

Banking Watch

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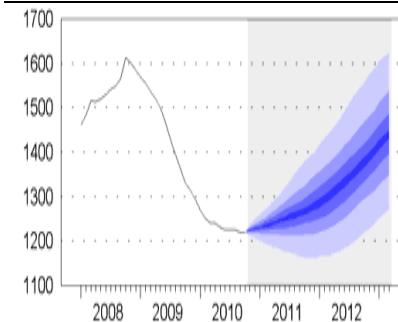
Bank Credit and Deposits: Monthly Situation Report

- All this month's indicators arriving consistent with expectations; data suggestive of a return to YoY total credit growth in mid-2011
- Falling M1 velocity triggers revision to transaction deposits forecast, improvements in total deposit growth anticipated next year
- Current positive YoY growth for residential lending will turn back to negative YoY growth over the next few months

Commercial and Industrial (C&I)

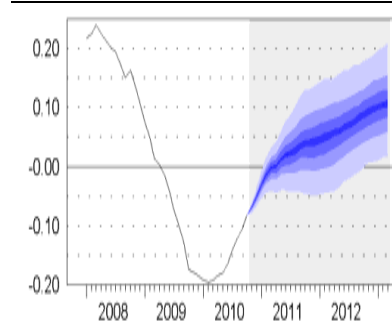
Competition over C&I loans amongst banks is still high, according to the most recent Federal Reserve survey of senior loan officers. Despite this competition, a fundamental lack of real activity to finance remains a drag on C&I growth. Our current prospect is for a return to positive YoY growth in C&I lending by the middle of 2011. Clearly, many of the macroeconomic fundamentals will drive changes in this segment: higher GDP growth, higher employment and more robust bond issuance.

Chart 1
Commercial & Industrial
In \$bn, Nominal



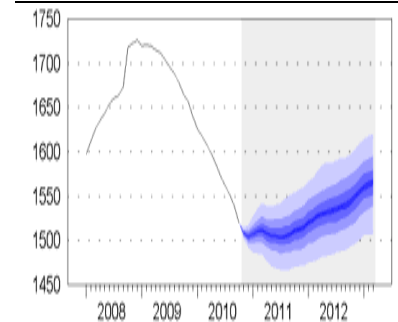
Source: BBVA Research

Chart 2
Commercial and Industrial
YoY %



Source: BBVA Research

Chart 3
Commercial Real Estate
In \$bn, Nominal

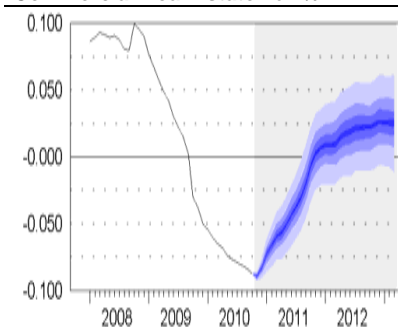


Source: BBVA Research

Commercial Real Estate (CRE)

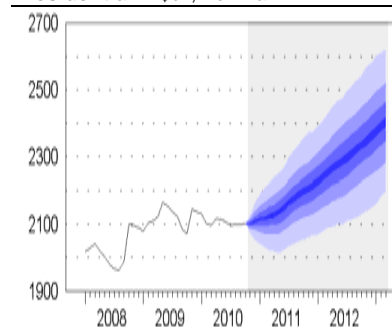
Moving forward, we anticipate a relatively fast recovery in CRE. We say relatively because we still expect positive YoY growth by 2012. With many opportunities for distressed investment and improvements in fundamentals, our sense is for increased interest in opportunistic CRE investment. However, given downgraded expectations for service employment growth, a particular change in this month's forecast, CRE loan growth will be hampered by slow economic conditions, such as low capacity utilization and high inventories.

Chart 4
Commercial Real Estate YoY %



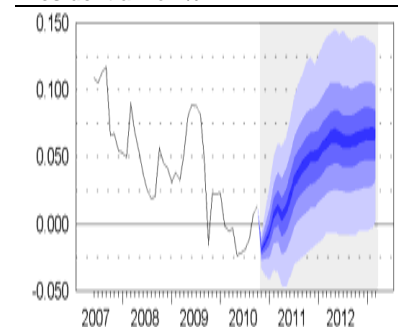
Source: BBVA Research

Chart 5
Residential In \$bn, Nominal



Source: BBVA Research

Chart 6
Residential YoY %

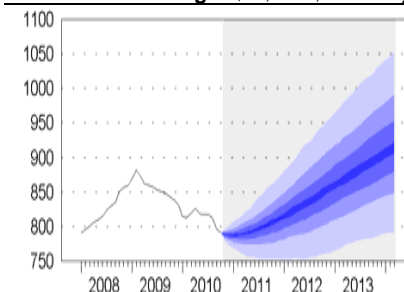


Source: BBVA Research

Residential

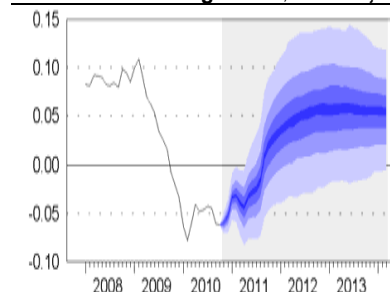
The most recent Federal Reserve survey of senior loan officers illustrated weak demand and persistent tightening in the prime loan market. The sum of home equity lines of credit and closed-end residential loans for commercial banks has hovered around \$2.1tr since 2008. Eventually we expect demographic pressures to return, but for the next few months we will see renewed YoY declines in residential lending. A more rapid improvement in banks' asset quality will cause revisions to the upside.

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



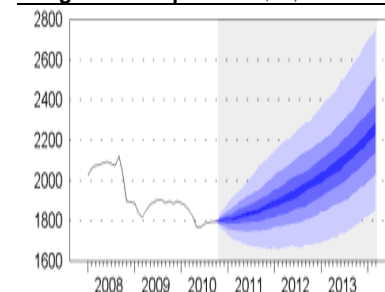
Source: BBVA Research

Chart 8
Consumer Lending YoY %, FASB Adj.



Source: BBVA Research

Chart 9
Large Time Deposits In \$bn, Nominal

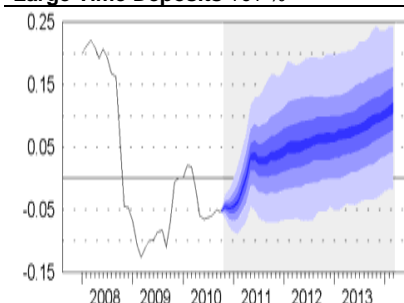


Source: BBVA Research

Consumer credit

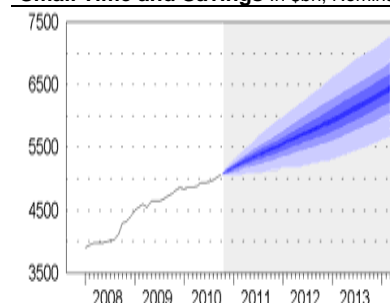
In the previous month we recalibrated both the break-adjustment for FASB 166 and 167 changes and the employment input into the model. This development underscores some of the important drivers of consumer credit growth this year: changes in regulatory treatments of consumer credit and the employment situation. Another contributing factor is the growth of durable goods purchases – automobiles for the most part – and their rate of replacement. We expect an improving trend amidst YoY declines.

Chart 10
Large Time Deposits YoY %



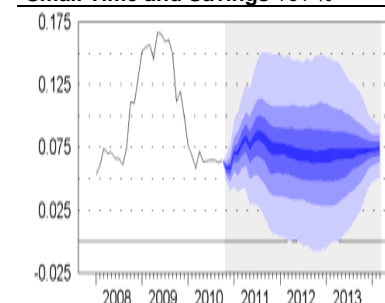
Source: BBVA Research

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



Source: BBVA Research

Chart 12
Small Time and Savings YoY %

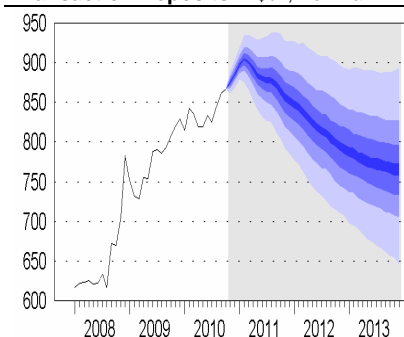


Source: BBVA Research

Deposits

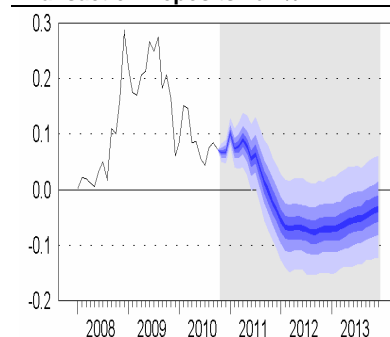
Large time deposits continue to be influenced by meager business activity and yields. Small time and savings deposits are generally growing at their trend rates. Transaction deposits are heavily influenced by the velocity of money, which, contrary to our expectation, continued to decline precipitously during the summer. Given this decline and expecting a flat velocity consistent with slow economic activity, transaction deposits should grow at a higher than previously expected pace. We expect improvements in total deposit growth.

Chart 13
Transaction Deposits In \$bn, Nominal



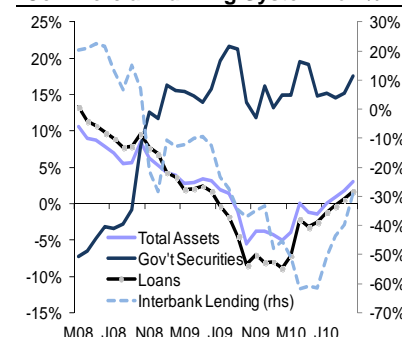
Source: BBVA Research

Chart 14
Transaction Deposits YoY %



Source: BBVA Research

Chart 15
Commercial Banking System YoY %

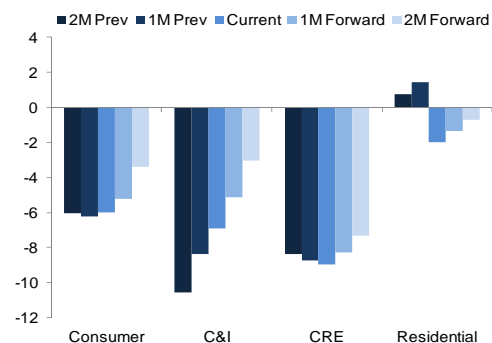


Source: Federal Reserve

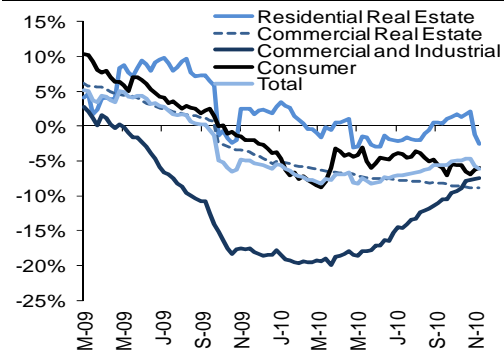
Table 1
Banking System Update YoY % Change

	Consumer	C&I	CRE	Residential	Small Time / Savings	Large Time	Transactions
Deviation	0.5	-0.4	-0.6	0.7	0.2	-0.4	0.6
2M Prev	-4.5	-12.2	-8.1	-1.1	6.5	-5.9	7.6
1M Prev	-6.0	-10.5	-8.4	0.8	6.2	-5.1	8.4
Actual	-6.2	-8.4	-8.7	2.2	6.4	-5.4	7.2
Predicted	-6.7	-8.0	-8.2	1.4	6.2	-5.0	6.7
Next Month	-6.0	-6.9	-8.9	-2.0	5.8	-4.6	6.6
2M Forward	-5.2	-5.1	-8.3	-1.3	5.8	-4.9	6.7
3M Forward	-3.4	-3.0	-7.3	-0.7	6.9	-4.5	10.2

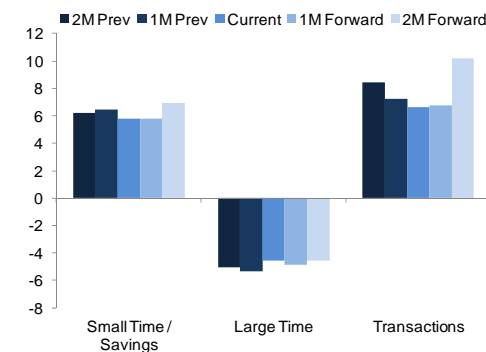
Source: BBVA Research

Chart 16
Credit Growth Snapshot YoY %

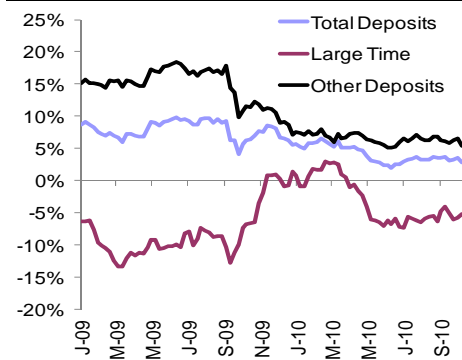
Source: BBVA Research

Chart 18
Commercial Bank Loans YoY %, Consumer Adj.

Source: Federal Reserve

Chart 17
Deposit Growth Snapshot YoY %

Source: BBVA Research

Chart 19
Commercial Bank Deposits YoY %

Source: Federal Reserve

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