ECONOMIC UPDATE

REGIONS

February 9, 2024

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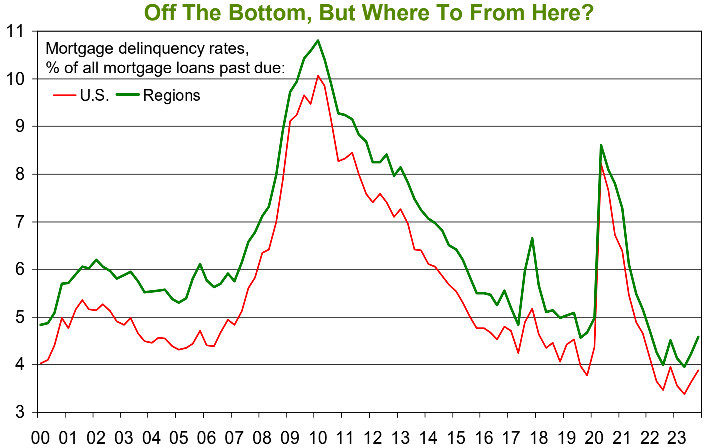
Q4 2023 Mortgage Delinquencies & Foreclosures: Regions Footprint

- For the U.S. as a whole the mortgage delinquency rate rose to 3.88 percent in Q4 2023 from 3.63 percent in Q3
- Within the Regions footprint, the mortgage delinquency rate rose to 4.58 percent in Q4 2023 from 4.23 percent in Q3
- After a "catch-up" year in 2022, foreclosure starts fell in 2023, both nationally and within the Regions Footprint

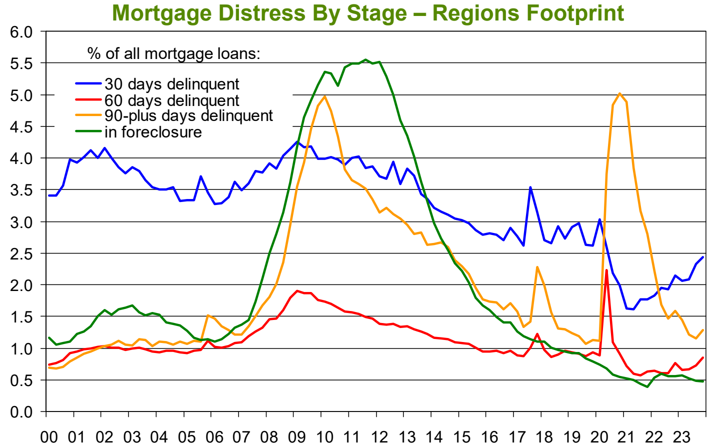
The Mortgage Bankers Association (MBA) has released their data on mortgage delinquencies and foreclosures for Q4 2023. For the U.S. as a whole the mortgage delinquency rate, which encompasses all stages of delinquency but not those loans in some stage of foreclosure, rose to 3.88 percent in Q4 2023 from 3.63 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 rose from 4.23 percent in Q3 to 4.58 percent in Q4. Recall that both nationally and within the Regions footprint, mortgage delinquency rates fell to the lowest on record in the life of the MBA data in Q2. Though having risen in each of the past two quarters, mortgage delinquency rates 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. As with other forms of consumer credit, however, the relevant question at present is whether recent increases in delinquency rates reflect normalization to pre-pandemic norms or whether they mark the start of a more sustained increase above those marks. What we do know at this point is that the increases seen in delinquency rates over the past two quarters have been driven by rising 30-day delinquencies, which will to some degree ultimately filter through to later-stage rates. After the expiration of various foreclosure moratoria contributed to a spike in foreclosure starts in 2022, foreclosure starts fell at double-digit rates, nationally and within the Regions footprint, in 2023, and foreclosure inventories remain notably low. As of Q4, the MBA survey covers roughly 40.256 million first- lien mortgage loans for the U.S. as a whole and roughly 15.759 million first-lien mortgage loans within the Regions footprint.

Off The Bottom, But Where To From Here?



Source: Mortgage Bankers Association; Regions Economics Division

Mortgage Distress By Stage – Regions Footprint



Source: Mortgage Bankers Association; Regions Economics Division

Nationally, the 30-day delinquency rate rose by nineteen basis points in Q4, slightly smaller than the increase seen in Q3. Hawaii was the only state in which the 30-day delinquency rate fell in Q4, while Louisiana posted the largest increase of any state, with a 37-basis point increase. At 3.99 percent, Louisiana posted the highest 30-day delinquency rate of any state in Q4 2023. In part reflecting the increase in 30-day delinquency rates seen in 2023's third quarter, 60-day delinquency rates rose modestly in Q4, both nationally and within the Regions footprint. Aside from Alaska and Vermont, each of which saw a single basis-point decline, 60-day delinquency rates rose in each state in Q4; Louisiana's 60-day delinquency rate rose by twenty-one basis points in Q4, leaving it at 1.37 percent, the highest in the nation. The increases in early-stage (i.e., 30-day and 60-day) delinquency rates over the final half of 2023 may seem at odds with the continued strength in the labor market, but there are other factors at play. A prolonged period of elevated inflation has led to increased financial stress for many households, particularly for lower-income and younger households who are more likely to have exhausted any pandemic-related saving buffers, while higher interest rates, rising credit card balances, and the resumption of student loan payments have also contributed to increased financial stress throughout the household sector. Still, with inflation having slowed markedly and likely to slow further and interest rates likely to drift lower over the course of 2024, the degree of financial stress should

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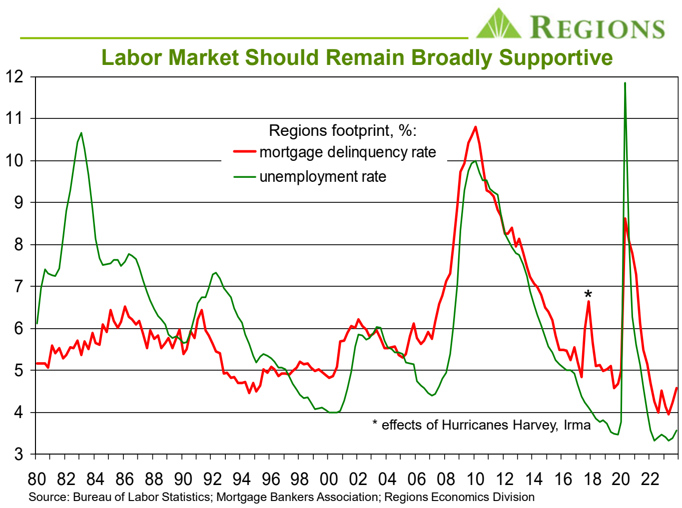
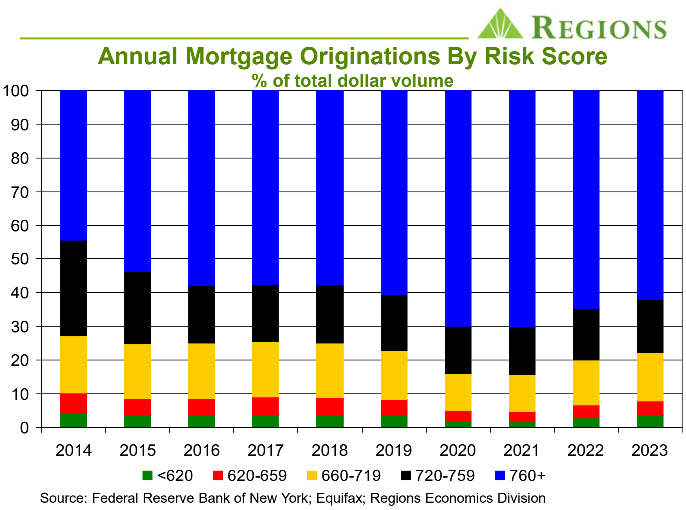
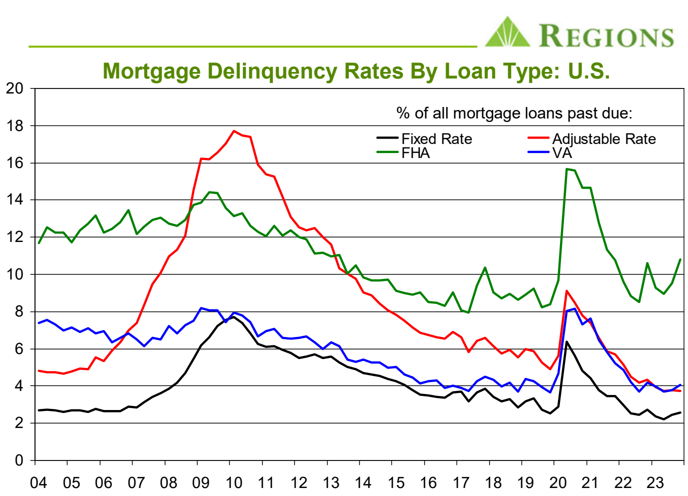
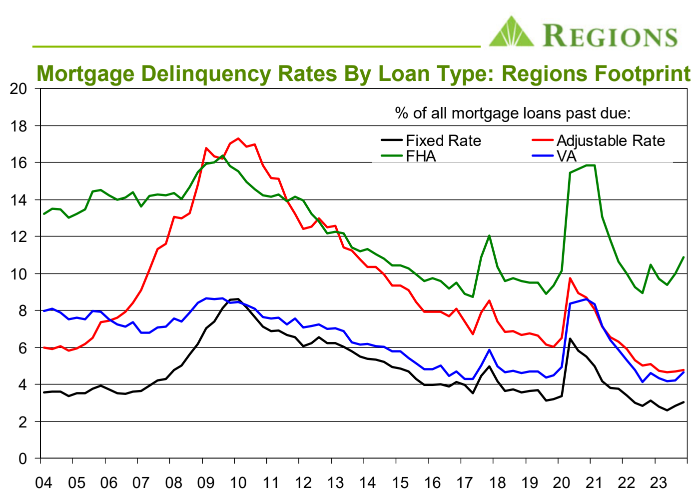
lessen. Obviously, much will depend on labor market conditions, as mortgage loan performance remains strongly correlated with the unemployment rate. While we do expect the pace of job growth and the pace of wage growth to slow in 2024, we nonetheless expect growth in aggregate labor earnings to continue to outpace inflation. And, despite the slower pace of job growth, we expect only modest increases in the unemployment rate, with less hiring, not more layoffs, the primary force behind decelerating job growth. It is interesting to note that the mortgage delinquency rate for the Regions footprint as a whole falling to the lowest on record in the MBA data in Q2 2023 coincided with the unemployment rate for the footprint as a whole falling to its lowest point in the period spanning the life of the MBA data. That the unemployment rate for the footprint as a whole ticked higher over the back half of 2023 reflected rapid growth in the labor force combined with a slowing rate of hiring. As long as it is a slowing rate of hiring, as opposed to a rising rate of layoffs, that leads to slower job growth and further upward pressure on the unemployment rate, the impact on credit performance, including mortgage loans, should be more moderate than would be the case were the rate of layoffs the main catalyst behind slowing job growth.





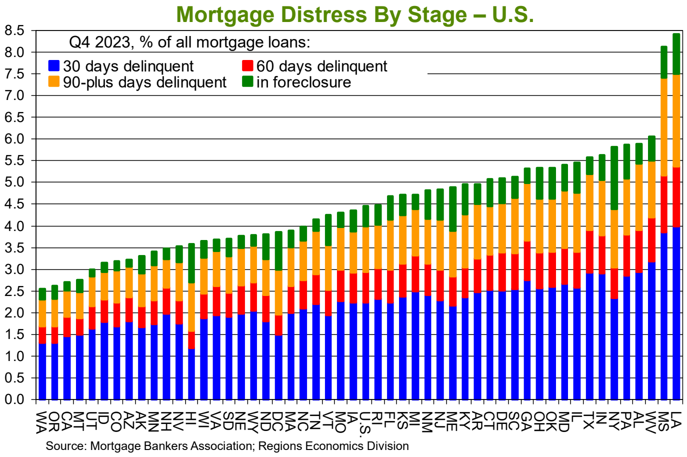
Another factor which will continue to mitigate upward pressure on mortgage delinquency rates is the extent to which mortgage loan originations have remained concentrated amongst borrowers with the highest credit scores. In 2023, sixty-two percent of all mortgage loan originations were to borrowers with credit scores of 760 or higher, and what is noteworthy here is that this was the lowest annual share since 2019. By way of contrast, over the 2004-06 period, less than one-quarter of all mortgage originations went to borrowers in the highest credit score bucket, based on the New York Fed/Equifax data set on household debt. Though not immune to disruptions in employment and/or income, borrowers in this credit score bucket should be better able to withstand any such disruptions, such that the increased concentration in mortgage loan originations amongst borrowers with the highest credit scores should lead to a smaller increase in delinquencies for a given increase in the unemployment rate. It is worth noting that the increase in mortgage delinquencies over the past two quarters has been more acute amongst FHA loans, as opposed to conventional or VA loans, with FHA loans the only loan type for which delinquency rates are above pre-pandemic norms. This is true nationally and within the Regions footprint.

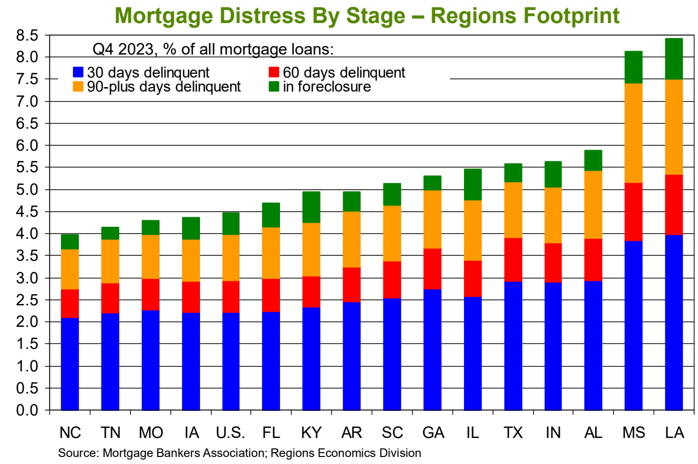




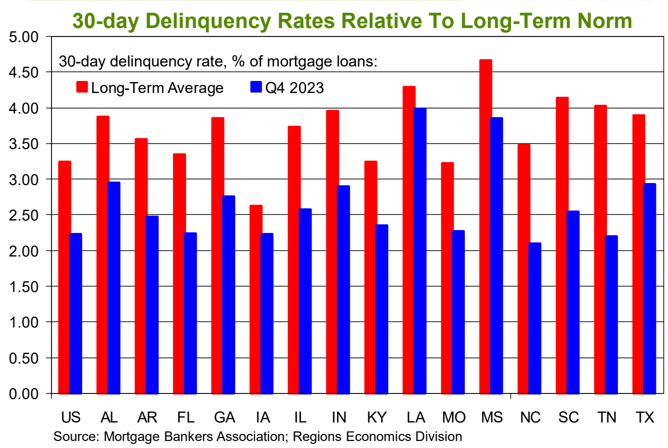
At 8.41 percent, Louisiana had the nation's highest delinquency rate in Q2, followed by Mississippi at 8.12 percent. Louisiana posted the largest quarterly increase in its overall delinquency rate in Q4, but both Illinois and Texas posted increases of forty-four basis points,

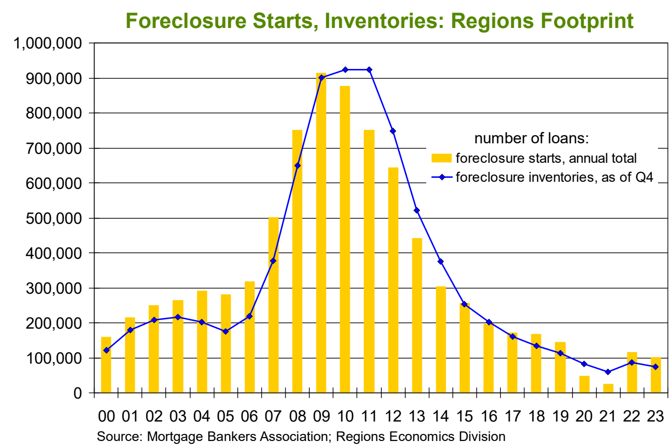
the third largest increases in the nation. As noted earlier, Louisiana had the highest 30-day and 60-day delinquency rates in the nation in Q4, while Mississippi had the nation's highest 90-day delinquency rate, at 2.25 percent. We'll note that while Louisiana's mortgage delinquency rate has risen sharply over the past year, the state's unemployment rate has hardly budged and, at 3.5 percent in Q4 2023, was below the U.S. average. This is a useful reminder that, despite a strong correlation over time, the unemployment rate is not a flawless predictor of the mortgage delinquency rate; to the extent that sluggish, or declining, labor force participation is holding the unemployment rate down, as is the case in Louisiana, that can lead to the unemployment rate being a misleading indicator. At 2.54 percent, Washington had the nation's lowest mortgage delinquency rate in Q4, while North Carolina, at 3.97 percent, had the nation's twenty-second lowest rate but the lowest within the Regions footprint.





We noted earlier that rising 30-day delinquency rates have been the catalyst behind the increase in overall mortgage delinquency rates over the past two quarters. It is, however, also worth noting that even with these increases, 30-day delinquency rates remain below pre-pandemic norms, nationally and across the Regions footprint. That is still the case in Louisiana, despite the state's 30-day delinquency rate having risen by over eighty basis points over the past two quarters. Recall that prior to the pandemic 30-day delinquency rates had fallen to the lowest on record in the MBA data, and then fell even further after the onset of the pandemic. At some point, there was bound to be a reversal, and that point came in mid-2021 and since then 30-day rates have been trending higher, even if not increasing in every single quarter. To be sure, that still leaves the question of whether we're simply in the process of delinquency rates normalizing, or whether they'll push past pre-pandemic norms. Mortgage delinquency rates, however, are much further from those pre-pandemic norms than are delinquency rates on other forms of household debt and, thanks in no small part to what for many years now have been more stringent underwriting standards, mortgage loans will continue to outperform other forms of household debt.





Foreclosure starts fell by 12.5 percent nationally and by 12.8 percent within the Regions footprint in 2023. Though foreclosure activity over the prior three years was heavily impacted by the pandemic and the policy response to it, last year was more or less a "normal" year, with foreclosure starts back in alignment with the long-running downward trend in place prior to the pandemic. This trend in large measure reflects more stringent underwriting standards and steadily improving equity positions. Rising early-stage delinquency rates will, if sustained, ultimately lead to higher foreclosures, but any such increases are likely to be moderate.

Mortgage Distress, Regions Footprint

as of Q4 2023

STATE	30-day delinquency rate	60-day delinquency rate	90-day delinquency rate	foreclosure inventory	total mortgage distress rate	"early stage" delinquency rate	"serious" delinquency rate
Alabama	2.95	0.95	1.54	0.45	5.89	3.90	1.99
Arkansas	2.47	0.78	1.26	0.44	4.95	3.25	1.70
Florida	2.24	0.75	1.16	0.53	4.68	2.99	1.69
Georgia	2.76	0.91	1.32	0.32	5.31	3.67	1.64
Iowa	2.23	0.69	0.96	0.48	4.36	2.92	1.44
Illinois	2.58	0.83	1.36	0.68	5.45	3.41	2.04
Indiana	2.90	0.89	1.27	0.57	5.63	3.79	1.84
Kentucky	2.35	0.70	1.21	0.69	4.95	3.05	1.90
Louisiana	3.99	1.37	2.14	0.91	8.41	5.36	3.05
Missouri	2.27	0.72	0.99	0.32	4.30	2.99	1.31
Mississippi	3.85	1.32	2.25	0.70	8.12	5.17	2.95
North Carolina	2.10	0.65	0.91	0.31	3.97	2.75	1.22
South Carolina	2.55	0.83	1.27	0.48	5.13	3.38	1.75
Tennessee	2.20	0.69	1.00	0.25	4.14	2.89	1.25
Texas	2.93	0.98	1.28	0.39	5.58	3.91	1.67
U.S.	2.23	0.71	1.05	0.47	4.46	2.94	1.52

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

Source: Mortgage Bankers Association; Regions Economics Division

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