RESEARCH

Banking Watch

US

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Economic Analysis

US
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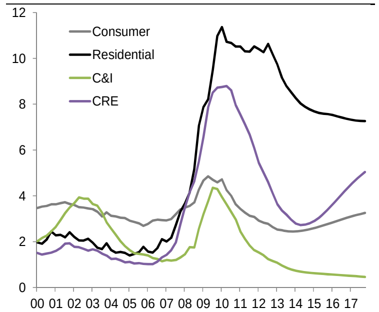
Quarterly Credit Quality Update: 2Q13

- The real estate credit market is finally making strides toward improvement, with mortgage delinquencies dropping below 10% for the first time since the crisis. Charge-offs have stabilized at pre-2008 levels for most loan categories and are likely to hold steady in the long run.
- Consumer lending is back in full swing, with stronger household financials encouraging lenders to ease standards. Fiscal policy in 1Q13 caused a slight uptick in the debt-to-income ratio, while rental obligations continue to comprise a rising share of household finances.

Breakdown of the Recent Data

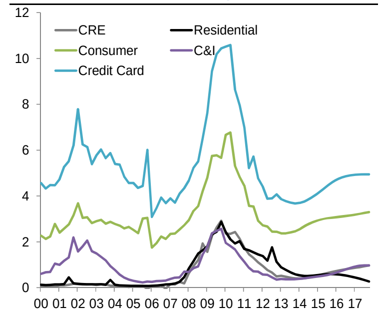
Credit conditions are looking up in 2013, even for real estate. Residential delinquencies dropped to 9.7%, the first time below 10% since mid-2009. CRE and consumer delinquency rates have fully recovered from the crisis, while C&I asset quality is in even better shape than in the mid-2000s. The consumer side of things is also a bit brighter, with improvements in home assets lifting financial well-being and leading to positive spillovers in other areas of the economy.

Chart 1
Commercial Bank Delinquencies (%)



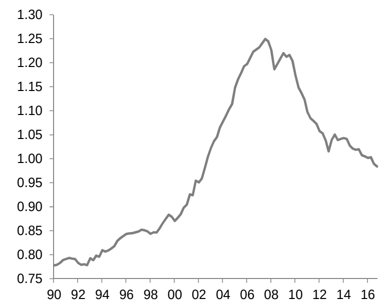
Source: BBVA Research

Chart 2
Commercial Bank Charge-offs (%)



Source: BBVA Research

Chart 3
Debt-to-Income Ratio (%)

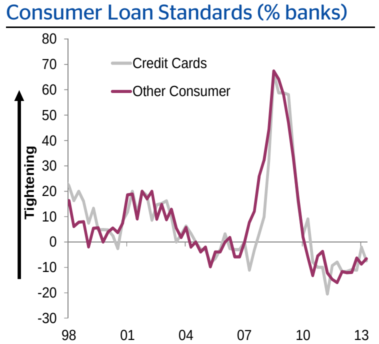


Source: BBVA Research

On the Horizon for Credit Quality

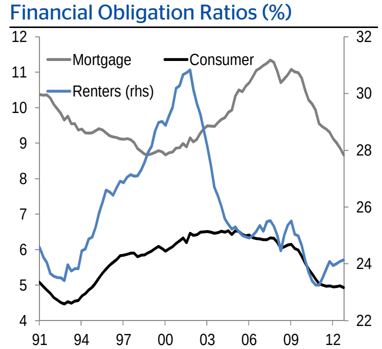
With all the fiscal and monetary policy maneuvering we have seen throughout the recovery, it is clear that credit quality has moved on from rock bottom. Even residential mortgages, which stand out as the weak spot in credit markets, will continue to benefit from rising demand and strength in home prices. We expect that consumers will become more comfortable with their spending habits as the year goes on, particularly with credit standards easing for most non-mortgage related loans.

Chart 4
Consumer Loan Standards (% banks)



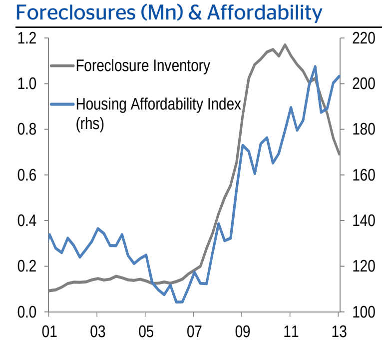
Source: FRB Senior Loan Officer Survey

Chart 5
Financial Obligation Ratios (%)



Source: Federal Reserve & BBVA Research

Chart 6
Foreclosures (Mn) & Affordability



Source: NAR & BBVA Research