinquency rate fell to 3.56 percent in Q1 2023 from 3.96 percent in Q4 2022
- Within the Regions footprint, the mortgage delinquency rate fell to 4.12 percent in Q1 2023 from 4.51 percent in Q4 2022
- Early-stage delinquency rates are up from their all-time lows but remain far below historical norms

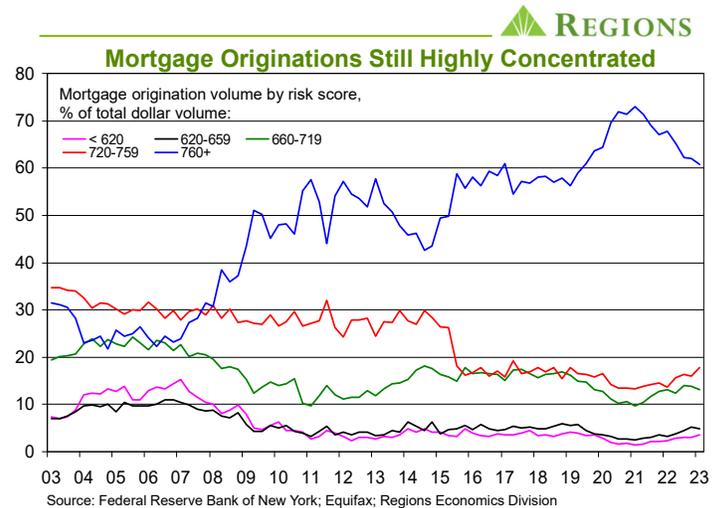
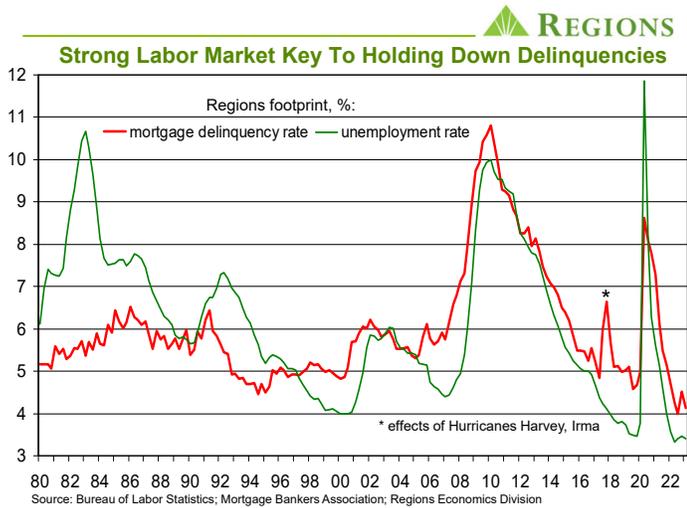
The Mortgage Bankers Association (MBA) has released their data on mortgage delinquencies and foreclosures for Q1 2023. For the U.S. as a whole the mortgage delinquency rate, which encompasses all stages of delinquency but not those loans in some stage of foreclosure, fell to 3.56 percent in Q1 2023 from 3.96 percent in Q4 2022. At 3.56 percent, the Q1 delinquency rate is second only to the rate of 3.46 percent posted in Q3 2022 as the lowest delinquency rate on record in the MBA's data series, which goes 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 from 4.51 percent in Q4 2022 to 4.12 percent in Q1 2023, the second lowest rate on record after the Q3 2022 rate of 3.99 percent. 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 long-term (i.e., delinquent for 90 days or more) delinquency rates, which remain far above pre-pandemic norms, in part reflecting the presence of those mortgage loans still in forbearance. Though flat in Q1 2023, the foreclosure rate (the percentage of first lien loans in some stage of foreclosure) is up a bit from the low hit in Q4 2021, reflecting the expiration of pandemic-related moratoria. As of Q1 2023, the MBA survey covers roughly 39.876 million first- lien mortgage loans for the U.S. as a whole and roughly 15.603 million first-lien mortgage loans within the Regions footprint.



After jumping in Q4 2022 and hence pushing the overall delinquency rate higher, 30-day and 60-day delinquency rates fell in Q1 2023, both nationally and across the Regions footprint, which served to push the overall delinquency rate lower. As seen in the second chart above, the decline in the 30-day delinquency rate for loans within the Regions footprint in Q1 leaves the rate in line with the upward trend that had been in place over the prior several quarters, but nonetheless leaves the 30-day delinquency rate well below pre-pandemic norms. As seen in the chart, 60-day delinquency rates and foreclosure rates across the footprint, though off recent lows, also remain far below pre-pandemic norms. In contrast, 90-day delinquency rates have fallen sharply from their peaks but remain easily above pre-pandemic norms. Keep in mind that, in keeping with MBA reporting conventions, loans in forbearance are reported as delinquent, and MBA reports that nationally there are 255,000 mortgage loans still in forbearance, which is helping prop up the 90-day delinquency rate. As a side note, MBA reports some deterioration in the performance of post-forbearance workouts, which will have impacted early-stage delinquency rates.

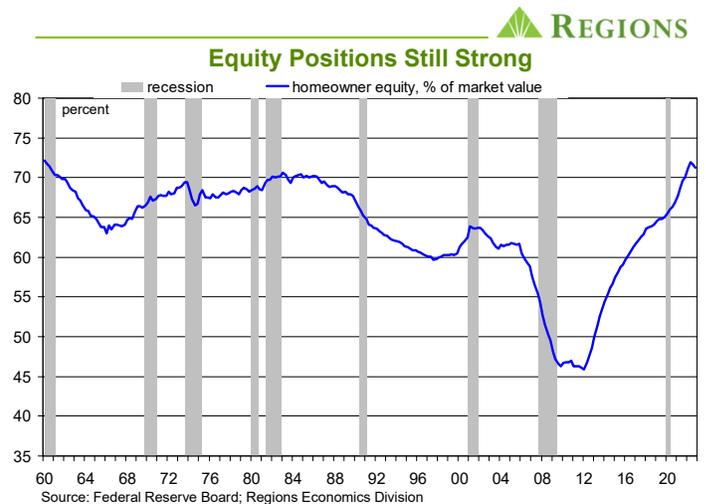
Perhaps the most relevant question arising from the second chart above is how much further 30-day delinquency rates will rise. It is of course too soon to know, but there are three possibilities: rates could be normalizing and will settle in line with pre-pandemic norms;

rates will rise further but stop short of pre-pandemic norms; or rates will push past pre-pandemic norms. This question is not specific to mortgage loans, and lenders with exposure to all forms of consumer credit are trying to make the same determination. More broadly, while there are pockets of stress in the subprime space, delinquency rates on household debt remain notably low. One key determinant of whether, or to what extent, delinquency rates will rise over coming quarters is the extent to which we see deterioration in labor market conditions, particularly as savings built up from what were generous financial transfers as part of pandemic relief programs continue to be run down. As the first chart below shows for the Regions footprint, there has over time been a fairly strong relationship between the unemployment rate and the mortgage delinquency rate. Even if the economy avoids falling into recession, it is generally expected the unemployment rate will rise over coming quarters as the pace of job growth continues to slow, and if this does prove to be the case, there will almost surely be upward pressure on delinquency rates on mortgage loans and other forms of consumer debt.



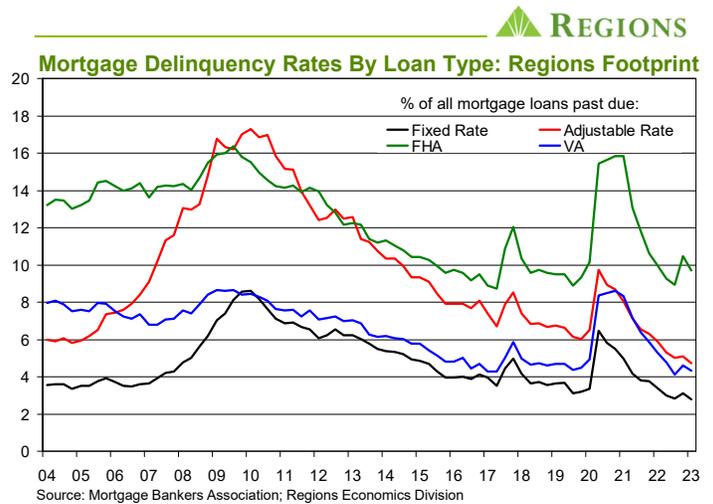
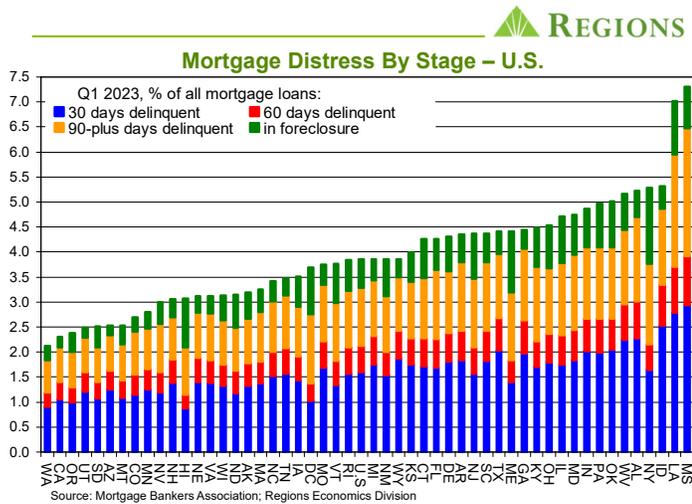
One potential mitigant against increases in mortgage delinquency rates, even should labor market conditions deteriorate more than we now anticipate will be the case, is that mortgage lending standards have been notably stringent over the past several years. As we’ve discussed in our write-ups of the quarterly reports on household debt and as we illustrate in the second chart above, mortgage loan originations have been highly concentrated amongst borrowers with credit scores of 760 or higher over the past several years. It could be that such borrowers would be more able to withstand disruptions in labor income and remain current on their mortgage loans, but at the very least it seems reasonable to expect that this concentration of mortgage lending would yield a smaller increase in delinquencies for a given increase in the unemployment rate than would a more evenly dispersed distribution of mortgage loans.

It is also worth noting that for those mortgage loans that do go into delinquency, stronger equity positions can be a powerful mitigant against those delinquencies progressing into foreclosure. As the chart to the side shows, despite a modest dip in Q4 2022 (the latest quarter for which the equity data are available), owner equity as a share of aggregate property value remains stronger than has been the case since the mid-1980s. Obviously aggregate values can mask cases in which there is little or no equity, but any such instances are more likely to be homes purchased relatively recently, i.e., before what had been a prolonged period of robust house price appreciation gave way to much slower growth or in some markets outright price declines. That said, having little or no equity cushion meant that for many borrowers whose loans had fallen into delinquency in the prior cycle, letting the loan go into foreclosure was the most viable option, in stark contrast to present conditions. The broader point being that, while no one is expecting mortgage delinquency rates to return to the rates associated with the 2007-09 recession, for a given increase in delinquency rates it is reasonable to assume a much less pronounced rate of progression into foreclosure at present than was seen in that cycle.

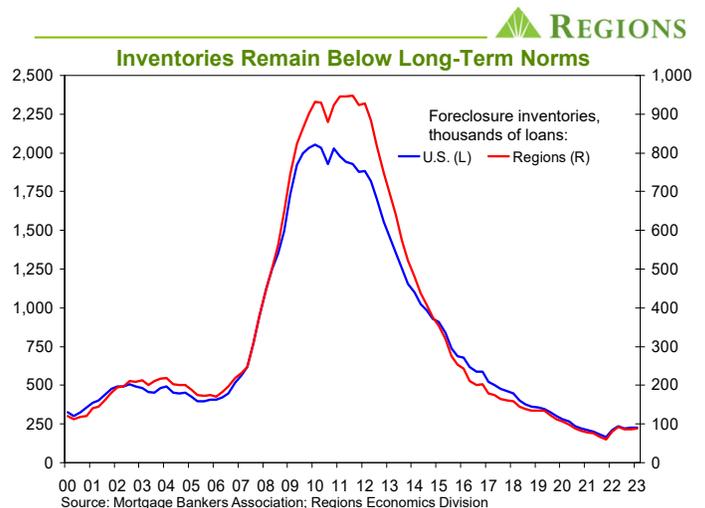
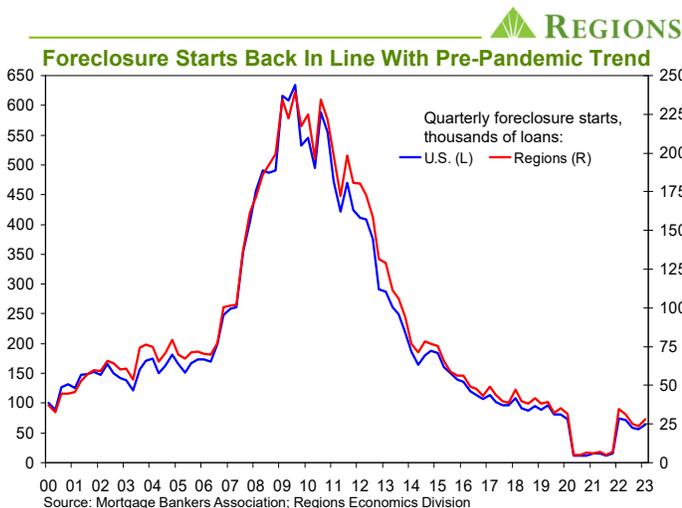


At 7.31 percent, Mississippi had the nation’s highest incidence of mortgage distress (delinquency rate plus foreclosure rate) in Q1 2023, followed by Louisiana at 7.02 percent, while Washington had the lowest incidence, at just 2.12 percent. At 3.42 percent, North Carolina had the lowest incidence of mortgage distress within the Regions footprint in Q1 2023, which is but the 19th lowest rate in the U.S. As

we’ve discussed in previous editions of these write-ups, Mississippi and Louisiana tend to have some of the highest, if not the highest, early-stage delinquency rates of any states, and it is not uncommon for borrowers to migrate into/out of early-stage delinquency, in part reflecting a relatively high incidence of seasonal work. This is a reminder that unemployment rates are not always reliable guides to potential delinquencies, as unemployment rates in Louisiana (3.6 percent in Q1) and Mississippi (3.7 percent in Q1) are not too far away from the national average (3.5 percent in Q1). But, meaningfully below-average labor force participation rates in these two states act as a powerful weight on their unemployment rates, thus diminishing the signaling value of those unemployment rates.



As seen in the second chart above, within the Regions footprint delinquency rates on all loan types fell in Q1 2023. Not only do FHA loans carry the highest delinquency rates across loan types, but they are the only loan type for which the Q1 2023 delinquency rate was higher than the rate in Q4 2019, the last quarter before the onset of the pandemic. FHA loans are typically made to borrowers with lower credit scores and who tend to make lower down payments relative to the other loan types. As a reminder, in the MBA’s former reporting structure, loans now classified as “fixed rate” would have mostly been classified as “prime” mortgage loans, while those now in the “adjustable rate” category would have been in the “subprime” category. As of Q1 2023, fixed rate loans accounted for 70.2 percent of all outstanding first lien mortgage loans, FHA loans for 17.4 percent, VA loans for 8.8 percent, and adjustable rate loans for 3.6 percent. Note that fixed rate shares are meaningfully higher and adjustable rate shares are meaningfully lower than was the case prior to the pandemic, reflecting borrowers locking in what had been extraordinarily low mortgage rates.



As illustrated in the first chart above, the various foreclosure moratoria put in place after the onset of the pandemic led to foreclosure starts virtually grinding to a halt, with some catching up as these measures ended. This leaves foreclosure starts, both nationally and within the Regions footprint, pretty much back in line with the trend that had prevailed prior to the pandemic. The modest bump in foreclosure inventories reflects that catching up. As of Q1 2023, foreclosure starts and inventories were in line with levels last seen in the mid-1990s. If we’re correct in thinking that more stringent underwriting should check any increase in delinquencies in the quarters ahead and that stronger equity positions will check any subsequent increase in foreclosures, those bracing for a return to late-2000s levels of foreclosures and REO inventories should be able to breathe at least a bit easier.

Mortgage Distress, Regions Footprint

as of Q1 2023

<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	2.27	0.74	1.69	0.53	5.23	3.01	2.22
Arkansas	1.83	0.59	1.38	0.55	4.35	2.42	1.93
Florida	1.69	0.57	1.38	0.62	4.26	2.26	2.00
Georgia	1.98	0.66	1.42	0.39	4.45	2.64	1.81
Iowa	1.43	0.48	1.00	0.60	3.51	1.91	1.60
Illinois	1.74	0.60	1.44	0.94	4.72	2.34	2.38
Indiana	2.02	0.64	1.44	0.76	4.86	2.66	2.20
Kentucky	1.70	0.52	1.49	0.78	4.49	2.22	2.27
Louisiana	2.78	0.93	2.24	1.07	7.02	3.71	3.31
Missouri	1.69	0.53	1.12	0.41	3.75	2.22	1.53
Mississippi	2.93	0.98	2.56	0.84	7.31	3.91	3.40
North Carolina	1.52	0.48	1.01	0.41	3.42	2.00	1.42
South Carolina	1.82	0.61	1.37	0.57	4.37	2.43	1.94
Tennessee	1.57	0.51	1.06	0.32	3.46	2.08	1.38
Texas	2.03	0.65	1.28	0.45	4.41	2.68	1.73
U.S.	1.60	0.52	1.16	0.57	3.85	2.12	1.73

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

Source: Mortgage Bankers Association; Regions Economics Division