

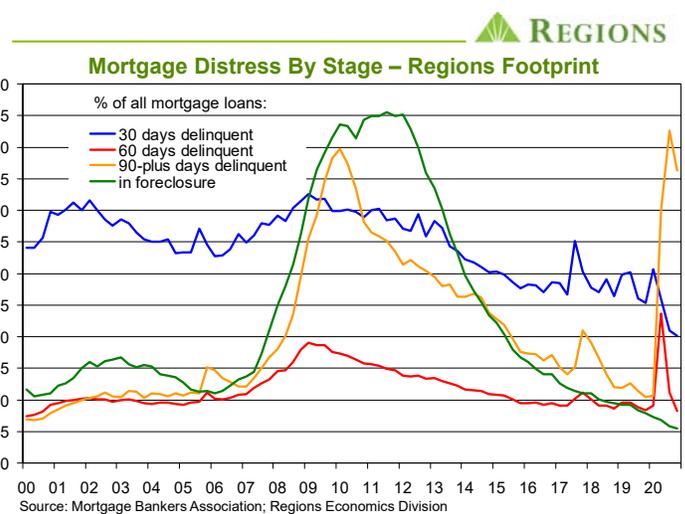
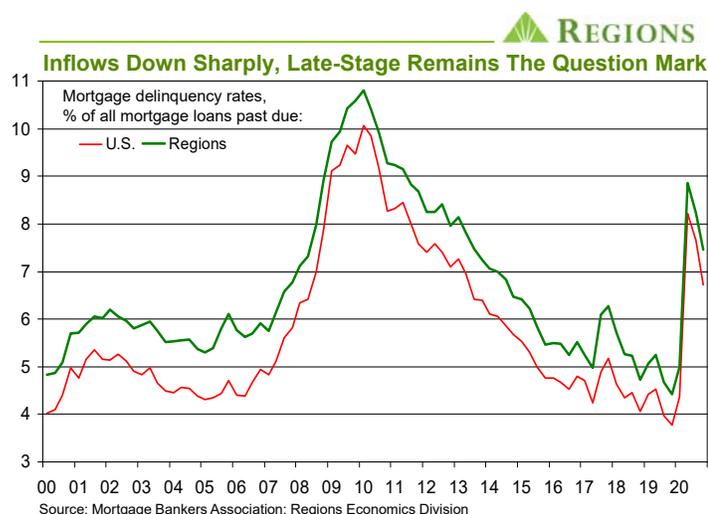
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## Q4 2020 Mortgage Delinquencies & Foreclosures: Regions Footprint

- For the U.S. as a whole the mortgage delinquency rate fell to 6.73 percent in Q4 2020 from 7.66 percent in Q3
- Within the Regions footprint, the mortgage delinquency rate fell to 7.46 percent in Q4 2020 from 8.23 percent in Q3
- 30-day delinquency rates have fallen to the lowest in the life of the MBA data, nationally and in each in-footprint state

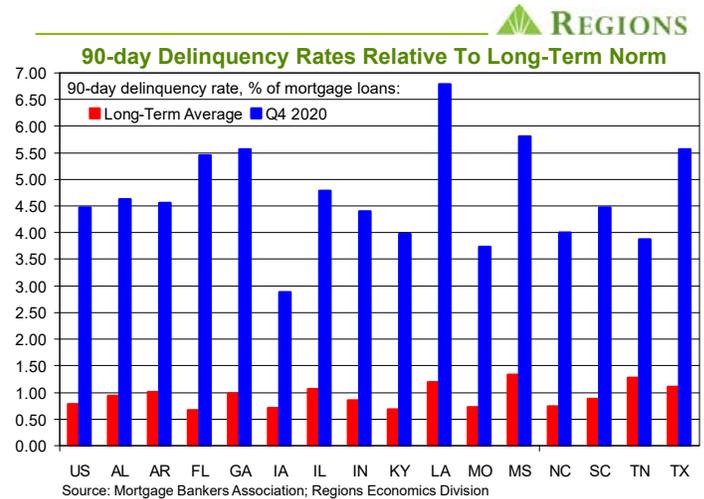
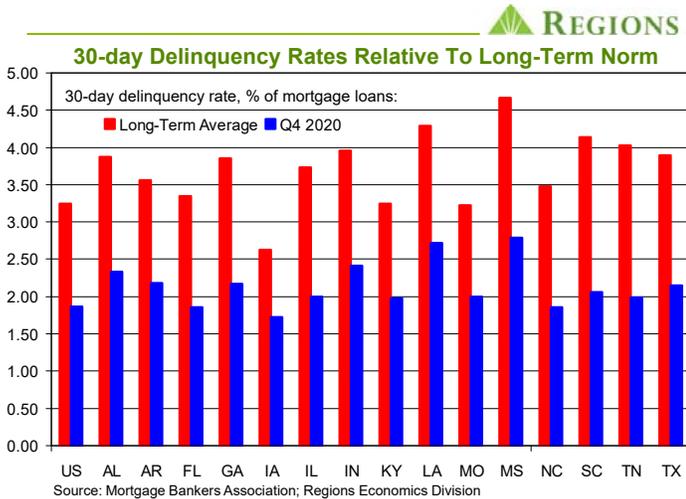
The Mortgage Bankers Association (MBA) has released their data on mortgage delinquencies and foreclosures for Q4 2020. For the U.S. as a whole the mortgage delinquency rate, which encompasses all stages of delinquency but not those loans in some stage of foreclosure, fell to 6.73 percent in Q4 from 7.66 percent in Q3. 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 7.46 percent in Q4 from 8.23 percent in Q3. 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. Continued improvement in labor market conditions and the broader economy, albeit at an uneven pace, helped push the delinquency rate lower in Q4. While 30-day delinquency rates have fallen to the lowest on record in the MBA data, late-stage delinquency rates remain significantly elevated. With looming expirations of mortgage loan forbearance periods, elevated late-stage delinquency rates remain a concern.

MBA estimates that at the end of 2020, there were roughly 2.7 million homeowners in forbearance plans, down from roughly 3.4 million at the close of Q3. 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, with the labor market far from being fully healed, it is reasonable to assume some portion of those loans now in forbearance will progress to foreclosure as forbearance periods and foreclosure moratoria expire in 2021. As of Q4 2020, the MBA survey covers roughly 39.613 million first lien mortgage loans for the U.S. as a whole and roughly 15.089 million first lien mortgage loans within the Regions footprint.

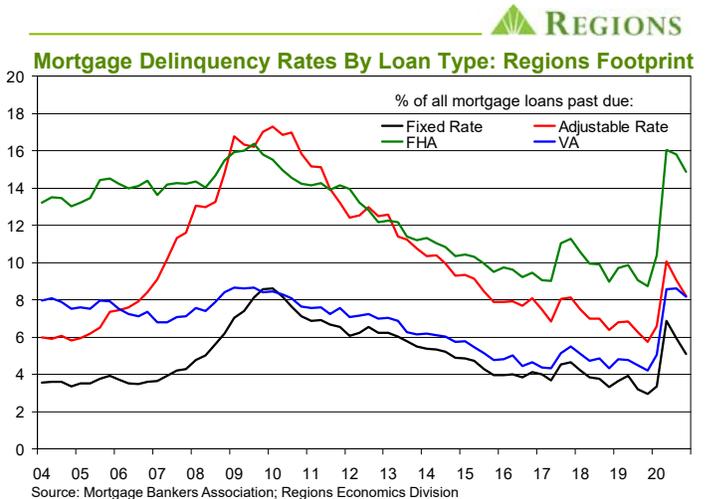
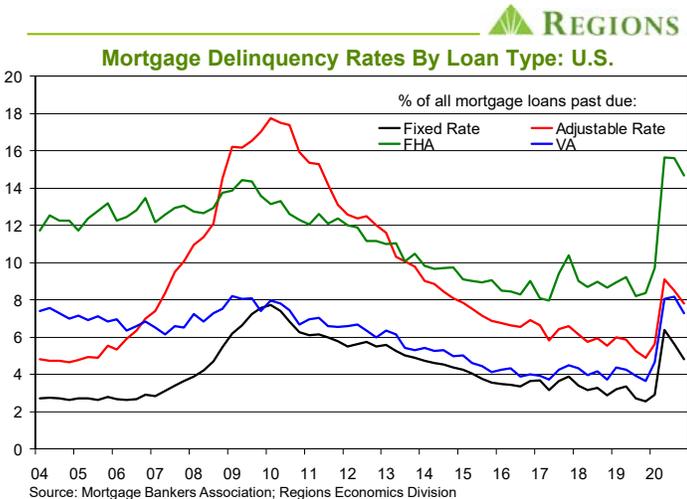


The second chart above shows delinquencies within the Regions footprint by stage. Keep in mind that the MBA reports the payment status of mortgage loans as of end of quarter, which helps account for why 60-day and 90-day delinquency rates spiked in Q2 without there first having been a meaningful increase in 30-day delinquency rates. By Q4 2020, both the 60-day and 90-day delinquency rates had begun to decline, which to a large extent reflects borrowers having exited forbearance and thus taking delinquencies off the books. At the same time, the foreclosure rate, or, the share of loans at some stage of foreclosure, continued to decline. Nationally, as of Q4 the foreclosure rate stood at 0.56 percent, which is the lowest since Q2 1982, while within the Regions footprint the foreclosure rate

stood at 0.55 percent as of Q4. Keep in mind, however, that foreclosure moratoria have been in effect over the course of the pandemic, and as noted above it remains to be seen whether, or to what extent, there will be a jump in foreclosures once the moratoria have expired. Even if there is such an increase, however, it is unlikely that the magnitude will approach that seen in the last cycle.

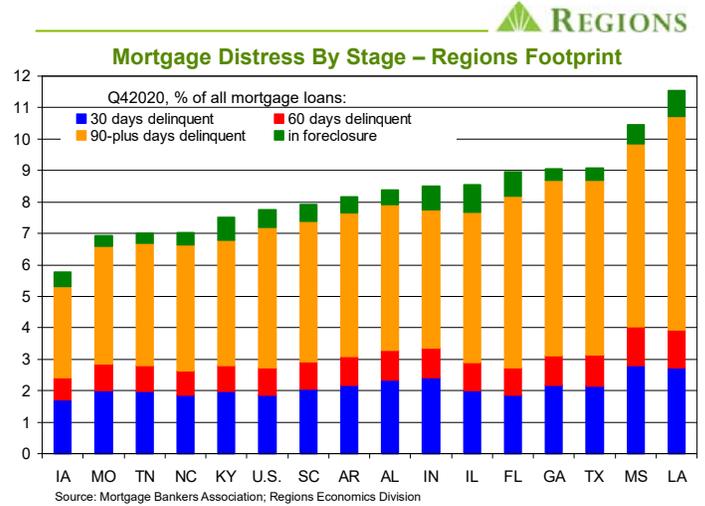
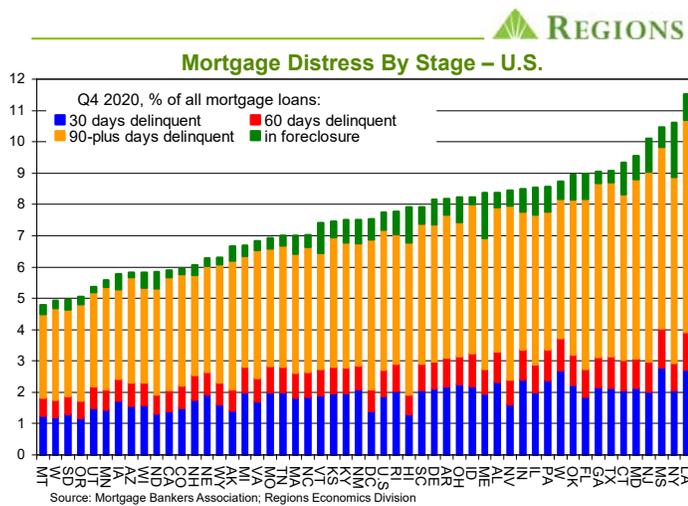


The two charts above provide the bookends to the Q4 2020 delinquency data. Nationally and in each state within the Regions footprint, the 30-day delinquency rate in Q4 2020 is the lowest on record in the MBA data. To some extent, this reflects the disparate impacts of the pandemic and the efforts to stem its spread. Job losses have been heavily concentrated in lower-skill, lower-earnings industry groups, such as leisure and hospitality services, and those working in these industry groups are far more likely to be renters than to be homeowners. In addition to being more likely to have kept their jobs and incomes, homeowners have also been afforded the opportunity to refinance mortgages at notably low interest rates, thus lowering monthly payments and freeing up cash. Additionally, while mortgage lending standards had been more stringent in the years following the 2007-09 recession, they tightened even further in the second and third quarters of 2020, which is likely contributing to improved mortgage loan performance. As noted above, elevated 90-day delinquency rates to some extent reflect borrowers in forbearance programs. The weekly data from the MBA and Black Knight suggest that, after a period of steady declines, the number of borrowers in forbearance has been fairly stable thus far in 2021, so in that sense the 2.7 million figure could act as a “worst case” outcome as to potential inflows into foreclosure as forbearance periods end. That outcome, however, seems most unlikely, and even if that were to prove to be the case, the subsequent spike in foreclosures would likely fall far short of that seen in the past cycle.

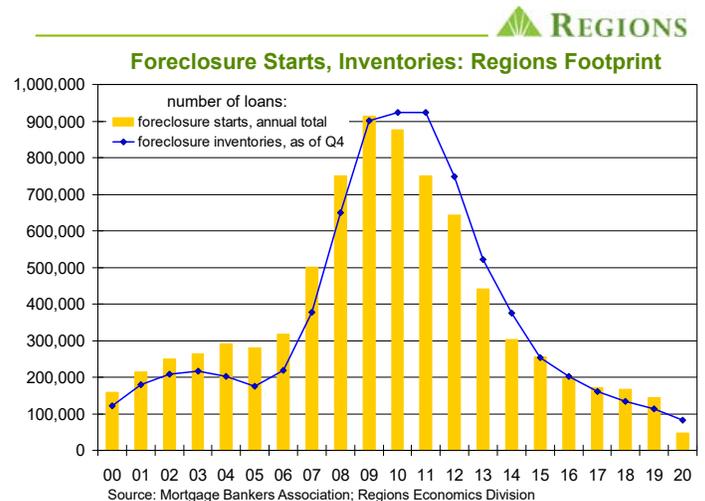
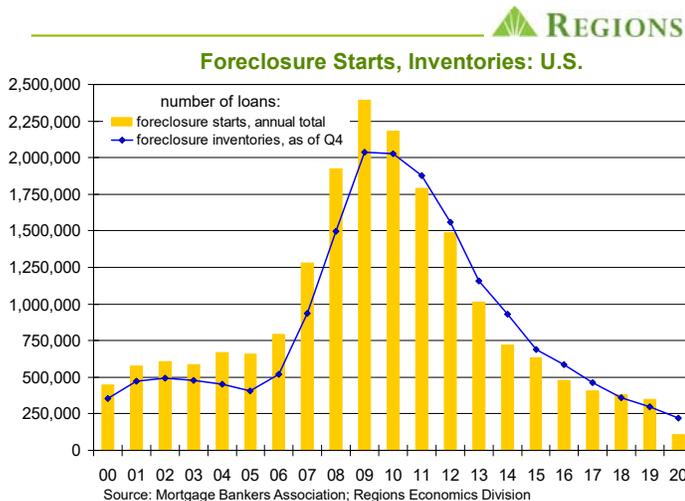


As seen in the above charts, loan performance varies across loan types, but performance on FHA loans significantly lags that of other loan types. As a side note, in the MBA’s former reporting structure, loans now in the “fixed rate” category would have mostly been characterized as “prime” mortgage loans, while those now in the “adjustable rate” category would have been characterized as “subprime” mortgage loans. The breakdown across loan types can help further isolate potential risks in loan performance. FHA loans are typically made to borrowers with lower credit scores and who make lower down payments relative to the other loan types, and the spread between delinquency rates on FHA loans and other loan types has widened meaningfully over the past three quarters.

At 11.53 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) in Q4 2020, with Mississippi, Florida, Georgia, and Texas amongst the ten highest rates. At 5.77 percent, Iowa posted the lowest rate of total mortgage distress within the Regions footprint in Q4 2020 and the seventh lowest nationally. Louisiana has the nation’s highest 90-day delinquency rate (6.78 percent), while Mississippi has the nation’s highest 30-day rate (2.79 percent) and highest 60-day rate (1.24 percent). At 1.72 percent, New York has the nation’s highest foreclosure rate, while within the footprint that distinction goes to Illinois, at 0.87 percent.



For full-year 2020, there were a total of 108,408 foreclosure starts, of which 72,918 came in the first quarter of the year prior to the imposition of foreclosure moratoria; within the Regions footprint, there were 48,406 foreclosure starts in 2020, of which 31,756 came in Q1. At year-end 2020, nationally there were 221,831 loans at some stage of foreclosure, or, 0.56 percent of all first lien mortgage loans which, as noted above, is the lowest foreclosure rate since Q2 1982. Within the Regions footprint, there were 82,910 loans at some stage of foreclosure in Q4 2020, or, 0.55 percent of all first lien mortgage loans, marking the 24<sup>th</sup> consecutive quarter in which the in-footprint foreclosure rate was equal to or below the national average.



Obviously, foreclosure starts over the last three quarters of 2020 did not reflect normal economic and housing market dynamics. But, that should not take away from the reality of what had been a steady decline in foreclosure starts over the prior several years which left starts at a more than two-decade low in 2019. As noted above, while it is likely that foreclosure starts will turn higher at some point in 2021, the question is how much higher. There are factors – more stringent lending standards over the prior several years, all-time low 30-day delinquency rates, the strongest (aggregate) owners’ equity position since Q2 1990 – which should help mitigate the extent of any increase in foreclosures once forbearance periods and foreclosure moratoria have expired. Moreover, given historically low inventories of existing homes for sale, it is hard to make a plausible case that any increase in foreclosures that 2021 may bring would be as disruptive to the housing market, particularly in terms of house price appreciation and new residential construction, as was the case in the last cycle.

## Mortgage Distress, Regions Footprint

as of Q4 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	2.33	0.96	4.63	0.46	8.38	3.29	5.09
Arkansas	2.18	0.92	4.56	0.51	8.17	3.10	5.07
Florida	1.86	0.87	5.45	0.78	8.96	2.73	6.23
Georgia	2.17	0.95	5.57	0.36	9.05	3.12	5.93
Iowa	1.72	0.70	2.88	0.47	5.77	2.42	3.35
Illinois	2.00	0.89	4.78	0.87	8.54	2.89	5.65
Indiana	2.41	0.95	4.40	0.73	8.49	3.36	5.13
Kentucky	1.98	0.82	3.98	0.72	7.50	2.80	4.70
Louisiana	2.72	1.21	6.78	0.82	11.53	3.93	7.60
Missouri	2.00	0.84	3.74	0.35	6.93	2.84	4.09
Mississippi	2.79	1.24	5.81	0.62	10.46	4.03	6.43
North Carolina	1.86	0.78	4.00	0.38	7.02	2.64	4.38
South Carolina	2.06	0.86	4.47	0.53	7.92	2.92	5.00
Tennessee	1.99	0.82	3.87	0.31	6.99	2.81	4.18
Texas	2.15	0.99	5.56	0.37	9.07	3.14	5.93
U.S.	1.87	0.85	4.47	0.56	7.75	2.72	5.03

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

Source: Mortgage Bankers Association; Regions Economics Division