

Banking Watch

December 22, 2010

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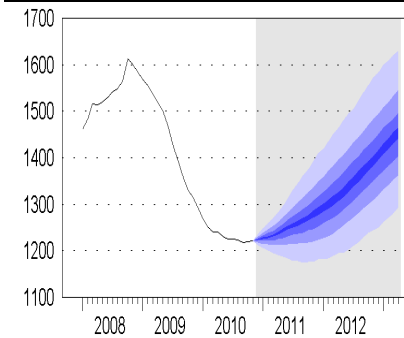
Bank Credit and Deposits: Monthly Situation Report

- Transactions deposits stage a \$45bn surprise increase, more than the previous four months combined; large-time deposits slow further
- Major loan categories unfolding consistent with our forecasts, but uncertainty over housing sector indicators persists
- Data still suggestive of a return to positive YoY total credit growth in mid-2011; slow total deposit growth likely over the next few months

Commercial and Industrial (C&I)

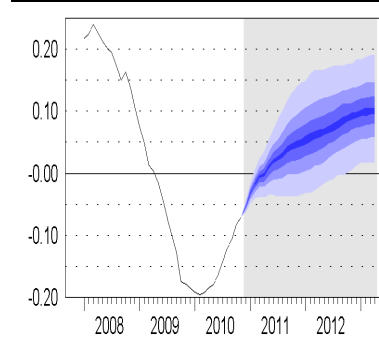
Corporate lending is recovering at a fast pace consistent with our forecast. Although C&I lending is recovering at a rapid clip, the outlook beyond the snap-back period is one of sluggish growth in this segment. In 2011, credit will not be an impediment to business activity's contribution to economic growth at the national level. Businesses, however, continue to hold extremely high levels of cash according to the most recent Flow of Funds data, which limits their overall need for external finance.

Chart 1
Commercial & Industrial
In \$bn, Nominal



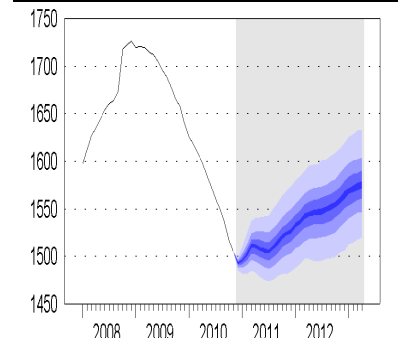
Source: BBVA Research

Chart 2
Commercial and Industrial
YoY %



Source: BBVA Research

Chart 3
Commercial Real Estate
In \$bn, Nominal

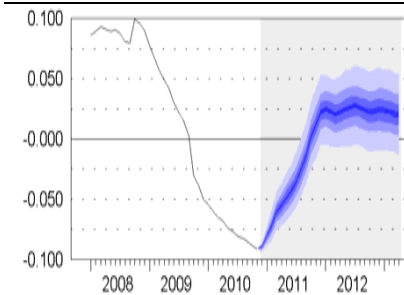


Source: BBVA Research

Commercial Real Estate (CRE)

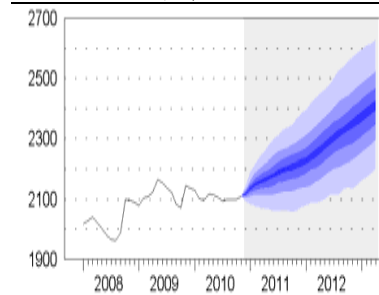
We remain within a lengthy shakeout process for CRE. Although we will not see healthy demand for loans within this segment for some time, we will also not see continued declines in terms of the level of CRE outstanding for much longer. Returns on CRE investments are recovering rapidly, suggesting credit will follow. However, past this period of opportunistic investment, the outlook for CRE credit growth is muted given slow service sector growth, high levels of inventory and disrupted CMBS markets.

Chart 4
Commercial Real Estate YoY %



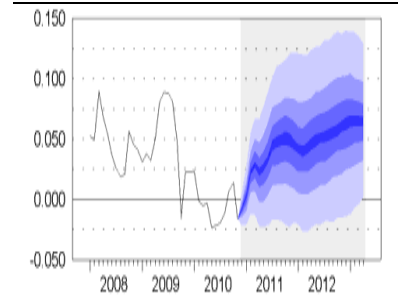
Source: BBVA Research

Chart 5
Residential In \$bn, Nominal



Source: BBVA Research

Chart 6
Residential YoY %

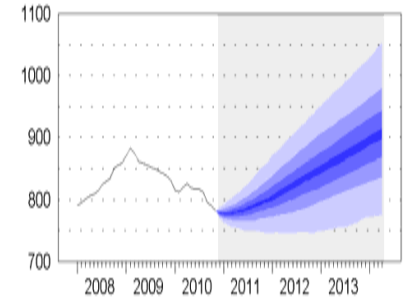


Source: BBVA Research

Residential

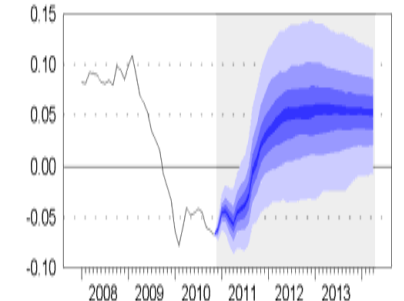
The level of outstanding residential loans has increased slightly above its yearlong range of \$2100bn. The pace of growth over the next months will tell if residential can break out of its 12-month range. Housing indicators remain weak and mortgage rates may be posed for marginal increases over the next month, both of which are typically negative for mortgage credit. At the same time, the financial sector is healing and personal income is strengthening. This may contribute to easier standards and stronger demand.

Chart 7
Consumer Lending In \$bn, Nom, FASB Adj.



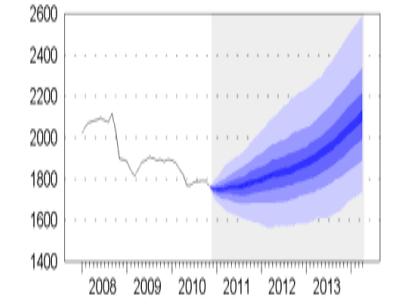
Source: BBVA Research

Chart 8
Consumer Lending YoY %, FASB Adj.



Source: BBVA Research

Chart 9
Large Time Deposits In \$bn, Nominal

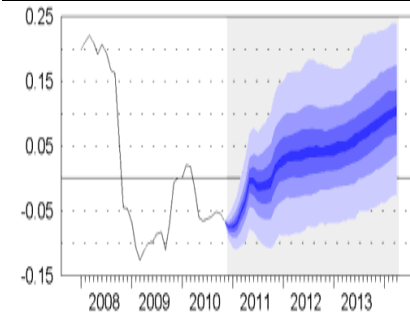


Source: BBVA Research

Consumer credit

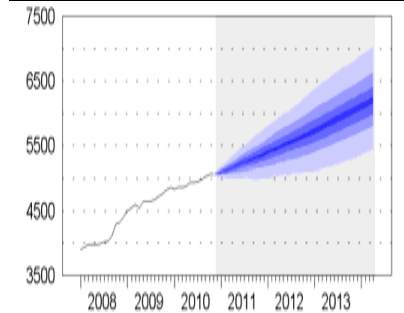
Consumer credit continues to recover, something that is difficult to see in the data due to FASB-related changes to the level of outstanding loans. Higher auto sales and advances in net worth would provide additional impetus to consumer credit growth, while additional disinflation and tepid employment growth would provide an additional drag on consumer credit. As households become more comfortable and economic conditions stabilize, we should return to trend growth slower than that which existed prior to the crisis.

Chart 10
Large Time Deposits YoY %



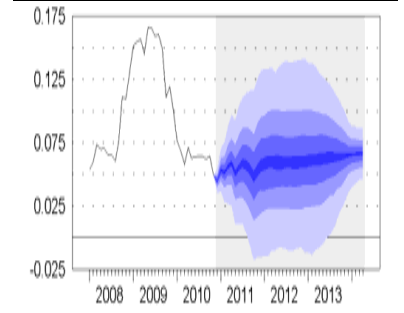
Source: BBVA Research

Chart 11
Small Time and Savings In \$bn, Nominal



Source: BBVA Research

Chart 12
Small Time and Savings YoY %

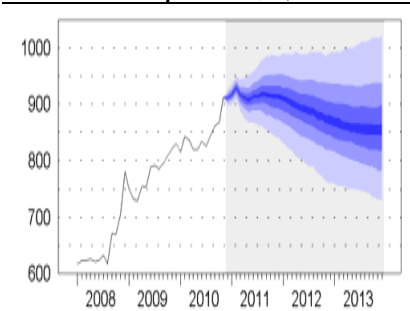


Source: BBVA Research

Deposits

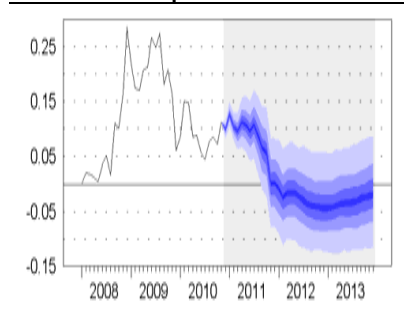
The last time transactions deposits grew more than \$45bn MoM was in the month after the Lehman Brothers bankruptcy. This could also be related to a holiday season of people paying in cash rather than credit. Large time deposits disappointed to the downside. Despite the jump in transactions deposits, the continued declines in large time and below-trend growth in small time and savings deposits implies sustained slow total deposit growth, although we do expect a return to trend in 2011H1.

Chart 13
Transaction Deposits In \$bn, Nominal



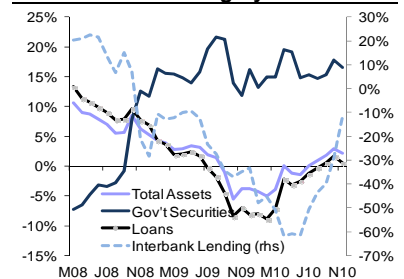
Source: BBVA Research

Chart 14
Transaction Deposits YoY %



Source: BBVA Research

Chart 15
Commercial Banking System YoY %



Source: Federal Reserve

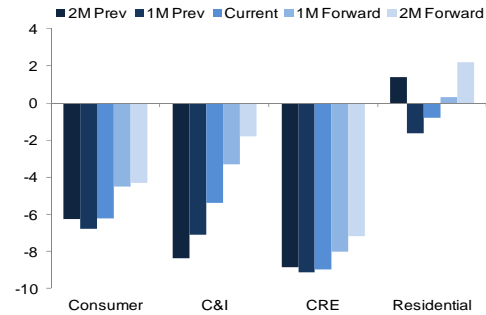
Table 1

Banking System Update YoY % Change

	Consumer	C&I	CRE	Residential	Small Time / Savings	Large Time	Transactions
Deviation	-0.8	-0.2	-0.2	-0.4	-0.9	-2.0	4.5
2M Prev	-6.1	-10.6	-8.5	0.7	6.2	-5.1	8.4
1M Prev	-6.3	-8.4	-8.9	1.4	6.4	-5.4	7.3
Actual	-6.8	-7.1	-9.1	-2.0	4.9	-6.6	11.2
Predicted	-6.0	-6.9	-8.9	-1.6	5.8	-4.6	6.6
Next Month	-6.2	-5.4	-9.0	-0.8	4.5	-7.6	9.9
2M Forward	-4.5	-3.3	-8.0	0.3	5.4	-7.5	12.6
3M Forward	-4.3	-1.8	-7.2	2.2	5.2	-7.0	10.3

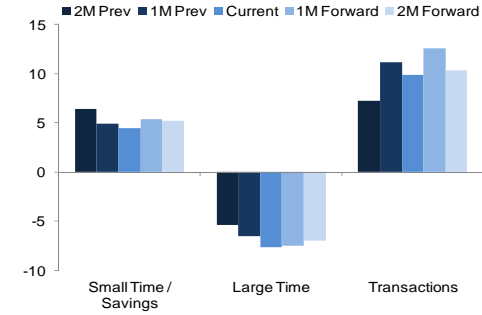
Source: BBVA Research

Chart 16
Credit Growth Snapshot YoY %



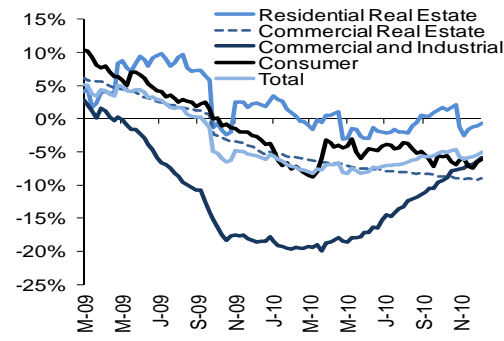
Source: BBVA Research

Chart 17
Deposit Growth Snapshot YoY %



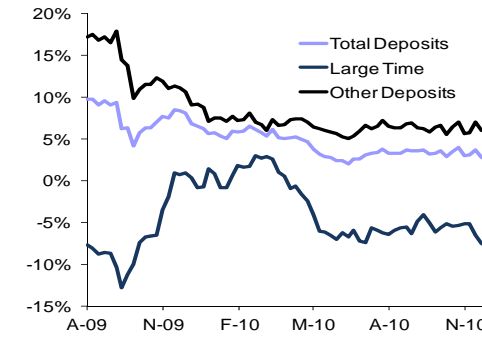
Source: BBVA Research

Chart 18
Commercial Bank Loans YoY %, Consumer Adj.



Source: Federal Reserve

Chart 19
Commercial Bank Deposits YoY %



Source: Federal Reserve

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