

# Banking Watch

## US

Houston, January 30, 2014  
Economic Analysis

US  
Kim Fraser  
kim.fraser@bbvacompass.com

## Quarterly Credit Quality Update

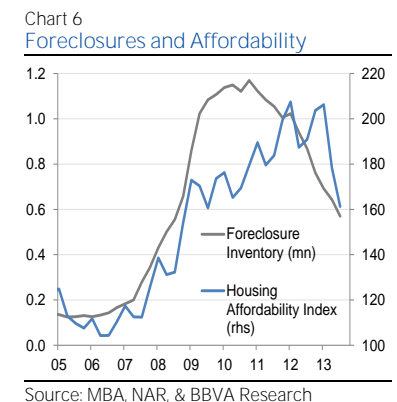
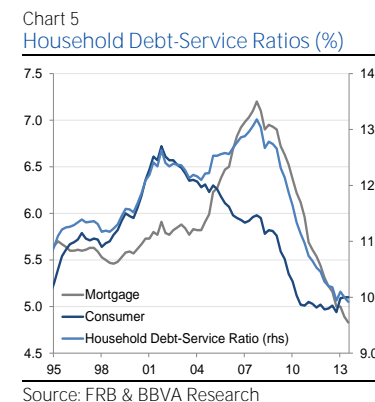
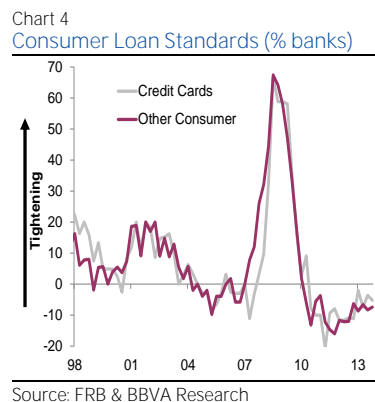
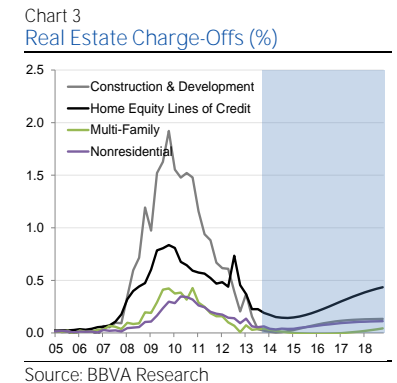
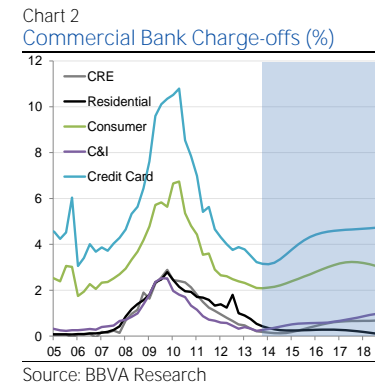
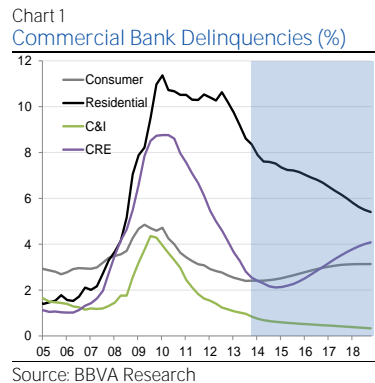
- U.S. commercial banks have in large part recovered from the crisis, although the mortgage delinquency rate remains significantly high at 8.6%. On the contrary, C&I and consumer delinquencies have actually fallen below pre-crisis levels. CRE asset quality remains healthy.
- Household deleveraging has slowed significantly as debt-service ratios reach historical lows. Despite the fact that income growth has not gained much momentum, low interest rates have been somewhat of a relief for households trying to regain strength during the recovery.

### Breakdown of the Recent Data

Commercial banks continue to make strides toward healthy balance sheets, with delinquency and charge-off rates falling throughout 2013. At the same time, confidence has increased and both consumers and businesses feel comfortable and willing to take on more debt. Interest rates and lending conditions remain favorable for borrowers, while improvements in household finances are a positive for banks searching for more qualified individuals.

### On the Horizon for Credit Quality

Asset quality has come a long way since the crisis, and we expect the positive trends to continue on the back of rising economic confidence. While most loan categories have recovered nicely, residential lending sticks out like a sore thumb. As many borrowers remain underwater, we do not expect a return to pre-crisis conditions anytime soon. However, progress among other consumer and business loans will help banks offset unfavorable mortgages, especially as rates rise over the coming years.



DISCLAIMER

This document has been prepared by Banco Bilbao Vizcaya Argentaria's BBVA Research Department on its own account and is provided for information purposes only. The information, opinions, estimates and forecasts contained herein refer to the specific date and are subject to changes without notice due to market fluctuations. The information, opinions, estimates and forecasts contained in this document have been gathered or obtained from public sources, believed to be correct by the Company concerning their accuracy, completeness, and/or correctness. This document is not an offer to sell or a solicitation to acquire or dispose of an interest in securities.