

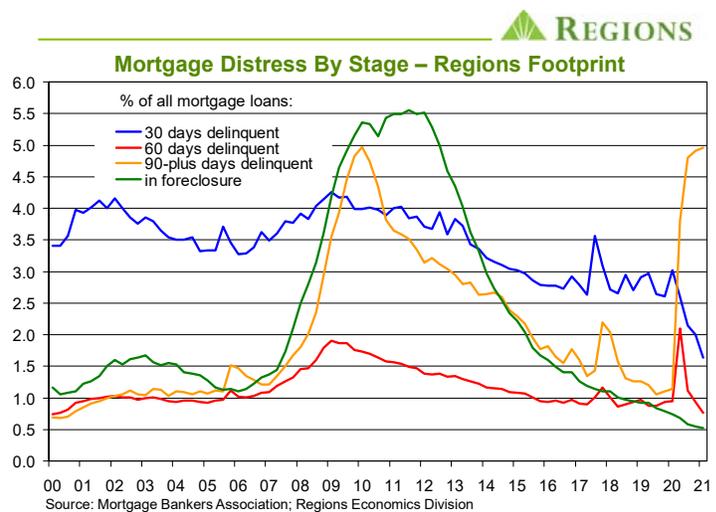
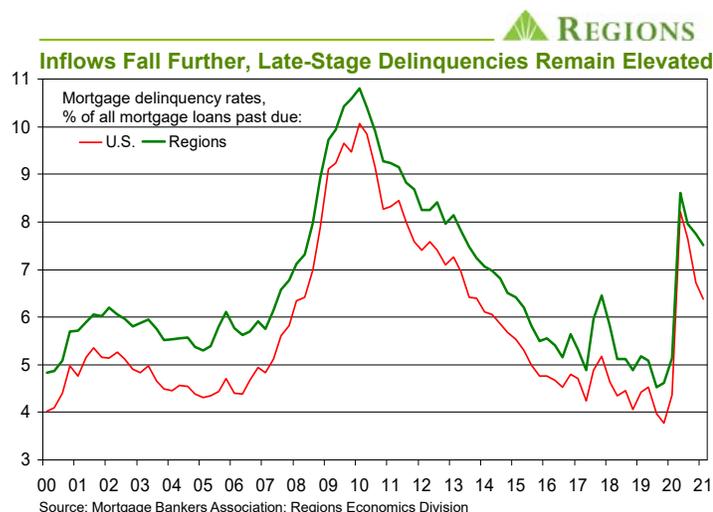
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Q1 2021 Mortgage Delinquencies & Foreclosures: Regions Footprint

- For the U.S. as a whole the mortgage delinquency rate fell to 6.38 percent in Q1 2021 from 6.73 percent in Q4 2020
- Within the Regions footprint, the mortgage delinquency rate fell to 7.51 percent in Q1 2021 from 7.75 percent in Q4 2020
- 30-day delinquency rates fell to new lows, nationally and in each in-footprint state

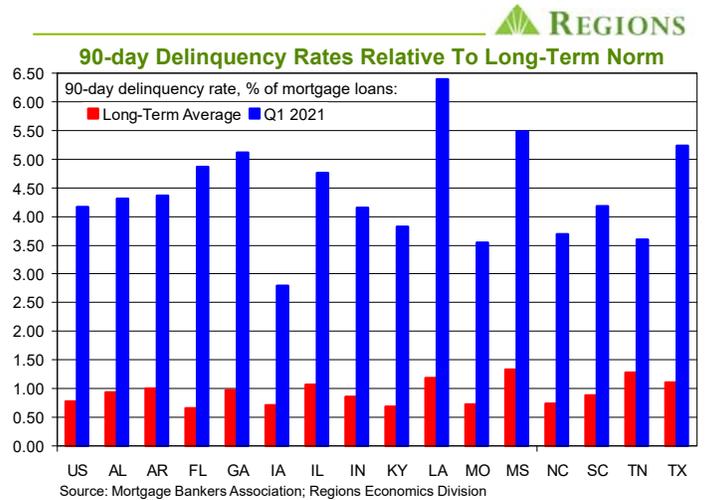
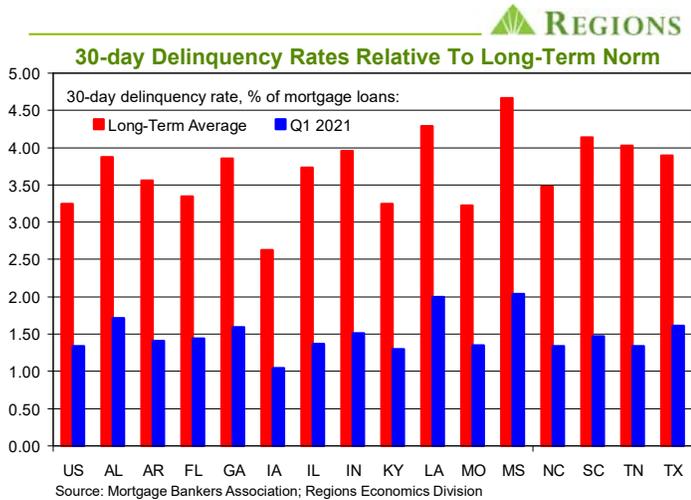
The Mortgage Bankers Association (MBA) has released their data on mortgage delinquencies and foreclosures for Q1 2021. For the U.S. as a whole the mortgage delinquency rate, which encompasses all stages of delinquency but not those loans in some stage of foreclosure, fell to 6.38 percent in Q1 2021 from 6.73 percent in Q4 2020. 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 7.51 percent in Q1 from 7.75 percent in Q4 2020. 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 rising further in Q1, 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 at all-time lows. As of Q1 2021, the MBA survey covers roughly 39.436 million first lien mortgage loans for the U.S. as a whole and roughly 15.054 million first lien mortgage loans within the Regions footprint.

MBA estimates that at the end of April, there were roughly 2.23 million homeowners in forbearance plans, down from roughly 2.7 at year-end 2020. 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 the months ahead.

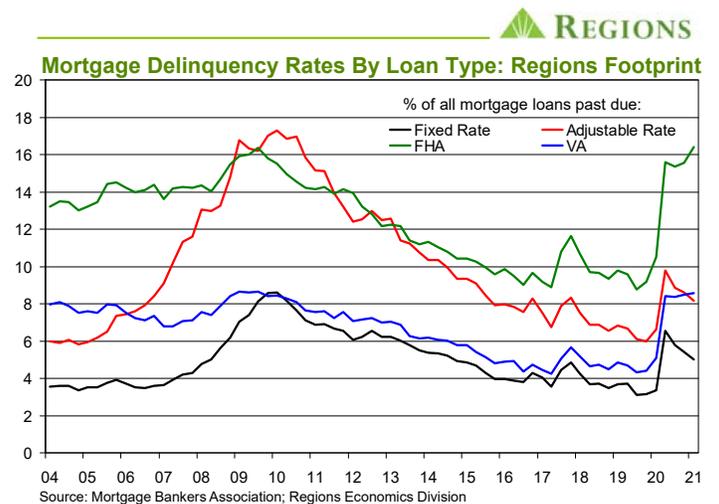
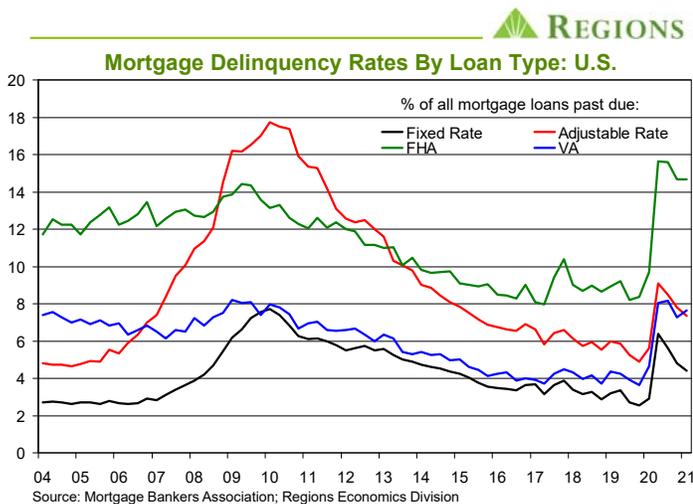


The second chart above shows delinquencies within the Regions footprint by stage. As noted above, 30-day delinquency rates fell to new series lows nationally and in each in-footprint state in Q1 2021. More stringent mortgage underwriting standards in the years following the 2007-09 recession had contributed to a downward drift in 30-day delinquency rates prior the pandemic, and after the spike seen in Q2 2020 as the pandemic took hold and large segments of the economy shut down, 30-day delinquency rates have fallen sharply. This at least in part reflects mortgage originations having become even more concentrated amongst borrowers with higher credit scores, as borrowers with credit scores of 760 or higher accounted for just over 71 percent of mortgage originations in 2020

according to data from Equifax and the Federal Reserve Bank of New York. Slower inflows into 30-day delinquencies have in turn helped push 60-day delinquency rates lower over the past few quarters, though part of this decline reflects some delinquencies aging into the 90-day bucket. Though not quite there yet, 60-day delinquency rates are pushing toward series lows, nationally and across the Regions footprint (South Carolina and Tennessee did set series lows in 60-day delinquency rates in Q1 2021). With 30-day rates at all-time lows and 60-day rates closing in on them, early-stage delinquencies (or, the sum of the 30-day and 60-day buckets) are the lowest in the life of the data nationally and in each of the states within the Regions footprint.

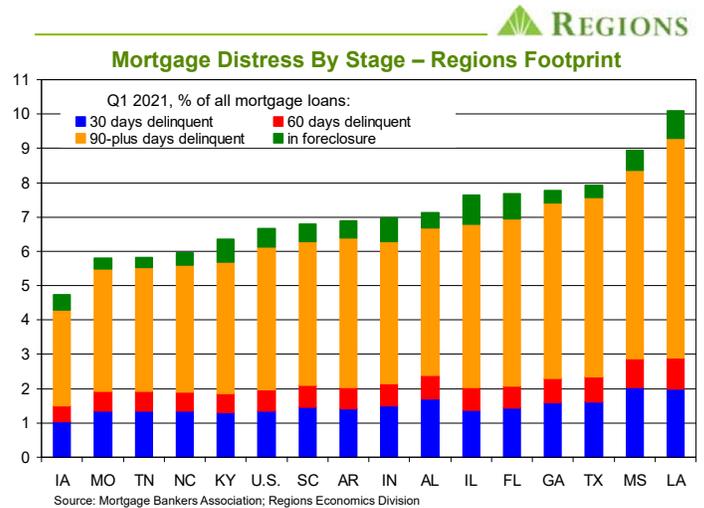
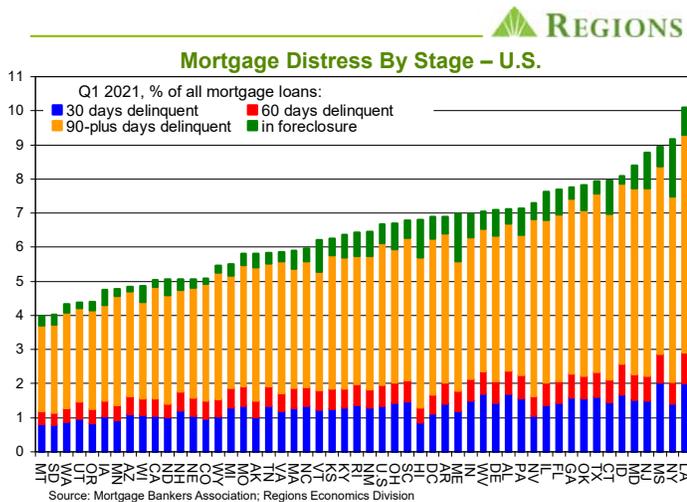


That leaves 90-day delinquency rates as the main area of concern in terms of the mortgage delinquency data. As seen in the second chart above, 90-day rates are significantly above longer-term norms. Again, to a large extent elevated 90-day delinquency rates reflect borrowers in mortgage forbearance programs, and the question/concern being what becomes of these borrowers when forbearances run their course. We think it likely that most of these loans will return to current status, and while some are likely to progress to foreclosure, any increase in foreclosures will fall well short of that seen last cycle. Given current market conditions, specifically what are historically low inventories, and stronger owner equity positions, however, it could be that loans that do not return to current status are more likely to be resolved through the sale of the home rather than by foreclosure.

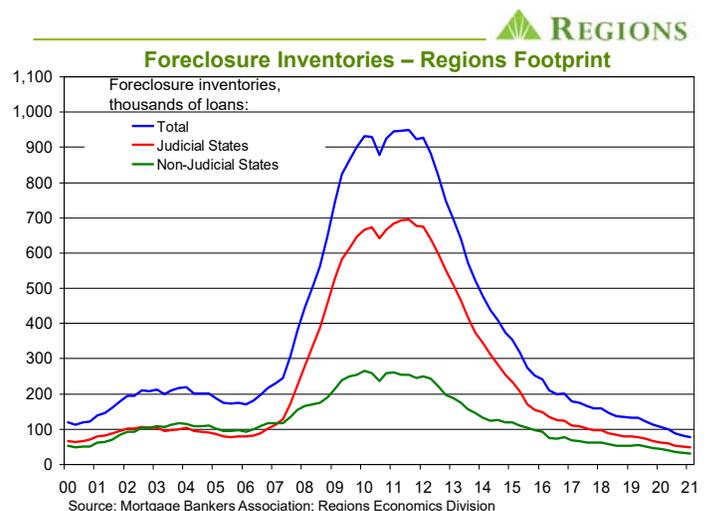
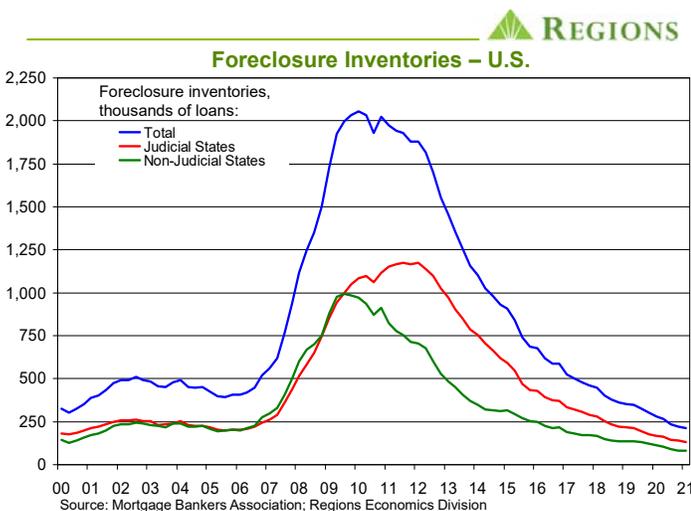


As seen in the above charts, loan performance varies across loan types, but performance on FHA loans significantly lags that of other loan types. As a side note, in the MBA’s former reporting structure, loans now in the “fixed rate” category would have mostly been characterized as “prime” mortgage loans, 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 as widened sharply over the past year. Within the Regions footprint, FHA loans account for 18.78 percent of outstanding first lien mortgage loans as of Q1 2021, with VA loans accounting for 8.68 percent, ARM loans accounting for 4.18 percent, and prime loans accounting for 68.37 percent, with the FHA share above the U.S. average and the prime share below the U.S. average.

At 10.09 percent, Louisiana again 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 Q1 2021, with Mississippi, Texas, and Georgia amongst the ten highest rates. At 4.74 percent, Iowa posted the lowest rate of mortgage distress within the Regions footprint and the sixth lowest rate nationally. As is often the case, Mississippi posted the nation’s highest 30-day delinquency rate (2.04 percent) and 60-day delinquency rate (0.84 percent) while Louisiana posted the nation’s highest 90-day delinquency rate (6.39 percent). At 0.83 percent, Illinois posted the highest foreclosure rate (the percentage of loans at some stage of foreclosure), but this is well below New York’s rate of 1.67 percent, the highest in the U.S.



Inflows into foreclosure continue to be held down by forbearance programs and foreclosure moratoria. Over the past four quarters, there have been 51,264 foreclosure starts nationally and 22,652 within the Region footprint. As discussed above, 90-day delinquency rates remain elevated, whereas in normal times some share of those loans would have progressed into foreclosure. At some point, likely this year, flows into foreclosure will resume at a higher rate and there could be a sizable initial burst, but that would reflect some normalization as the constraints in place over the past year are lifted. What will be important to remember, however, is that foreclosure starts and foreclosure inventories had been steadily declining for several years leading up to the pandemic, and with early-stage delinquency rates sitting at record lows, there is no reason to think there would be a significantly higher and sustained rate of inflows into foreclosure after any initial normalization. That equity positions are much stronger now compared to the prior cycle will also act to mitigate inflows into foreclosure. With inventories of existing homes for sale at record lows and still-solid demand for home purchases, it is hard to make a plausible cast that whatever increase in foreclosures we do see in the quarters ahead 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 Q1 2021

<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	1.71	0.67	4.31	0.43	7.12	2.38	4.74
Arkansas	1.41	0.63	4.36	0.49	6.89	2.04	4.85
Florida	1.44	0.64	4.87	0.74	7.69	2.08	5.61
Georgia	1.59	0.71	5.12	0.34	7.76	2.30	5.46
Iowa	1.04	0.47	2.79	0.44	4.74	1.51	3.23
Illinois	1.37	0.67	4.76	0.83	7.63	2.04	5.59
Indiana	1.51	0.63	4.15	0.69	6.98	2.14	4.84
Kentucky	1.30	0.56	3.83	0.67	6.36	1.86	4.50
Louisiana	2.00	0.91	6.39	0.79	10.09	2.91	7.18
Missouri	1.35	0.58	3.55	0.32	5.80	1.93	3.87
Mississippi	2.04	0.84	5.49	0.58	8.95	2.88	6.07
North Carolina	1.34	0.56	3.69	0.37	5.96	1.90	4.06
South Carolina	1.47	0.63	4.18	0.51	6.79	2.10	4.69
Tennessee	1.34	0.59	3.60	0.30	5.83	1.93	3.90
Texas	1.61	0.73	5.23	0.35	7.92	2.34	5.58
U.S.	1.34	0.62	4.16	0.54	6.66	1.96	4.70

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

Source: Mortgage Bankers Association; Regions Economics Division