



Bigger Than Normal Drop in Mortgage Delinquencies

Mortgage delinquencies hit a record low in March according to the "first look" report on mortgage performance released today by Black Knight. Hitting a record low is actually less interesting in this case because delinquency rates were already near all-time lows. More interesting is that in non-seasonally adjusted terms, delinquencies dropped by 15.5%--significantly faster than the historical that's been just over 10% for the past 20 years.

What's with the big change in performance? Black Knight credits several factors:

- an exceptionally strong labor market
- continued student loan deferrals
- strong performance following forbearances
- record low interest rates for those who refinanced in the past 2 years

Also interesting was the fact that loan prepayments (the industry term for a loan being paid off for any reason including refinance, purchase, foreclosure, etc.) actually increased in March. This was a surprise because interest rates are typically the primary driver of prepayment activity. When rates are at longer term highs, refinance demand grinds to a halt and prepayment speeds plummet. While that has been true in the past few months, March bucked the trend in part due to seasonal increases in home sales.

Unsurprisingly, foreclosure starts and foreclosure inventory are both elevated in recent months following the lifting of the foreclosure moratorium. This contributed to a slight year-over-year increase in active foreclosures for the first time in 10 years. That said, foreclosure starts fell 3% from last month and are holding well below pre-pandemic levels. Foreclosure inventory is also well below pre-pandemic levels despite rising slightly in March.



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