

Banking Watch

US

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Economic Analysis

US

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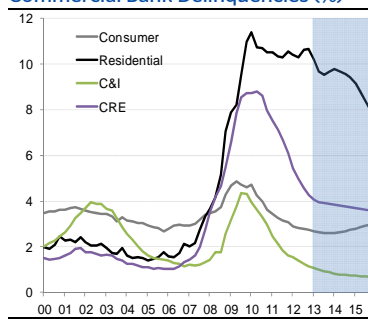
Quarterly Credit Quality Update

- Consumer and C&I credit quality are both back to pre-recession levels, and CRE credit is stabilizing. While we do expect housing activity to be stronger and supportive of growth in 2013, the mortgage delinquency rate is likely to remain above 8% for the foreseeable future.
- Personal income jumped significantly in 4Q12, helping to improve household finances. Despite a rise in housing affordability, pressure from renting appears to be on the rise again as tight credit conditions and constrained supply limit homeownership.

Breakdown of the Recent Data

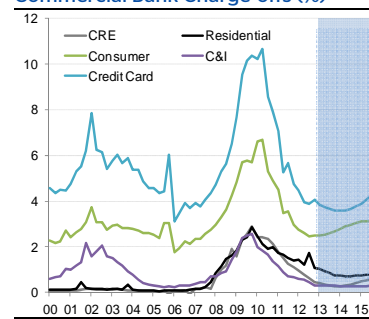
Asset quality continued to improve in 4Q12 - except, of course, for residential credit. The mortgage delinquency rate increased to 10.64% from 10.62% in 3Q12, marking the 13th consecutive quarter above 10%. Residential charge-offs actually declined slightly following an abnormal spike in 3Q12. While consumer delinquencies continue to decline, the charge-off rate increased for the first time in more than a year, in particular related to credit cards.

Chart 1
Commercial Bank Delinquencies (%)



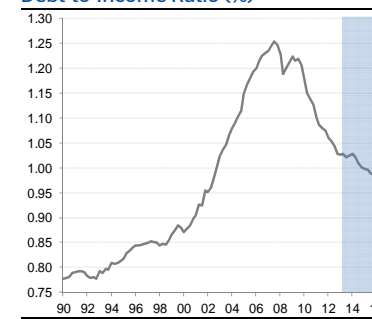
Source: BBVA Research

Chart 2
Commercial Bank Charge-offs (%)



Source: BBVA Research

Chart 3
Debt-to-Income Ratio (%)

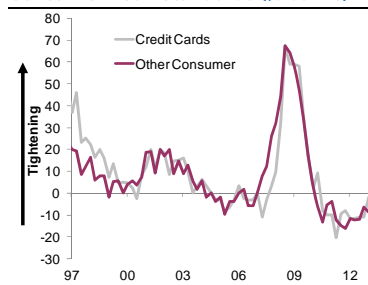


Source: BBVA Research

On the Horizon for Credit Quality

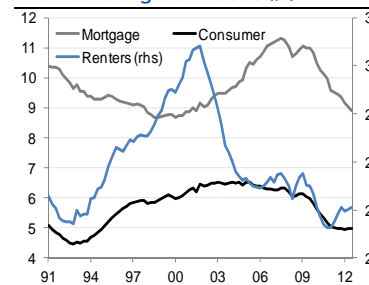
Fiscal pressures have been stressful throughout the past few quarters, but the "cliff" was much less of a crash than expected. Still, we are seeing some hesitation both from businesses and consumers as they adjust to higher taxes and await further clarity from Congress on spending cuts. Household finances are unlikely to improve significantly in 1H13, while credit conditions will remain tight. For the most part, though, we expect that credit quality will continue to improve gradually.

Chart 4
Consumer Loan Standards (% banks)



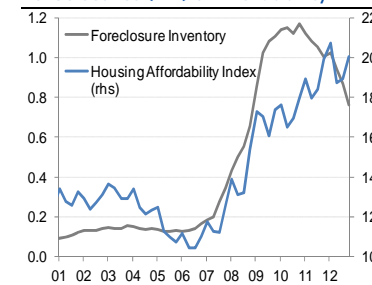
Source: FRB Senior Loan Officer Survey

Chart 5
Financial Obligation Ratios (%)



Source: Federal Reserve & BBVA Research

Chart 6
Foreclosures (Mn) & Affordability



Source: NAR & BBVA Research

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