ECONOMIC UPDATE

REGIONS

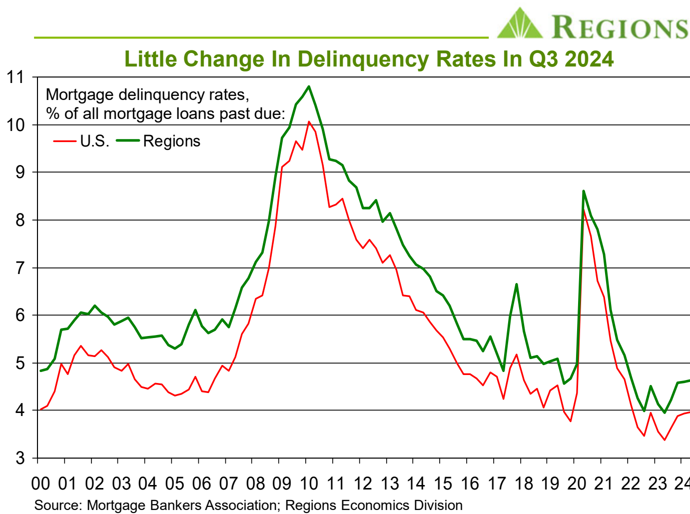
November 25, 2024

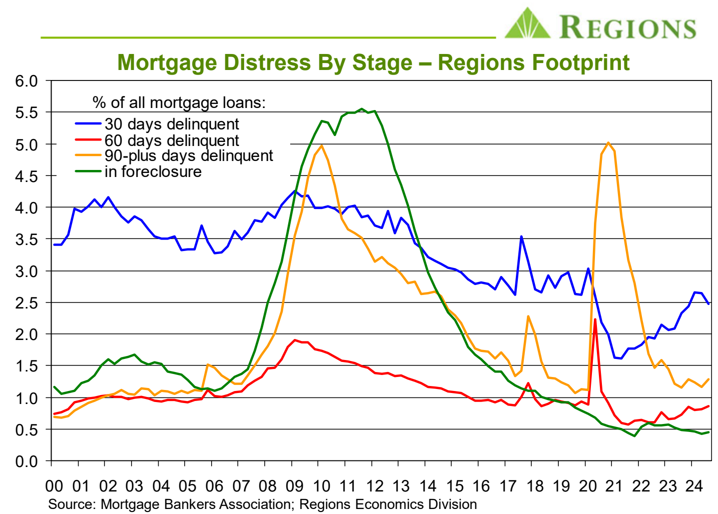
This Economic Outlook may include opinions, forecasts, projections, estimates, assumptions, and speculations (the "Contents") based on currently available information, which is believed to be reliable and on past, current, and projected economic, political, and other conditions. There is no guarantee as to the accuracy or completeness of the Contents of this Economic Outlook. The Contents of this Economic Outlook reflect judgments made at this time and are subject to change without notice, and the information and opinions herein are for general information use only. Regions specifically disclaims all warranties, express or implied, with respect to the use of or reliance on the Contents of this Economic Outlook or with respect to any results arising therefrom. The Contents of this Economic Outlook shall in no way be construed as a recommendation or advice with respect to the taking of any action or the making of any economic, financial, or other plan or decision.

Q3 2024 Mortgage Delinquencies & Foreclosures: Regions Footprint

- For the U.S. as a whole the mortgage delinquency rate fell to 3.93 percent in Q3 2024 from 3.97 percent in Q2
- Within the Regions footprint, the mortgage delinquency rate rose to 4.65 percent in Q3 2024 from 4.64 percent in Q2
- Foreclosure starts were up 3.5 percent year-on-year for the U.S. as a whole and up 3.2 percent within the Regions Footprint

The Mortgage Bankers Association (MBA) has released their data on mortgage delinquencies and foreclosures for Q3 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, fell slightly to 3.93 percent in Q3 2024 from 3.97 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 was little changed in Q3 2024, rising to 4.65 percent from 4.64 percent in Q2. 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 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 are returning to pre-pandemic norms or whether we will see a more sustained increase above those marks. The data do show 30-day delinquency rates eased slightly in Q3, with rising late-stage delinquencies reflecting pass-through from prior increases in early-stage delinquency rates. Between clear seasonal patterns in the delinquency data and what are softening labor market conditions, we'd caution against reading too much into the modest decline in 30-day delinquency rates in Q3. Foreclosure starts rose in Q3, both nationally and within the Regions footprint, but foreclosure inventories remain notably low. As of Q3, the MBA survey covers roughly 41.444 million first- lien mortgage loans for the U.S. as a whole and roughly 16.254 million first-lien mortgage loans within the Regions footprint.



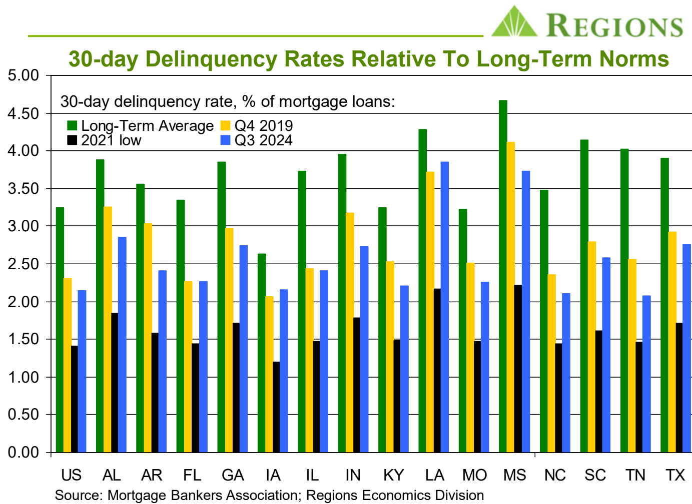


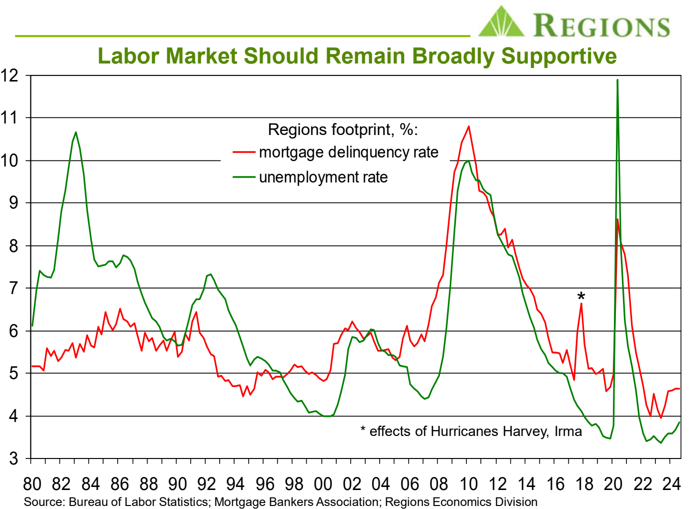
The second chart above is helpful in making several relevant points. First, as noted above, 30-day delinquency rates fell modestly in the third quarter of 2024, nationally and within the Regions footprint, with declines in each of the fifteen states. Though 30-day delinquency rates are up sharply from the lows seen over 1H 2021, they are nonetheless lower than in Q4 2019 with the exceptions of Iowa and Louisiana within the footprint. Keep in mind that the lows seen over 1H 2021 largely reflect the boosts to personal income afforded by the generous financial transfers to the household sector in the early phases of the pandemic, with similar dips evident in other household financial metrics such as debt service burdens and debt-to-income ratios. In that sense, then, those "pandemic era" lows should not in any sense be considered viable, sustainable targets; as the boost to personal income faded and savings buffers were thinned down or, in the case of many lower-to-middle income households, exhausted, household financial metrics began to normalize. In almost all cases, however, they remain more positive than was the case in Q4 2019, which includes 30-day mortgage delinquency rates.

At the same time, however, 60-day delinquency rates have been trending higher over recent quarters, and 90-day delinquency rates rose in Q3, each of which can be seen in the second chart above. Both 60-day and 90-day delinquency rates rose in Q3 2024, nationally

Regions Financial Corporation, 1900 5th Avenue North, 17th Floor, Birmingham, Alabama 35203
Richard F. Moody, Chief Economist • 205.264.7545 • richard.moody@regions.com

and in each state within the Regions footprint. That the overall delinquency rate was little changed in Q3 simply reflects lower 30-day delinquency rates offsetting some or all of the increase in 60-day and 90-day delinquency rates or, in the cases of Alabama, Illinois, Kentucky, Mississippi, and Tennessee, more than fully offsetting these increases such that overall mortgage delinquency rates fell. In contrast, Texas saw its 60-day delinquency rate rise by twelve basis points and its 90-day delinquency rate rise by thirty-one basis points in Q3, with the combined increase easily offsetting the eighteen basis point decline in its 30-day delinquency rate. The net result was a twenty-four basis point increase in the overall delinquency rate in Texas, the largest in the nation in Q3. As seen in the chart on the prior page, while 30-day and 60-day delinquency rates fell below, and remain below, pre-pandemic norms, 90-day delinquency rates have remained above the Q4 2019 benchmark. Perhaps the primary reason for this is that the foreclosure moratoria put in place as part of pandemic relief measures led to many delinquent loans that otherwise would have progressed to foreclosure more or less remaining in limbo, remaining classified in the 90-day-or-more delinquency bucket. While foreclosure starts have risen off pandemic era lows, putting at least some modest downward pressure on 90-day delinquency rates, the increases we are now seeing in 60-day and 90-day delinquency rates are an extension of the increases in 30-day delinquency rates over prior quarters. These rising later-stage delinquency rates clearly have longer to run given the stretch over which 30-day delinquency rates had risen but, if we have actually seen the peak in 30-day delinquency rates, that should act as a cap on the extent to which later-stage delinquency rates ultimately rise.





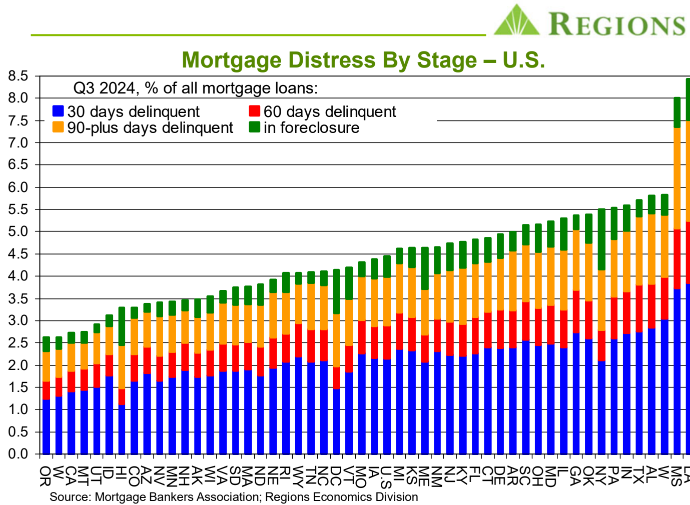
It is too soon, however, to declare with any degree of confidence that we've seen the peak in 30-day delinquency rates, leaving us with the same question in the mortgage loan space that is being asked more broadly across the household credit space, which is whether delinquency rates are simply moving back to pre-pandemic norms or will continue to push above those norms. One distinction in the mortgage space that we've frequently pointed out in these write-ups is that prior to the pandemic, 30-day delinquency rates had fallen to the lowest rates on record in the MBA data, which go back more than four decades. As such, the meaning of "normalization" in this context is open to interpretation, i.e., would that mean moving back toward Q4 2019 rates or toward longer-term averages, with the latter being easily higher than the former. One key reason for the extended improvement in 30-day delinquency rates prior to the pandemic was that mortgage lending standards had been considerably more stringent in the years following the 2007-09 recession than in the years leading up to that recession. As we've frequently noted, mortgage originations have over the past several years been highly concentrated amongst borrowers with credit scores of 760 or above, a concentration which has increased with time; since Q1 2019, borrowers in this credit score bucket have accounted for two-thirds of the total dollar amount of mortgage originations.

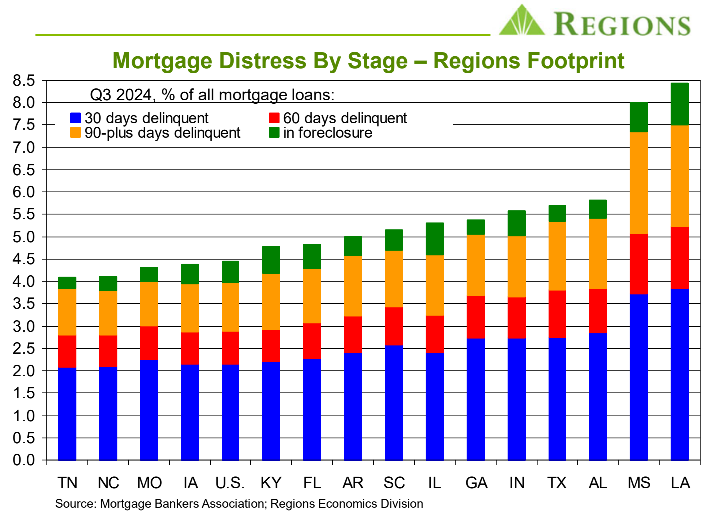
Another key driver of the steady improvement in 30-day delinquency rates, and in turn overall mortgage delinquency rates, has been a healthy labor market. The second chart above illustrates the relationship between the unemployment rate and the mortgage delinquency rate within the Regions footprint. While the unemployment rate has drifted higher over the past few quarters, it is important to note that this has been more a function of faster growth in the labor force over this span as opposed to rising numbers of people losing their jobs and, in turn, their incomes. The two drivers of the unemployment have meaningfully different implications for credit performance. While the rate at which firms have been hiring workers has slowed, we have yet to see an increase in the rate at which workers are being laid off, which remains slightly below pre-pandemic norms both nationally and within the Regions footprint. Barring this changing, it is reasonable to think that, while perhaps not having yet peaked, there is limited further upside for 30-day delinquency rates.

As a side point, each time we use the second chart above, we highlight the effects of Hurricanes Harvey and Irma on delinquency rates, which account for the short-lived spike in mortgage delinquencies in late-2017 despite there having been no corresponding increase in the unemployment rate. Under MBA reporting conventions, loans not paid, for whatever reasons, in accordance with the terms of those loans are reported as delinquent even when, as is common in the wake of natural disasters, loans to borrowers impacted by these disasters are placed in forbearance. It is highly likely that the MBA's data for Q4 2024, particularly for Florida and the Carolinas, will be similarly impacted by Hurricanes Helene and Milton while the unemployment rate will show no such effects. In general, spikes in

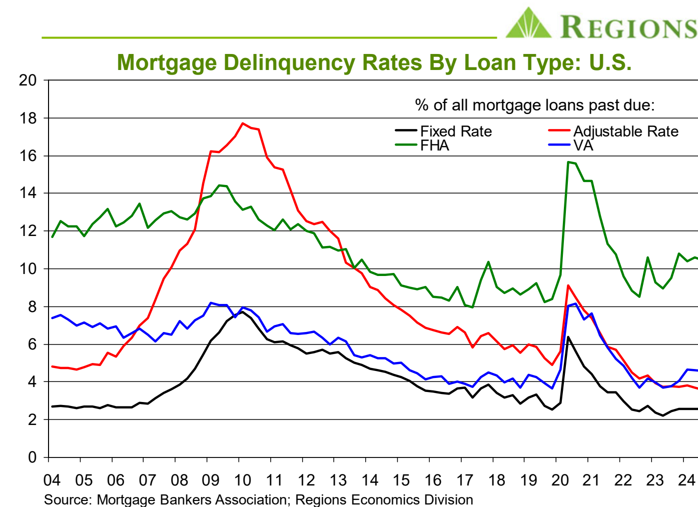
Regions Financial Corporation, 1900 5th Avenue North, 17th Floor, Birmingham, Alabama 35203
Richard F. Moody, Chief Economist • 205.264.7545 • richard.moody@regions.com

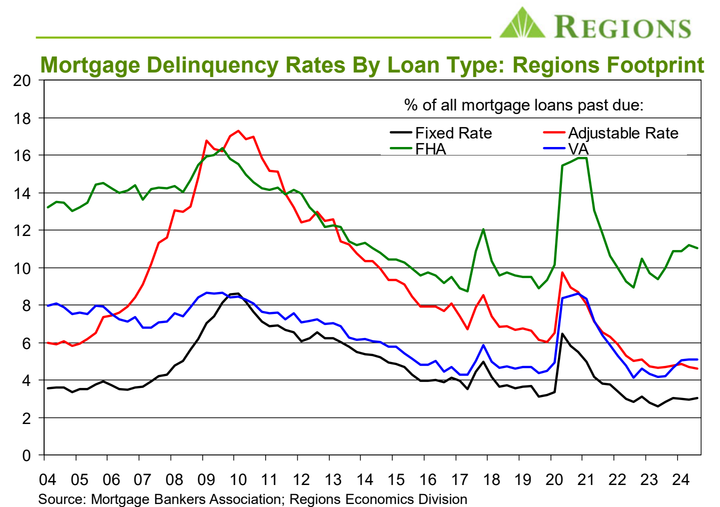
delinquency rates in the wake of hurricanes tend to reverse fairly quickly, with little pass-through to 60-day or 90-day delinquency rates in subsequent quarters. That said, given the extent of damage and the number of businesses impacted, if not permanently driven out of existence, in some of the areas impacted by either, if not both, of the recent hurricanes, the impact on mortgage delinquencies may be more lasting, which will be something to monitor in the data as we move into 2025.





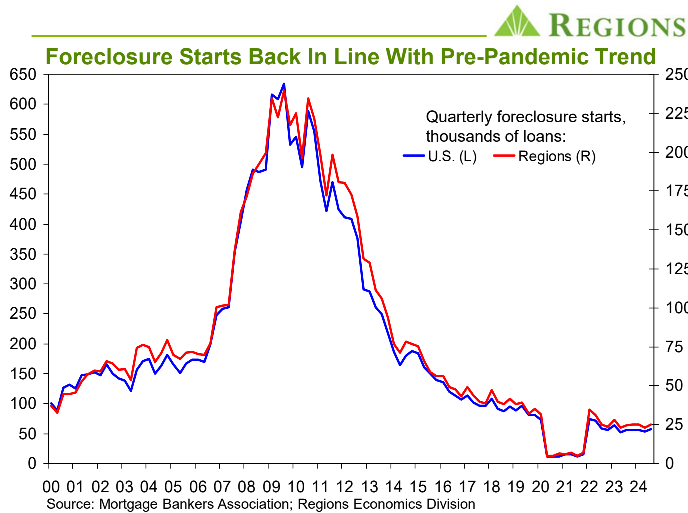
At 8.43 percent, Louisiana had the nation's highest rate of overall mortgage distress (delinquency rates plus foreclosure rates) in Q3, with Mississippi coming in at a not-too-distant second with a rate of 8.0 percent. Louisiana had the nation's highest 30-day delinquency rate (3.85 percent) and 60-day delinquency rate (1.39 percent) in Q3, while Mississippi had the nation's highest 90-day delinquency rate (2.28 percent). As has tended to be the case for some time, New York had the nation's highest foreclosure rate (1.35 percent) in Q3. At 4.09 percent, Tennessee had the lowest rate of overall mortgage distress within the Regions footprint in Q3, just edging out North Carolina's 4.10 percent rate, but this gives Tennessee only the twenty-first lowest rate in the U.S. Texas had the nation's largest increase in the rate of overall mortgage distress in Q3, an increase of twenty-seven basis points when also accounting for foreclosure rates, with the fourteen basis point increase in Arkansas matching Arizona as the second largest, while the thirteen basis point increase in Florida was the fourth largest Q3 increase in the nation. Amongst the twenty-eight states posting declines in the rate of overall mortgage distress in Q3 were Alabama, Illinois, Kentucky, Mississippi, and Tennessee.

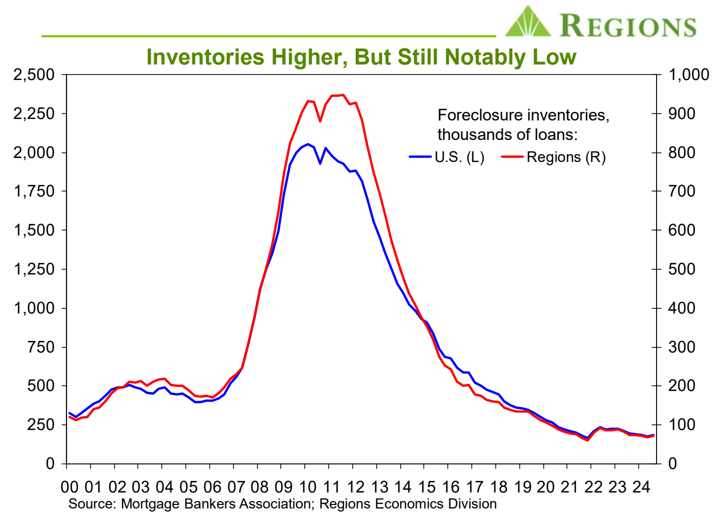




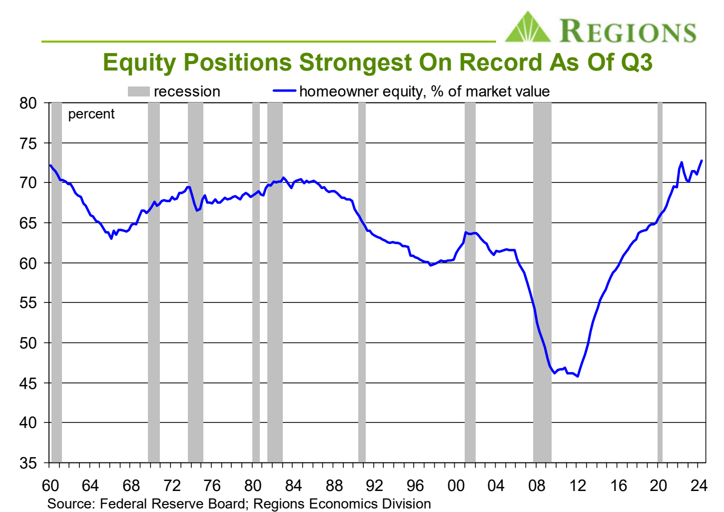
Performance across loan types was a mixed bag in Q3. Nationally and within the Regions footprint, delinquency rates on conventional fixed-rate loans rose modestly in Q3 while delinquency rates on conventional adjustable-rate loans, FHA loans, and VA loans fell a bit. Compared to the third quarter of 2023, however, there were sharp increases in delinquency rates on FHA loans (up ninety-six basis points nationally and one hundred seven basis points within the footprint) and VA loans (up eighty-two basis points nationally and eighty-nine basis points within the footprint). In keeping with typical patterns, delinquency rates on FHA loans are meaningfully higher than delinquency rates on other loan types, and FHA loans account for over one-third of all seriously delinquent loans, i.e., loans either ninety-or-more days delinquent or in some stage of foreclosure, despite accounting for only fifteen percent of all outstanding mortgage loans. Conventional fixed-rate loans account for just under one-half of all seriously delinquent loans will accounting for just under three-

quarters of all outstanding mortgage loans. As a side note, it is a bit surprising that the share of total mortgage loans outstanding accounted for by adjustable-rate loans has not risen over recent quarters despite the sharp increase in mortgage interest rates. This could suggest that there is not a widespread consensus amongst borrowers that mortgage interest rates will fall to a meaningful degree going forward but, that said, it seems reasonable to have expected adjustable-rate loans to have gained at least some share.





The imposition of foreclosure moratoria after the onset of the pandemic drive 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 down, both nationally and within the Regions footprint, and in each case are more or less in line with the trend that had prevailed prior to the onset of the pandemic. For the U.S. as a whole, the MBA data show 58,022 foreclosure starts in Q3, up 3.5 percent year-on-year, while there were 25,337 foreclosure starts within the Regions footprint, up 3.2 percent year-on-year. Both nationally and within the Regions footprint, the number of foreclosures in Q3 was lower than the number seen in Q4 2019. Though 90-day delinquency rates rose modestly in Q3, the increase has not yet been large enough and has not persisted long enough to suggest a meaningful increase in foreclosure starts in the near-term, nor would we expect one absent a meaningful deterioration in labor market conditions. It should also be noted that, in the aggregate, owners' equity as a share of the value of residential real estate is higher than at any point on record in the Federal Reserve's *Flow of Funds* data. Though obviously not universally true, it is generally the case that the magnitude of house price appreciation over the past several years has left homeowners with considerable equity cushions that could be deployed to mitigate the fallout were there to be a pronounced and sustained increase in mortgage delinquency rates that threatened to send more loans into foreclosure. Many of those falling behind on mortgage loans would be able to sell 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 that situation, and we certainly hope our premise is never put to the test, but at the very least this points to a stark contrast between present conditions and those that prevailed at the time of the housing market bust in the mid-2000s that preceded the 2007-09 recession and triggered a massive wave of foreclosures. After all, one key difference is that prior to that housing bust, the market was considerably oversupplied while in the decade-plus since the end of the 2007-09 recession the housing market has been, and remains, chronically undersupplied.



Though some loans currently in later-stage delinquency will ultimately progress to foreclosure, there is nothing that suggests either a meaningful or sustained spike in foreclosures lies ahead. That would be true even should coming quarters bring increases in 30-day delinquencies. Though higher inflation and higher interest rates have posed growing financial burdens on a wider range of households over recent quarters, continued solid growth in inflation-adjusted income has been, and will remain, an important mitigant against further increases in delinquencies on mortgage loans and other forms of consumer credit. The key pillar, of course, will be the labor market, and a pronounced deterioration in labor market conditions would serve as an unmistakable red flag. Though we do not anticipate such a deterioration, we will obviously remain on watch for any signs of that coming into play.

Mortgage Distress, Regions Footprint

as of Q3 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	2.85	0.99	1.58	0.39	5.81	3.84	1.97
Arkansas	2.41	0.83	1.35	0.40	4.99	3.24	1.75
Florida	2.27	0.81	1.22	0.52	4.82	3.08	1.74
Georgia	2.74	0.95	1.37	0.31	5.37	3.69	1.68
Iowa	2.16	0.72	1.07	0.43	4.38	2.88	1.50
Illinois	2.41	0.84	1.35	0.70	5.30	3.25	2.05
Indiana	2.73	0.93	1.37	0.55	5.58	3.66	1.92
Kentucky	2.21	0.72	1.26	0.58	4.77	2.93	1.84
Louisiana	3.85	1.39	2.27	0.92	8.43	5.24	3.19
Missouri	2.26	0.75	1.00	0.30	4.31	3.01	1.30
Mississippi	3.73	1.35	2.28	0.64	8.00	5.08	2.92
North Carolina	2.11	0.70	0.99	0.30	4.10	2.81	1.29
South Carolina	2.58	0.86	1.27	0.43	5.14	3.44	1.70
Tennessee	2.08	0.73	1.04	0.24	4.09	2.81	1.28
Texas	2.76	1.06	1.53	0.35	5.70	3.82	1.88
U.S.	2.15	0.74	1.10	0.45	4.44	2.89	1.55

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

Source: Mortgage Bankers Association; Regions Economics Division

Regions Financial Corporation, 1900 5th Avenue North, 17th Floor, Birmingham, Alabama 35203
Richard F. Moody, Chief Economist • 205.264.7545 • richard.moody@regions.com