ECONOMIC UPDATE

REGIONS

May 23, 2024

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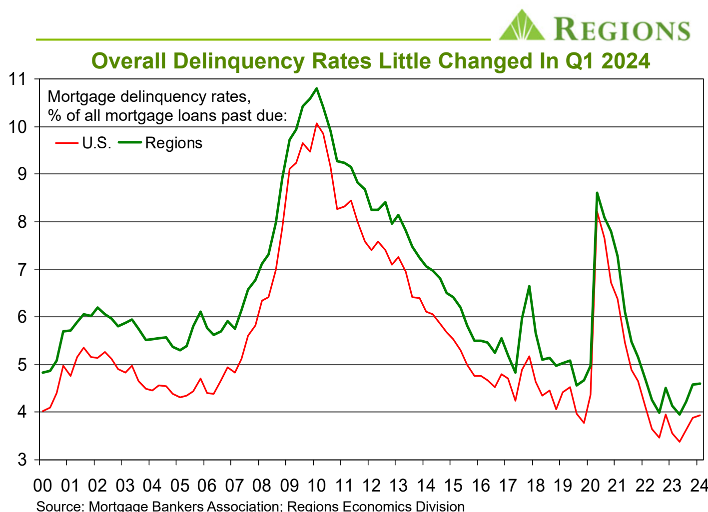
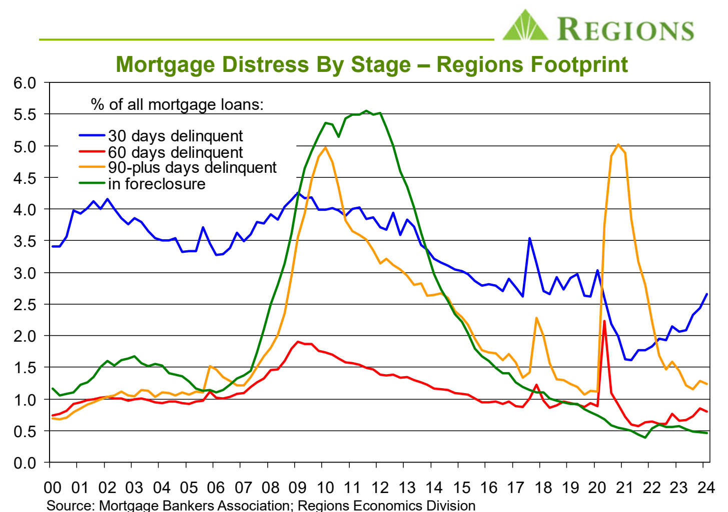
Q1 2024 Mortgage Delinquencies & Foreclosures: Regions Footprint

- For the U.S. as a whole the mortgage delinquency rate rose to 3.94 percent in Q1 2024 from 3.88 percent in Q4 2023
- Within the Regions footprint, the mortgage delinquency rate rose to 4.60 percent in Q1 2024 from 4.58 percent in Q4 2023
- Foreclosure starts fell modestly for the U.S. as a whole but rose slightly within the Regions Footprint in Q1 2024

The Mortgage Bankers Association (MBA) has released their data on mortgage delinquencies and foreclosures for Q1 2024. 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 3.94 percent in Q1 2024, up from 3.88 percent in Q4 2023. 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 4.58 percent in Q4 2023 to 4.60 percent in Q1 2024. After having fallen to the lowest rates on record in the life of the MBA data in Q2 2023, both nationally and within the Regions footprint, mortgage delinquency rates have risen in each of the past three quarters but 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. The increase over the past three quarters largely reflects rising 30-day delinquencies, which to some degree will ultimately filter through to later-stage rates, and while this leaves 30-day delinquency rates below pre-pandemic rates, it is too soon to know how much higher these rates will push. Foreclosure starts were little changed in Q1, falling modestly nationally and rising modestly within the Regions footprint, but foreclosure inventories remain notably low. As of Q1, the MBA survey covers roughly 40.331 million first- lien mortgage loans for the U.S. as a whole and roughly 15.727 million first-lien mortgage loans within the Regions footprint.





Nationally, the 30-day delinquency rate rose to 2.25 percent in Q1, up from 2.10 percent in Q4 2023 and the third straight quarterly increase; the 30-day delinquency rate within the Regions footprint increased from 2.43 percent in Q4 2023 to 2.66 percent in Q1 2024. While higher 30-day delinquency rates have translated into a modest increase in 60-day delinquency rates, thus far there has been no movement in either 90-day delinquency rates or foreclosure rates. That 30-day delinquency rates have been on the rise over the past three quarters, nationally and within the Regions footprint, may seem at odds with still-healthy labor market conditions. This does, however, line up with what have been rising delinquency rates in other segments of household debt, most notably credit card debt and auto loans. It seems clear that the cumulative effects of a prolonged period of rapid inflation and the thinning down of savings buffers built on the back of pandemic-related transfers to the household sector have led to a rising degree of financial stress in the household sector, particularly amongst younger and lower-income households, particularly those for whom the resumption of student loan repayments added another layer of financial stress. That, however, seems a more fitting explanation for the deterioration in credit performance in the credit card and auto loan spaces than for rising early-stage mortgage loan delinquencies, particularly given the extent to which mortgage loan originations have become more concentrated amongst borrowers with higher credit scores.

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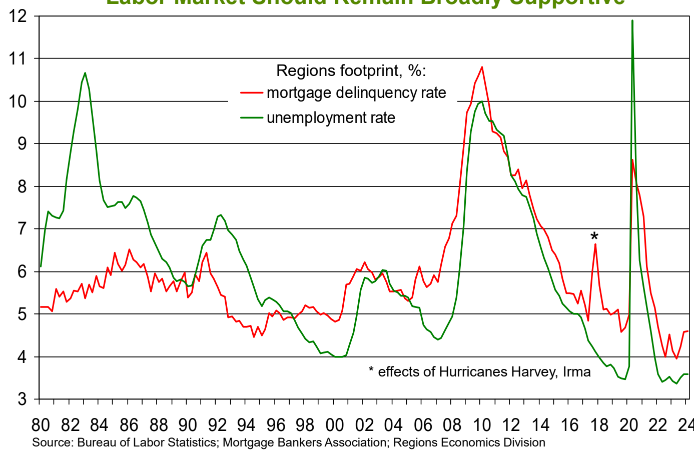
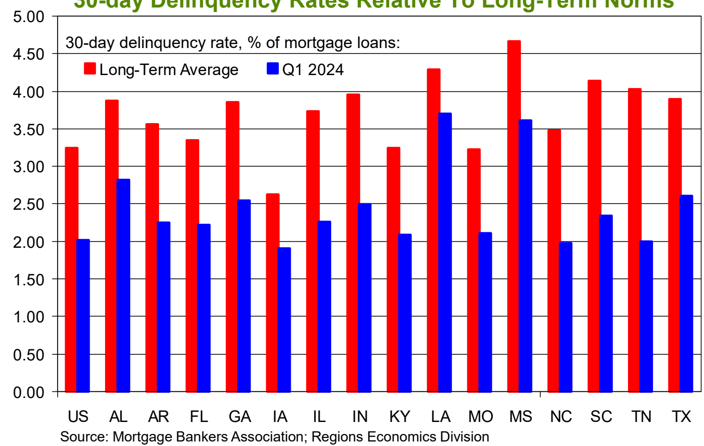
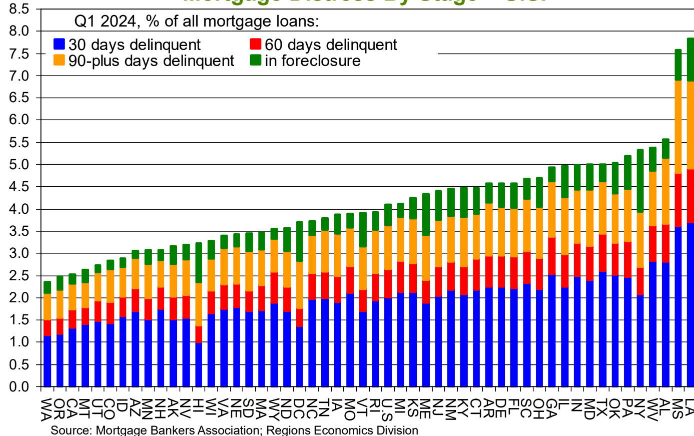
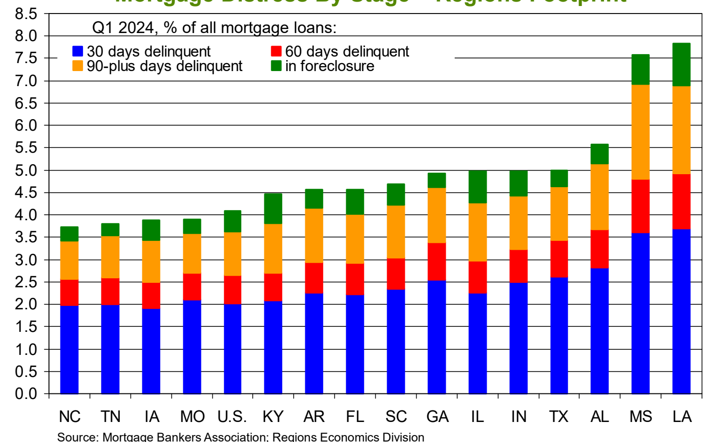
As with other forms of household debt, what we are all trying to determine is whether the increase in mortgage loan delinquency rates seen over recent quarters simply reflects normalization after the disruptions triggered by the pandemic or whether we are in the early stages of a more fundamental, and persistent, deterioration in credit performance. Absent a pronounced deterioration in labor markets, it does seem more likely that mortgage delinquency rates are normalizing rather than embarking on a significant and sustained increase. While we are seeing the trend rate of job growth slow, thus far that has strictly been a function of a falling hiring rate, as opposed to a rising layoff rate, which is the case both nationally and within the Regions footprint. This matters in that a slowing pace of job growth brought about by a slowing pace of hiring rather than a rising pace of layoffs will mitigate the degree of upward pressure on the unemployment rate. If at some point we do begin to see a rising layoff rate, that would be a harbinger of a more pronounced increase in the unemployment rate than we at present expect and, in turn, a more pronounced deterioration in credit performance than we at present anticipate. But, even if labor market conditions evolve as we anticipate, we could still see further deterioration in credit performance should inflation and interest rates remain elevated. This is particularly the case given the degree to which cumulative increases in prices over the past few years have led to a more rapid depletion of saving buffers than would otherwise have had been the case, leaving many households with little or no financial capacity to deal with unanticipated shocks such as the loss of a job or even to deal with further increases in prices of necessities that could lead to debt service obligations not being met.





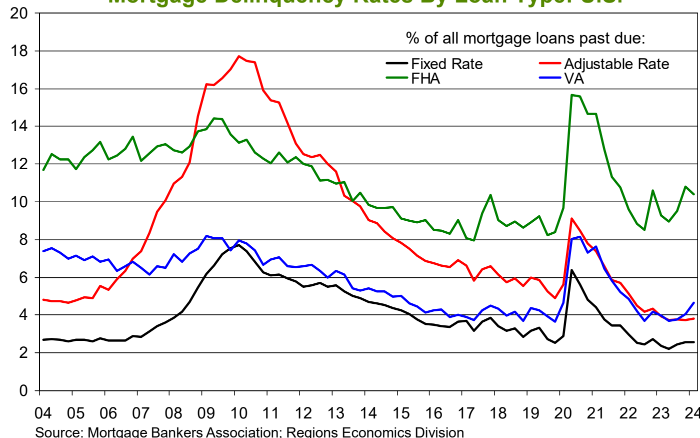
It does help to recall that prior to the pandemic 30-day delinquency rates, nationally and in each state in the Regions footprint, had fallen to the lowest on record in the MBA data, which go back more than four decades. Moreover, despite the increases seen over the past three quarters, 30-day delinquency rates remain below their longer-term norms, again both nationally and in each state within the footprint. In that sense, it isn't clear what "normalization" would be defined as, i.e., returning to what prior the pandemic were all-time lows or returning to longer-term norms. Barring an unexpectedly pronounced deterioration in labor market conditions, perhaps the most likely outcome is for 30-day delinquency rates to settle somewhere between the two.

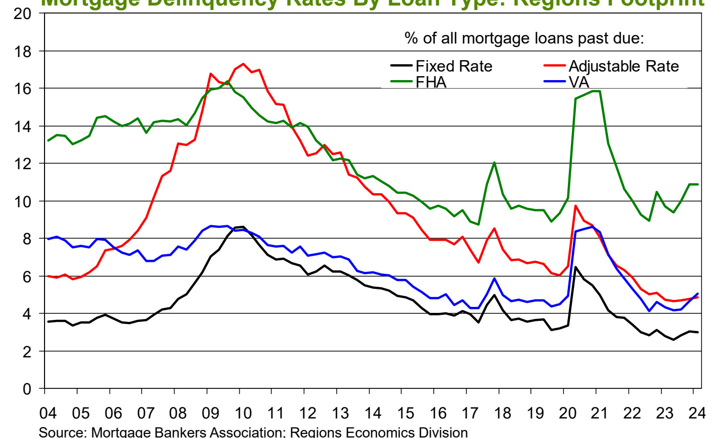




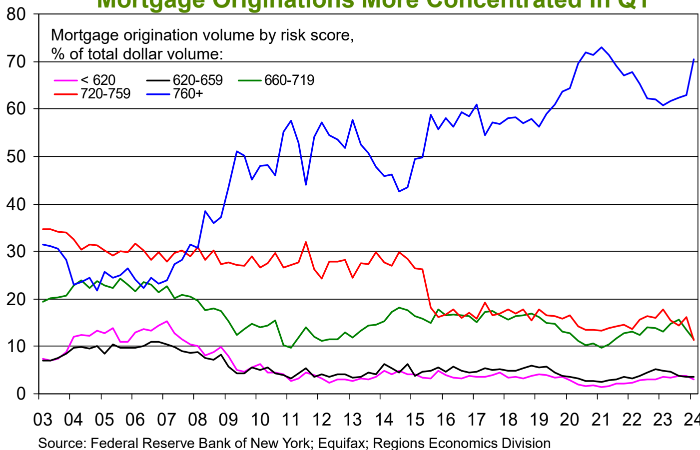
At 7.84 percent, Louisiana had the nation's highest rate of overall mortgage distress (delinquency rates plus foreclosure rates) in Q1, with Mississippi not far away with a rate of 7.57 percent and Alabama, at 5.57 percent, posting the nation's third highest rate. At just

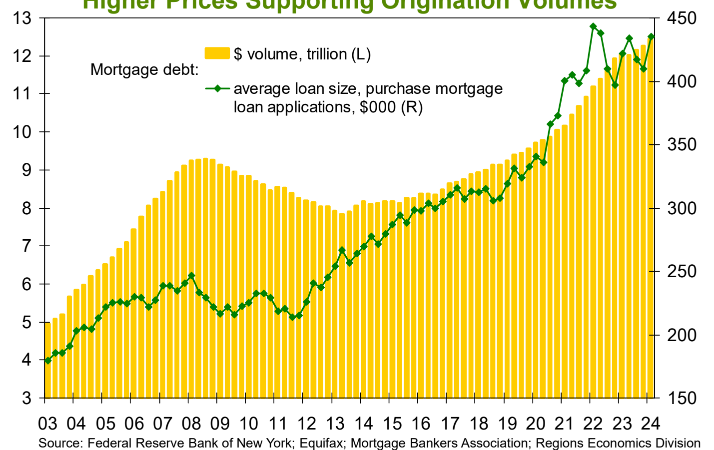
2.35 percent, Washington posted the nation's lowest rate of overall mortgage distress, with Oregon (2.47 percent) and California (2.52 percent) not far behind. Relative to Q1 2023, the national average rate of overall mortgage distress had increased by twenty-four basis points as of Q1 2024, with South Dakota posting the nation's largest increase, up by ninety-four basis points, and Louisiana, up by eighty-two basis points, posting the second largest. Texas (fifty-nine basis points), Georgia (forty-eight basis points), Iowa (thirty-seven basis points), Alabama (thirty-four basis points), and Tennessee (thirty-three basis points) also ranked amongst the ten states with the largest increases in overall mortgage distress over the prior year. Arkansas, Indiana, and Kentucky were the only in-footprint states to post an increase in the rate of overall mortgage distress smaller than the national average.





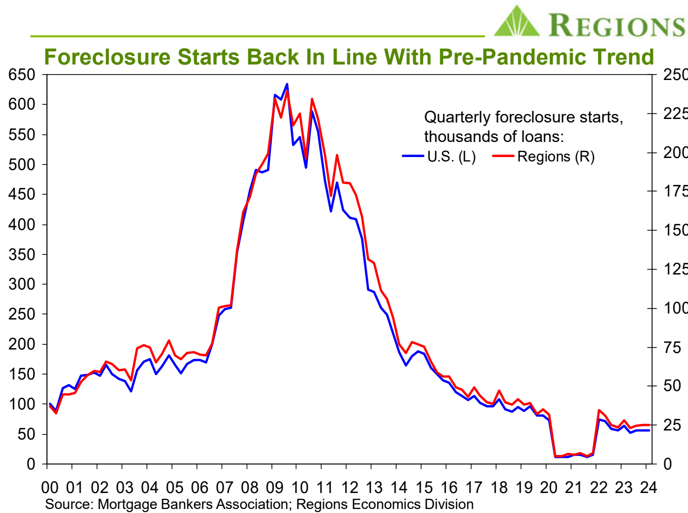
Both nationally and within the Regions footprint, it was a higher delinquency rate amongst VA loans that drove the increase in total mortgage delinquency rates in Q1 2024, as delinquency rates on fixed-rate, adjustable-rate, and FHA loans were basically flat. The MBA notes that at the end of 2023 the Department of Veterans Affairs encouraged servicers to implement a foreclosure moratorium on VA loans that would extend through May 2024, which likely contributed to the increase in VA loans that remained delinquent rather than progressing into foreclosure. Absent that moratorium being extended, the Q2 data could show a drop in late-stage delinquencies on VA loans that would be offset by an increase in foreclosure starts on VA loans.

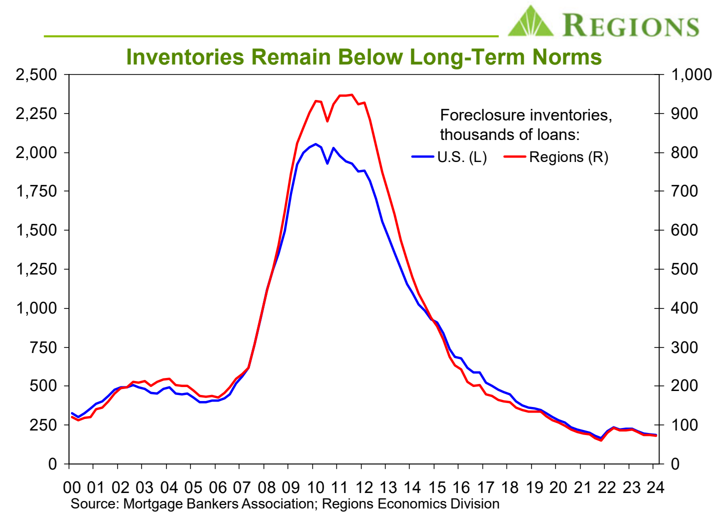




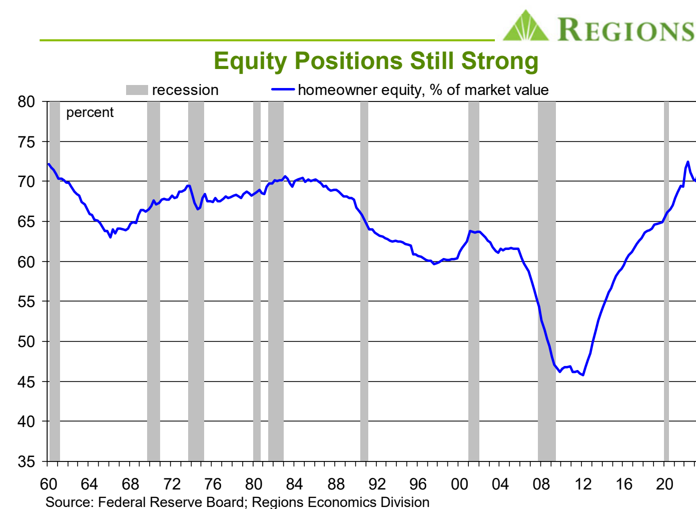
One factor that helped drive the steady downward trend in early-stage mortgage delinquencies in the years prior to the pandemic was that more stringent mortgage lending standards resulted in originations becoming increasingly concentrated amongst borrowers in the highest credit score bucket. That concentration became more pronounced in Q1, with just over seventy percent of originations to borrowers with credit scores of at least 760. Rather than further tightening in lending standards, however, this increased concentration could instead reflect the combination of higher house prices and elevated mortgage interest rates relegating more and more prospective buyers to the sidelines, leaving more of the field to those prospective buyers with higher incomes and/or credit scores. Reflecting the faster pace of house price appreciation reported in measures such as the CoreLogic House Price Index, the MBA data show a significant increase in the average size of purchase mortgage loans after the onset of the pandemic. To the extent that more binding affordability constraints that narrowed the field of prospective buyers accounted for much of the increased concentration of originations amongst

those with higher credit scores, it is reasonable to think that absent relief on the mortgage interest rate front, the field of prospective buyers will become increasingly narrow, resulting in fewer home sales and less purchase mortgage loan origination volume. Another point worth making in the context of the rapid run-up in house prices over the past few years is that meaningfully higher house prices are, in many parts of the nation, leading to higher property tax bills. Even without the higher tax rates being seen in some areas, higher assessed values are generating larger property tax bills. For those homeowners already on the financial margin, higher property tax bills could represent a tipping point, i.e., into delinquency, particularly in conjunction with what have been significant increases in homeowners' insurance premiums. For prospective buyers on the financial margin, higher escrow payments could be the factor that prevents them from being approved for financing.





The imposition of foreclosure moratoria after the onset of the pandemic drove foreclosure starts down close to zero between mid-2020 and the start of 2022. After a "catch-up" spike in early-2022, foreclosure starts have settled back into the trend that prevailed prior to the onset of the pandemic. At the same time, foreclosure inventories continued to dwindle through 2021 but went through a similar upward adjustment in early-2022 as foreclosure starts resumed at more normalized levels. This leaves us, as of Q1 2024, with foreclosure inventories a bit below the levels seen prior to the onset of the pandemic. That we have yet to see the increase in 30-day delinquencies over the past three quarters progress through to later-stage delinquencies suggests it could be some time before we see a meaningful bump in foreclosure starts and foreclosure inventories. And, if we are correct in thinking that absent a significant deterioration in labor market conditions any further increases in early-stage delinquencies will be limited, that in turn suggests that the ultimate increase in foreclosure starts will also be limited, which could leave starts between the range that prevailed over the 2000-2005 period and the range that prevailed in the years prior to the onset of the pandemic.



In addition to much more stringent mortgage lending standards over the past several years, another factor that should help mitigate the fallout from a pronounced increase in mortgage delinquency rates is that owner equity positions are at present much stronger than has been the case for over three decades. Many of those falling behind on mortgage loans would be able to sell the home and pay down the remaining mortgage obligation and possibly still walk away with cash given the extent to which house prices have risen over the past several years. This is not to discount the disruptions this process would cause for people in this situation, but rather to illustrate another reason why a repeat of the spikes in mortgage delinquencies and foreclosures seen in conjunction with the 2007-09 recession is unlikely even should the economy slip into a recession more in line with a "typical" recession, i.e., one neither as severe or as pronounced as was the 2007-09 recession.

Clearly, the increase seen in early-stage mortgage delinquencies over the past three quarters bears watching, and the danger is that absent relief from elevated inflation and interest rates, early-stage delinquencies will continue to push higher. There are, however, several factors that should combine to mitigate the fallout from rising delinquencies, particularly in a housing market that for years has been chronically undersupplied, as opposed to a housing market that in the mid-2000s was vastly oversupplied.

Mortgage Distress, Regions Footprint
as of Q1 2024

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	2.82	0.85	1.48	0.42	5.57	3.67	1.90
Arkansas	2.25	0.70	1.20	0.42	4.57	2.95	1.62
Florida	2.22	0.71	1.09	0.55	4.57	2.93	1.64
Georgia	2.55	0.83	1.24	0.31	4.93	3.38	1.55
Iowa	1.91	0.58	0.95	0.44	3.88	2.49	1.39
Illinois	2.26	0.72	1.29	0.70	4.97	2.98	1.99
Indiana	2.49	0.75	1.19	0.55	4.98	3.24	1.74
Kentucky	2.09	0.62	1.11	0.65	4.47	2.71	1.76
Louisiana	3.70	1.22	1.98	0.94	7.84	4.92	2.92
Missouri	2.11	0.60	0.88	0.31	3.90	2.71	1.19
Mississippi	3.61	1.20	2.11	0.65	7.57	4.81	2.76
North Carolina	1.98	0.58	0.86	0.30	3.72	2.56	1.16
South Carolina	2.34	0.71	1.18	0.45	4.68	3.05	1.63
Tennessee	2.00	0.60	0.94	0.25	3.79	2.60	1.19
Texas	2.61	0.83	1.19	0.37	5.00	3.44	1.56
U.S.	2.02	0.63	0.98	0.46	4.09	2.65	1.44

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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