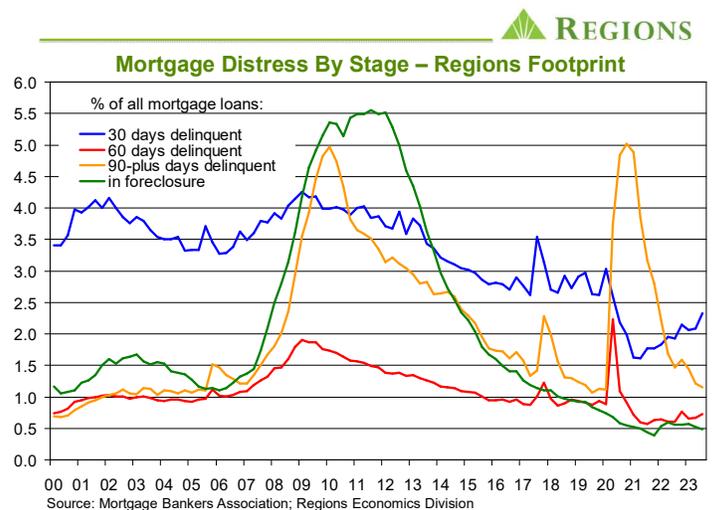
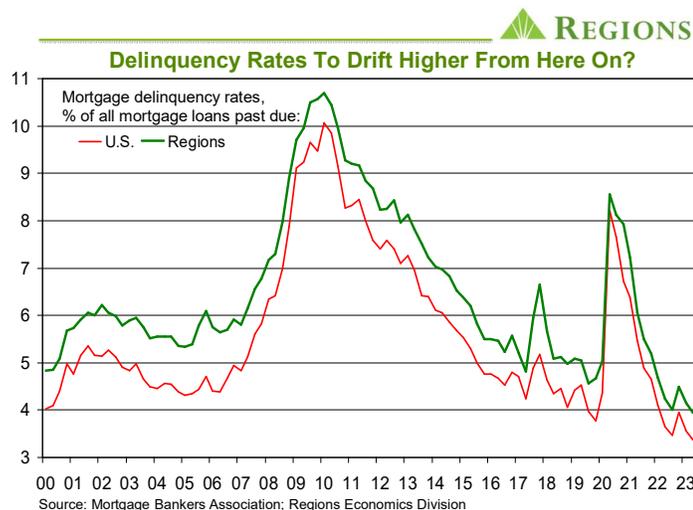


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Q3 2023 Mortgage Delinquencies & Foreclosures: Regions Footprint

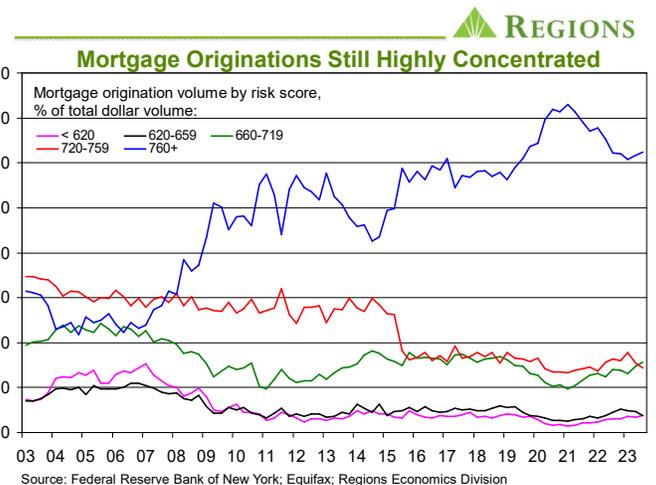
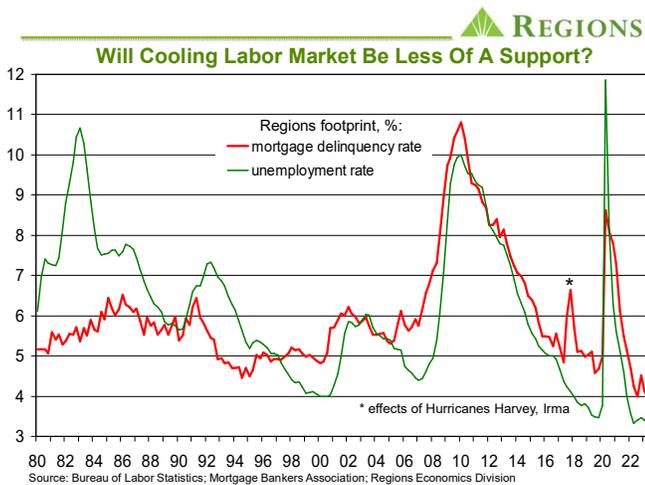
- For the U.S. as a whole the mortgage delinquency rate rose to 3.63 percent in Q3 2023 from 3.37 percent in Q2
- Within the Regions footprint, the mortgage delinquency rate rose to 4.21 percent in Q3 2023 from 3.95 percent in Q2
- Early-stage delinquency rates are up from their all-time lows but remain far below historical norms

The Mortgage Bankers Association (MBA) has released their data on mortgage delinquencies and foreclosures for Q3 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, rose to 3.63 percent in Q3 2023 from 3.37 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 rose from 3.95 percent in Q2 to 4.21 percent in Q3. Both nationally and within the Regions footprint, Q2 mortgage delinquency rates were the lowest on record in the MBA data, which go back to 1979, and while Q3 rates are off those all-time lows, they nonetheless remain well below historical norms and are still well below the rates seen in Q4 2019, the last period in which the data are free from the effects of the pandemic. The increase in the overall delinquency rate in Q3 was primarily driven by rising 30-day delinquencies, with a modest uptick in 60-day delinquencies. While 90-day delinquencies fell further, further increases in early-stage delinquencies over coming quarters would ultimately lead to rising late-stage delinquencies. For now, however, that late-stage delinquencies have been low and falling has helped push foreclosure starts down after the increase seen over 1H 2022, which reflected the expiration of pandemic-related moratoria. As of Q3 2023, the MBA survey covers roughly 40.040 million first- lien mortgage loans for the U.S. as a whole and roughly 15.628 million first-lien mortgage loans within the Regions footprint.



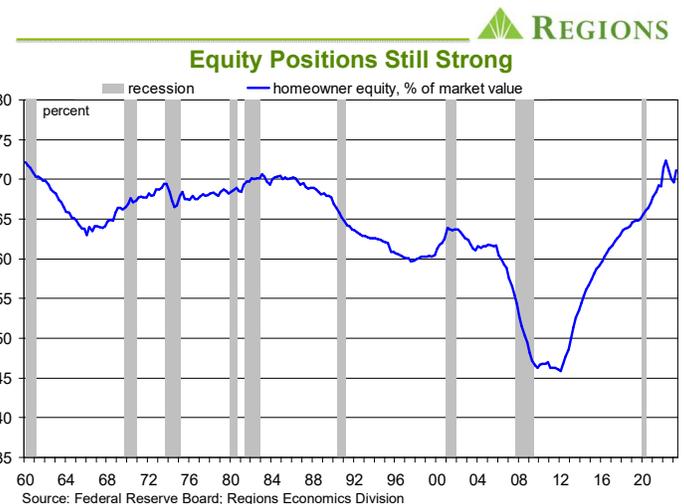
As noted above, rising 30-day delinquencies were the primary driver of the increase in the overall delinquency rate. As can be seen in the second chart above, after falling to the lowest rate on record in Q2 2021, the 30-day delinquency rate has since trended higher but also remains well below the longer-term historical average and also below the 2.62 percent rate posted in Q4 2019. This mirrors trends seen in other measures of consumer credit delinquencies, i.e., off what in many cases were all-time lows in the wake of the pandemic but still below longer-term norms. This leaves us asking the same question of mortgage delinquencies we're asking in these other cases, i.e., whether we are simply seeing a normalization to pre-pandemic norms or whether delinquency rates will push higher than those pre-pandemic norms. Though on the whole the former seems more likely than the latter, there are pockets of growing financial stress amongst U.S. consumers, such as lower-income and younger households. The impact of this stress, however, is more likely to be felt in areas such as auto and credit card loans, with less of an impact in the mortgage space. That said, with signs of cooling labor market conditions and what remains an uncertain outlook for the broader economy, we think it would be unwise to dismiss the possibility that coming quarters may see delinquency rates push above the rates seen in the quarters leading up to the pandemic. It is also worth reiterating that it takes some time for patterns seen in 30-day delinquency rates to filter through to 60-day and 90-day delinquency rates, and for patterns seen in 90-day delinquency rates to filter through to foreclosure starts.

Still, even should delinquency rates surpass pre-pandemic markers, we do not think it reasonable to expect a repeat of the surge in delinquencies and subsequent foreclosure crisis associated with the 2007-09 recession. One key determinant of the extent to which mortgage delinquency rates will rise over coming quarters is the extent to which labor market conditions deteriorate, as we anticipate they will in the context of a sharp deceleration in the pace of overall economic growth. Historically, there has been a strong relationship between the unemployment rate and the mortgage delinquency rate. The mortgage delinquency rate for the footprint as a whole touching an all-time low in Q2 2023 coincided with the unemployment rate for the footprint as a whole touching its low point in the period spanning the life of the MBA data. While the decline in the unemployment rate has to some extent been exaggerated by labor force participation rates remaining below pre-pandemic norms across much of the footprint, and for the U.S. as a whole, even adjusting for labor force participation would not alter the patterns seen in the first chart below. Going forward, however, we look for the trend rate of job growth to slow further over coming quarters, thus putting upward pressure on the unemployment rate and contributing to further slowing in the growth of aggregate labor earnings, the largest component of personal income. That, in turn, would put more pressure on consumer credit performance, including mortgage loans, though it is worth noting that while we expect the unemployment to rise over coming quarters, we also expect the cyclical peak to fall well short of the peaks seen in prior cycles.

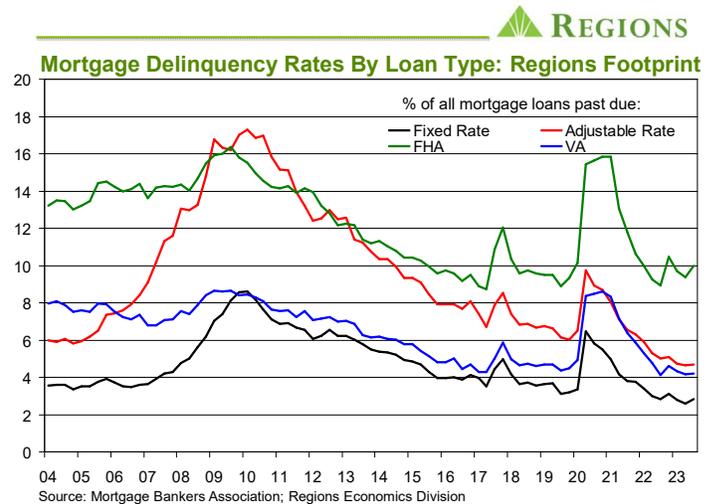
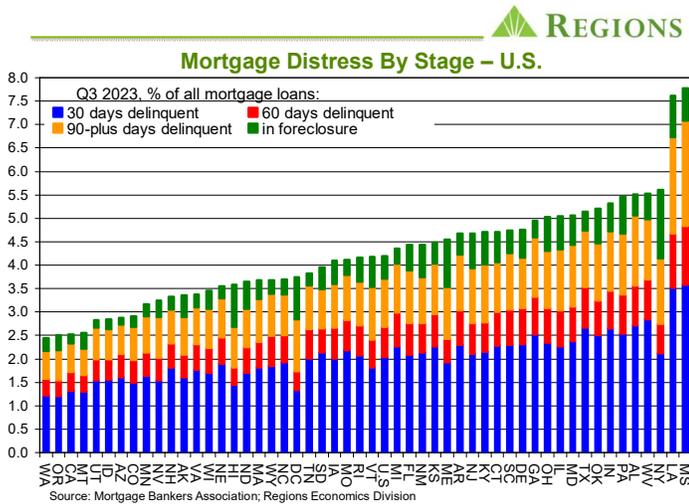


We can also point to other factors which should help mitigate further increases in mortgage delinquencies. As we have for some time noted in our analysis of the quarterly data on household debt and credit, mortgage loan originations have been highly concentrated amongst borrowers with credit scores of 760 or higher over the past several years, in large part reflecting the extent to which mortgage lending standards were tightened after the housing market debacle of the mid-2000s with little easing in subsequent years. It stands to reason that borrowers with the highest credit scores would be better able to withstand disruptions in the labor market and remain current on mortgage loans, and at the least it seems reasonable to expect the concentration of mortgage originations in the highest credit score bucket would yield a smaller increase in delinquencies for a given increase in the unemployment rate than would have been seen had mortgage lending been more evenly dispersed across credit score buckets. Additionally, though market interest rates, including mortgage interest rates, have risen substantially over the past several quarters, the preponderance of fixed rate mortgage debt presently on household balance sheets has acted as a significant shock absorber, fending off the kind of payment reset shocks that in past cycles would have contributed to rising financial stress, including rising mortgage delinquencies, in the household sector. This has thus far helped mitigate any upward pressure on mortgage delinquency rates and will continue to do so if we truly are in for a period of “higher for longer” interest rates.

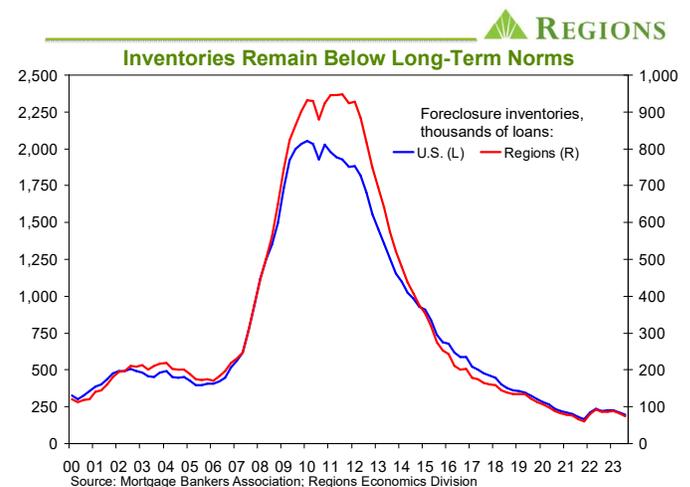
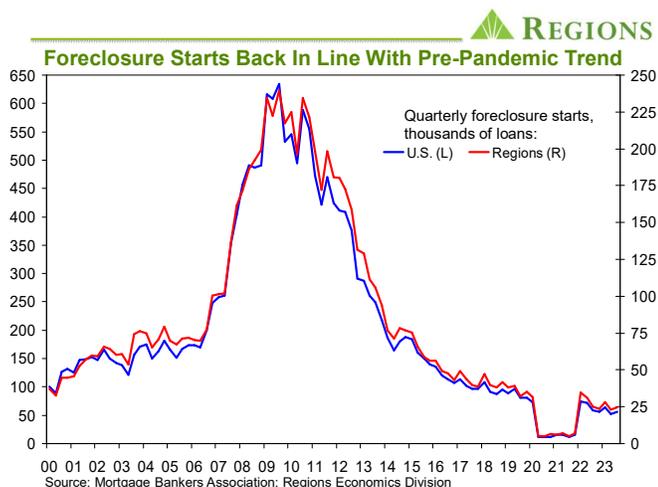
Finally, that owner equity positions are so strong may not have had much of an impact on early-stage mortgage delinquency rates but may have diminished the number of delinquencies progressing into foreclosure. Rates and levels of foreclosure starts remain far below historical norms, and while to some extent that reflects notably low delinquency rates, it also to some extent reflects the fact that stronger equity positions offer homeowners a way of avoiding foreclosure should they fall behind on their mortgage payment obligations. While off the peak hit in Q2 2022, owners’ equity as a percentage of aggregate housing value is higher than at any point



since Q1 1960. House prices have thus far been more resilient than many had expected would be the case, but even should house prices soften going forward, most current owners will still have realized meaningful increases in equity which in many cases could be the difference between avoiding and falling into foreclosure. One way to think about it is that, for any given increase in early-stage mortgage delinquency rates, strong equity positions should mean that we see fewer foreclosures than we would otherwise have seen.



As of Q3 2023 Mississippi (7.78 percent) had the nation’s highest incidence of mortgage distress, followed closely by Louisiana (7.62 percent), in large measure reflecting the extent to which the 30-day delinquency rate in each state exceeds the national average. This is an illustration of a point made above, which is that an unemployment rate that is low for the wrong reason, i.e., depressed labor force participation, isn’t necessarily a support for consumer credit performance. Both Louisiana and Mississippi have unemployment rates well below the national average, but each also has a labor force participation rate far below the U.S. average, with Mississippi’s labor force having contracted thus far in 2023. These participation patterns could reflect an absence of job opportunities that is leading to financial stress while not manifesting in higher unemployment rates. At 3.70 percent, North Carolina has the lowest incidence of mortgage distress within the Regions footprint. New York has the nation’s highest share, at 1.46 percent, of mortgage loans at some stage of foreclosure. As is typically the case, FHA loans have higher delinquency rates than any of the other loan types reported by the MBA, and the Q3 increase in the delinquency rate on FHA loans (sixty basis points) was more than double that seen on fixed-rate loans, while at 716 basis points, the spread between delinquency rates on FHA and fixed-rate loans (which under prior MBA reporting conventions mainly reflected prime mortgage loans) was higher in Q3 2023 than at any time since Q1 2012. Note that over the past two-plus years fixed-rate loans have accounted for around seventy percent of all mortgage loans within the Regions footprint, a meaningfully higher share than seen prior to the pandemic, which is a reflection of borrowers acting to lock in unprecedentedly low mortgage interest rates.



As noted earlier, foreclosure start rates remain far below historical norms, and the level of starts has fallen back in with the downward trend long in place prior to the onset of the pandemic. This in turn has contributed to notably low levels of foreclosure inventories. If we’re correct in thinking that the several buffers in place, including stringent lending standards, will check any increase in mortgage delinquencies over coming quarters, that will also hold true for foreclosure starts and inventories. This helps illustrate a point we’ve repeated many times over recent quarters, which is that this cycle is not the last cycle.

Mortgage Distress, Regions Footprint

as of Q3 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	2.71	0.86	1.49	0.45	5.51	3.57	1.94
Arkansas	2.30	0.73	1.19	0.45	4.67	3.03	1.64
Florida	2.09	0.67	1.12	0.55	4.43	2.76	1.67
Georgia	2.52	0.81	1.27	0.34	4.94	3.33	1.61
Iowa	2.01	0.66	0.93	0.50	4.10	2.67	1.43
Illinois	2.27	0.77	1.29	0.71	5.04	3.04	2.00
Indiana	2.65	0.81	1.27	0.58	5.31	3.46	1.85
Kentucky	2.15	0.63	1.23	0.69	4.70	2.78	1.92
Louisiana	3.52	1.16	2.05	0.89	7.62	4.68	2.94
Missouri	2.19	0.64	0.96	0.32	4.11	2.83	1.28
Mississippi	3.59	1.24	2.25	0.70	7.78	4.83	2.95
North Carolina	1.93	0.58	0.87	0.32	3.70	2.51	1.19
South Carolina	2.30	0.76	1.20	0.48	4.74	3.06	1.68
Tennessee	2.01	0.62	0.94	0.26	3.83	2.63	1.20
Texas	2.67	0.86	1.21	0.40	5.14	3.53	1.61
U.S.	2.04	0.64	1.03	0.49	4.20	2.68	1.52

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

Source: Mortgage Bankers Association; Regions Economics Division