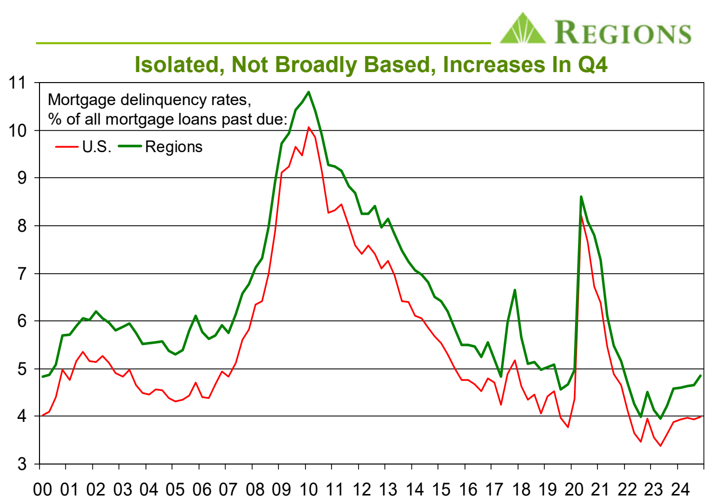
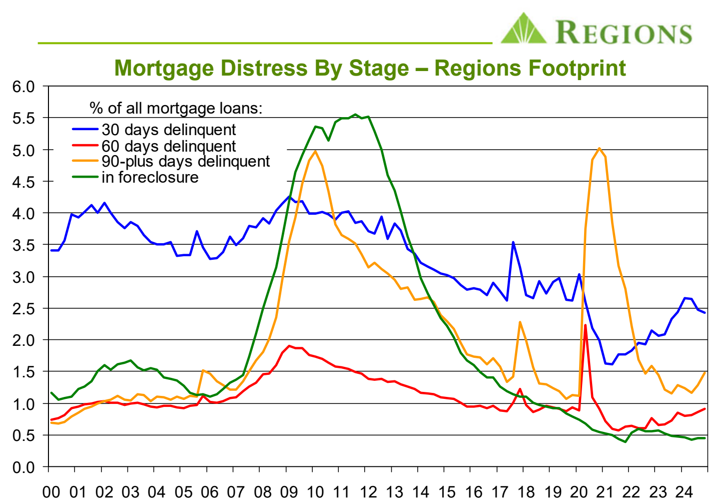
ECONOMIC UPDATE
REGIONS
February 13, 2025

Q4 2024 Mortgage Delinquencies & Foreclosures: Regions Footprint

- For the U.S. as a whole the mortgage delinquency rate rose to 3.98 percent in Q4 2024 from 3.93 percent in Q3
- Within the Regions footprint, the mortgage delinquency rate rose to 4.85 percent in Q4 2024 from 4.65 percent in Q3
- Foreclosure starts were up 9.9 percent year-on-year for the U.S. as a whole in Q4 and up 6.5 percent within the Regions Footprint

The Mortgage Bankers Association (MBA) recently released Q4 2024 data on mortgage delinquencies and foreclosures. 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 3.98 percent in Q4 2024 from 3.93 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 to 4.85 percent in Q4 2024 from 4.65 percent in Q3. That the delinquency rate within the footprint rose much more sharply than did the national average reflects isolated increases, particularly in the 90-day bucket, in a handful of states as opposed to a more broadly based deterioration in mortgage loan performance across the footprint, and 30-day delinquency rates fell in most of the in-footprint states in Q4. That is worth noting given that, after having fallen to the lowest rates on record in the life of the MBA data in the aftermath of the pandemic and the rounds of financial transfers to the household sector during that time, 30-day delinquency rates began to trend higher, seemingly on the way back to pre-pandemic norms that themselves marked all-time lows at the time. It remains to be seen whether the declines in 30-day delinquency rates seen in each of the final two quarters of 2024 will be sustained, particularly as elevated mortgage interest rates and persistent inflation pressures are imposing financial stress on a wider swath of households. On a full-year basis, 2024 saw but a modest increase in foreclosure starts, nationally and within the Regions footprint, but the pace of foreclosure starts picked up pace as the year progressed. As of Q4, the MBA survey covers roughly 41.474 million first- lien mortgage loans for the U.S. and roughly 16.300 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 further in Q4 2024, nationally and within the Regions footprint, with each in-footprint state except Florida posting a decline. In contrast, the 90-day delinquency rate for the footprint as a whole rose sharply in Q4, up twenty basis points from Q3 compared to an eleven basis-point increase nationally. The sharp increase within the footprint, however, reflects jumps in Florida, Georgia, Louisiana, North Carolina, and South Carolina, states all impacted to varying degrees by hurricanes over the second half of 2024. As we've noted in past editions of these write-ups, while lenders may place loans into forbearance if borrowers are impacted by events such as hurricanes, by MBA reporting conventions lenders are asked to report any loans on which payments are not being made as stipulated in the original terms of the mortgage as delinquent, including loans in forbearance. Note that the quarterly reporting frequency means loans in forbearance need not originally appear in the MBA data as a 30-day delinquency, which helps reconcile the declines in 30-day delinquency rates over the back half of 2024 with the spike in 90-day delinquency rates seen in the states named above in Q4 2024. More broadly, that the 60-day and 90-day delinquency rates had been drifting upward before the latter jumped in Q4 2024 reflected pass-through from prior

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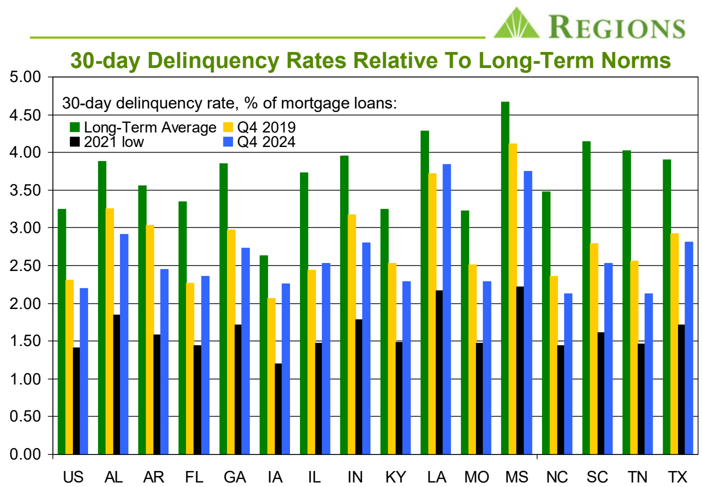
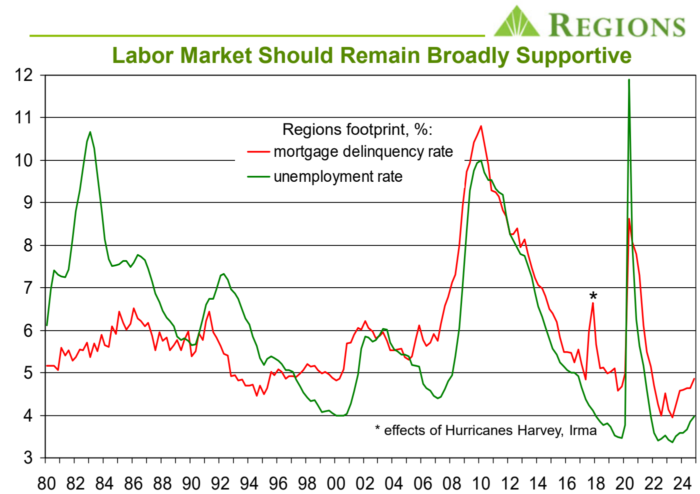
increases in the 30-day delinquency rate. But, if the decline in 30-day delinquency rates seen over the second half of 2024 is sustained, or even if 30-day delinquency rates level off over coming quarters, that suggests a limit on how much further upside there is for 60-day and 90-day delinquency rates.

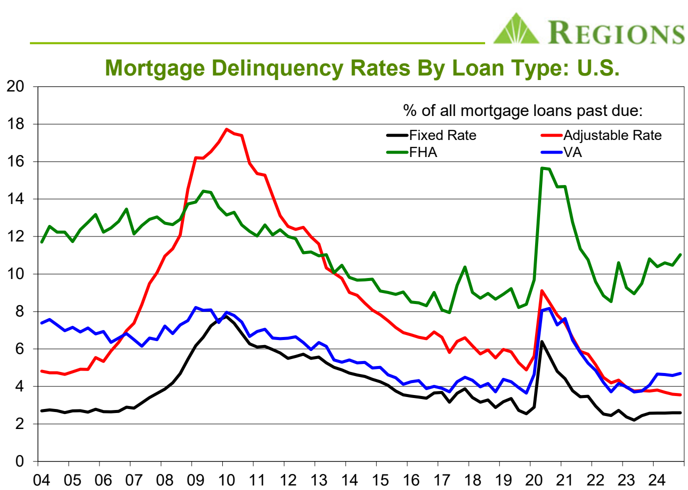


Source: Mortgage Bankers Association; Regions Economics Division

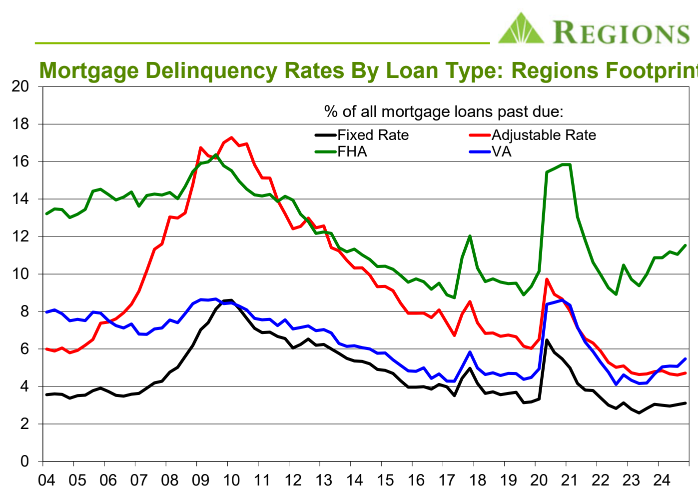


Source: Bureau of Labor Statistics; Mortgage Bankers Association; Regions Economics Division

That is, however, far from a certainty. As noted above, the cumulative effects of price increases over the past few years and inflation remaining easily above the FOMC's 2.0 percent target rate help account for market interest rates remaining largely immune to the charms of the Fed funds rate cuts seen to date and dampen prospects for any further funds rate cuts. The combination of persistent inflation pressures and elevated interest rates is causing financial stress across a wider swath of households, and should this remain the case, we cannot rule out deterioration in household credit quality and upward pressure on delinquency rates, including those for mortgage loans. And, while labor market conditions remain broadly supportive of credit quality, the pace of growth in nonfarm employment has slowed and we expect it to slow further in 2025, both nationally and within the Regions footprint. Note, however, that while historically there has tended to be a fairly strong link between the unemployment rate and mortgage delinquency rates, that relationship may not hold as well over coming quarters. If we are correct in our view that meaningfully slower growth in labor supply will hold down the unemployment rate even as the pace of job growth slows further, that would derive us of what in the past has been an important signal of potential deterioration in household credit quality. One offset, however, is that growth in aggregate wage and salary earnings, the largest single component of personal income, continues to easily outpace inflation, as has been the case over this entire episode of elevated inflation and which we expect to remain the case.



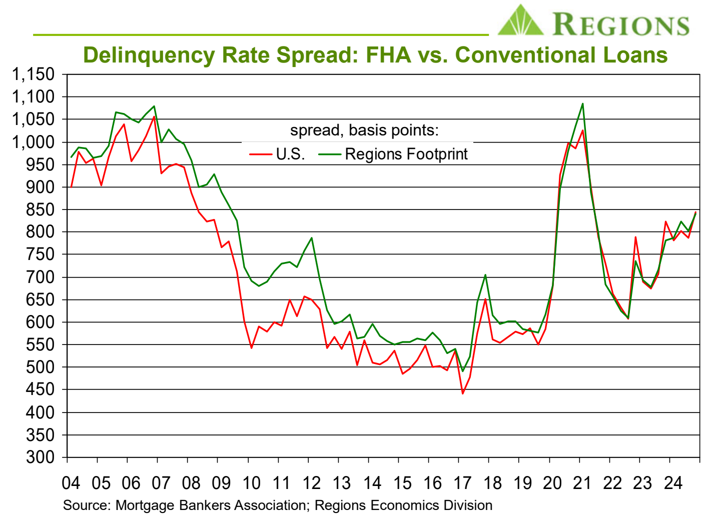
Source: Mortgage Bankers Association; Regions Economics Division

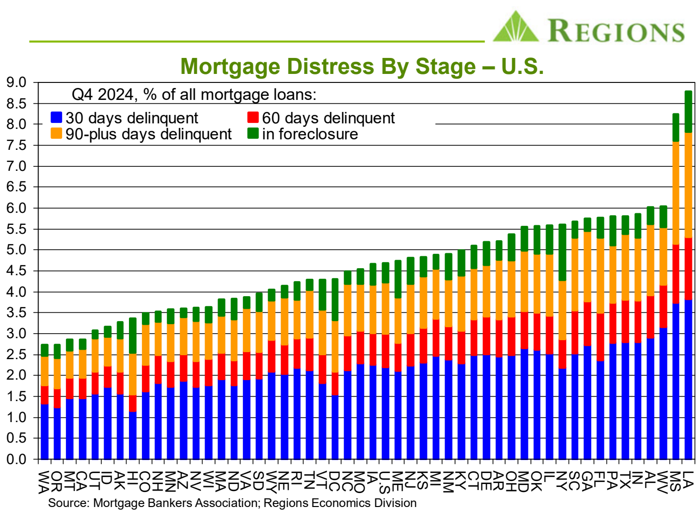


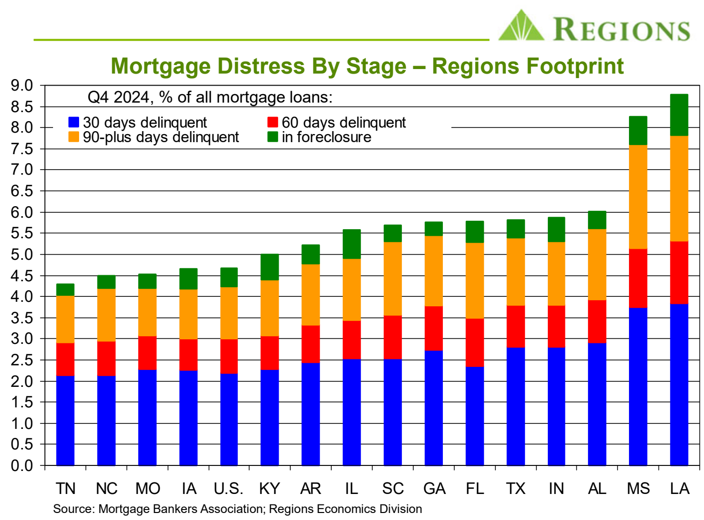
Source: Mortgage Bankers Association; Regions Economics Division

To our point about the absence of broadly based deterioration in mortgage loan performance, the above charts show that, both nationally and within the Regions footprint, the deterioration in the performance of FHA loans has been a primary source of upward pressure on overall mortgage delinquency rates over recent quarters. True, performance on VA loans also deteriorated over the past few quarters within the footprint, but nowhere near to the degree as has been the case with FHA loans, while nationally after a modest increase in late-2023/early-2024, delinquency rates on VA loans have stabilized. Note, however, that performance of fixed and variable rate loans has been fairly stable over the past several quarters. Part of this differential could reflect that borrowers on FHA loans, which tend to have more liberal underwriting standards, being more prone to the financial stress brought on by a prolonged period of elevated inflation, which in turn could be impacting loan performance. We know, however, that on the whole mortgage lending has been highly concentrated amongst those with higher credit scores over the past few years, and these borrowers are more likely to have reaped the benefits of rapidly rising asset prices over the past few years, a combination making them less vulnerable to the financial stress that would lead to defaults on mortgage loans.

The chart to the side further illustrates the point that a primary source of upward pressure on mortgage delinquency rates over recent quarters has been deteriorating performance on FHA loans. Though not yet approaching the magnitude seen around the housing market collapse of the mid-2000s or that seen right after the onset of the pandemic, the spread in delinquency rates between FHA loans and conventional loans is nonetheless wider than at any time outside of these periods of extraordinary financial stress. One caveat here is that MBA adopted its current loan buckets in 2004, so there is a limited history in the data through which to view this comparison. That said, the spread between the two has widened significantly over recent quarters which, to our earlier point, coincides with many lower-to-middle income households having exhausted the financial buffers built upon the various pandemic-related transfer payments. Also to an earlier point, however, were we to see broad based deterioration in labor market conditions, that would almost surely trigger deteriorating loan performance amongst conventional borrowers, far more than seen over recent quarters.

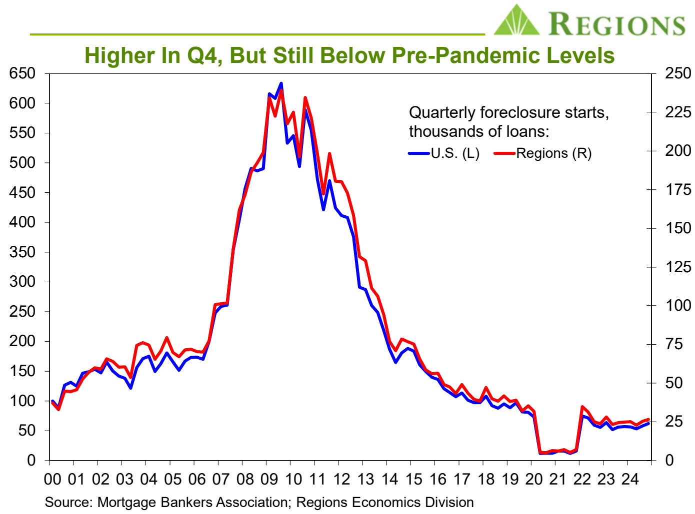


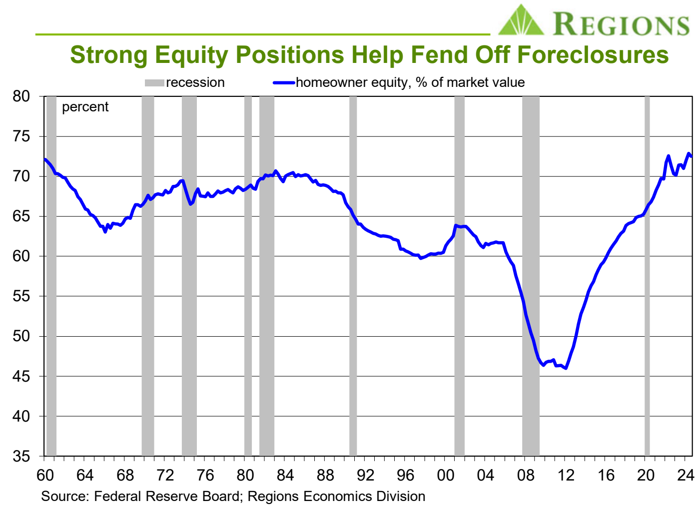




At 8.78 percent, Louisiana posted the nation's highest rate of overall mortgage distress (delinquency rates plus foreclosure rates) in Q4, followed by Mississippi at 8.25 percent. Note that, to the extent it is loans in forbearance that mostly account for the spikes in 90-day delinquency rates seen in a handful of in-footprint states in Q4, that would result in them being closer to the top (or bottom) of this list than would otherwise be the case. While this point would apply to Florida, Georgia, North Carolina (still low, but not as low as is normally the case), and South Carolina, Louisiana tends to consistently post some of the nation's highest rates of mortgage distress, so the jump in the 90-day delinquency rate in Q4 only widened an existing disparity. Over coming quarters we'll be watching for declines in 90-day delinquency rates in this handful of states which are not accompanied by corresponding bumps in foreclosure starts as evidence of loans in forbearance returning to current status. This will be something worth watching in the data over the next few quarters. At 4.29 percent, Tennessee had the lowest rate of mortgage distress within the Regions footprint, with North Carolina (4.49 percent) and Missouri (4.53 percent) not far behind. Tennessee's rate of mortgage distress was the twenty-second lowest in the nation.

When looked at on a full-year basis, 2024 seems a tame year for foreclosure starts, with starts rising by just 0.7 percent nationally and falling by 1.1 percent within the Regions footprint. In each case, however, foreclosure starts in Q4 were meaningfully higher than in Q1, yielding year-on-year increases of 9.9 percent nationally and 6.5 percent within the Regions footprint. Note that, unlike the data on delinquency rates, there are no distinct seasonal patterns in foreclosure starts, so the intra-year 2024 path of foreclosure starts can't be chalked up to "typical" patterns in the data. One may think that the sharp increase in 90-day delinquency rates seen in the Q4 data may be a harbinger of a stepped-up pace of foreclosure starts going forward, but, if it is the case that much of the increase in 90-day delinquency rates reflects loans in forbearance, we wouldn't expect a bounce in foreclosure starts in the quarters ahead.





Even with foreclosure starts having risen over the course of 2024, it is worth noting that the level of starts as of Q4 2024, both nationally and within the Regions footprint, was still below pre-pandemic levels. Obviously, there was a bounce in foreclosure starts in 2022 as pandemic-inspired moratoria expired but starts subsequently drifted down from that initial bounce and still remain notably low by historical standards. To be sure, that mortgage delinquency rates remain below pre-pandemic rates is one factor behind the low level of foreclosure starts. Another powerful factor, however, is the strength of owner equity positions which, in the aggregate, have been stronger over recent quarters than at any other point in the life of the data. Sure, those who have recently purchased a home will not have as strong of an equity position as those who have been in their home for an extended period.

The broader point, however, is that strong equity positions are the flip side of the affordability constraints made more binding by robust house price appreciation over the past several quarters. These strong equity positions can also fend off foreclosures, particularly in conjunction with what remain lean inventories of existing homes for sale. Borrowers encountering financial stress that may lead to their falling behind on mortgage loan payment obligations would, in most markets, have an easier time selling a home to fend off foreclosure than would have been the case in the wake of the housing market bust in the mid-2000s. Or, alternatively, strong equity positions can allow for lenders to rework existing mortgage loans in a manner that would again make the loans current. This will be an important point to keep in mind over coming quarters should deteriorating labor market conditions and/or rising degrees of financial stress put upward pressure on early-stage mortgage loan delinquency rates.

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Mortgage Distress, Regions Footprint

as of Q4 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	2.91	1.02	1.69	0.40	6.02	3.93	2.09
Arkansas	2.45	0.89	1.44	0.43	5.21	3.34	1.87
Florida	2.36	1.14	1.79	0.48	5.77	3.50	2.27
Georgia	2.73	1.05	1.67	0.30	5.75	3.78	1.97
Iowa	2.26	0.75	1.17	0.48	4.66	3.01	1.65
Illinois	2.53	0.91	1.47	0.67	5.58	3.44	2.14
Indiana	2.80	1.00	1.50	0.56	5.86	3.80	2.06
Kentucky	2.29	0.79	1.32	0.59	4.99	3.08	1.91
Louisiana	3.84	1.48	2.51	0.95	8.78	5.32	3.46
Missouri	2.29	0.79	1.12	0.33	4.53	3.08	1.45
Mississippi	3.75	1.40	2.45	0.65	8.25	5.15	3.10
North Carolina	2.13	0.83	1.24	0.29	4.49	2.96	1.53
South Carolina	2.53	1.03	1.74	0.38	5.68	3.56	2.12
Tennessee	2.13	0.78	1.13	0.25	4.29	2.91	1.38
Texas	2.81	1.00	1.58	0.42	5.81	3.81	2.00
U.S.	2.20	0.80	1.23	0.45	4.68	3.00	1.68

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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