

Banking Watch

US

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Economic Analysis

US

Kim Fraser
kim.fraser@bbvacompass.com

Quarterly Credit Quality Update

- Commercial bank asset quality appears to be improving, with declines in both delinquency and charge-off rates. Residential loans continue to weigh on overall conditions, though we expect to see gradual improvement in real estate asset quality compared to year-ago rates.
- Homeowner repayment conditions are less troublesome compared to the peak of the recession, in line with improvements in personal finances. However, rising rent costs have increased the risk for borrowers renting their homes.

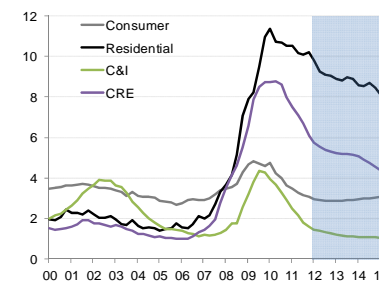
Breakdown of the Recent Data

In 4Q11, delinquency rates declined slightly for most loan categories. On average, mortgage and commercial real estate (CRE) delinquency rates hit 10.3% and 7.1% in 2011, respectively, much lower than the 2010 averages of 10.9% and 8.7%. Outside of real estate, asset quality is stabilizing, with commercial and industrial (C&I) and consumer delinquencies recovering close to pre-recession levels. Net charge-offs fell to the lowest level in more than three years at 1.4% of total loans, bringing the annual rate to 1.55% compared to 2.55% in 2010.

On the Horizon for Credit Quality

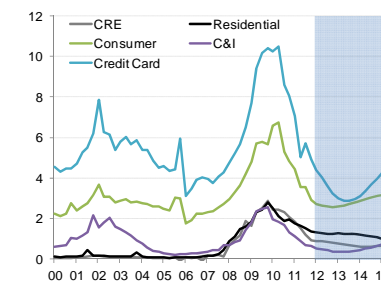
According to the latest Senior Loan Officer Survey (SLOS), banks' willingness to lend to consumers declined slightly even with more banks expecting ameliorating delinquencies and charge-off rates for most of the major loan categories. We expect that asset quality will continue to improve in trend, though mortgage loans will likely remain weak as long as the housing sector struggles. In addition, loan loss reserves are likely to level off as lender confidence improves and the economic recovery strengthens.

Chart 1
Commercial Bank Delinquencies (%)



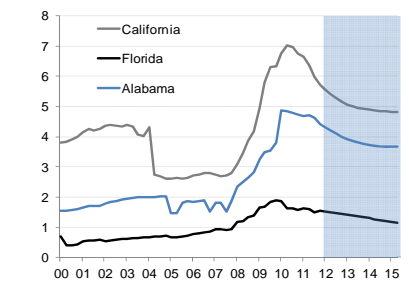
Source: BBVA Research

Chart 2
Commercial Bank Charge-offs (%)



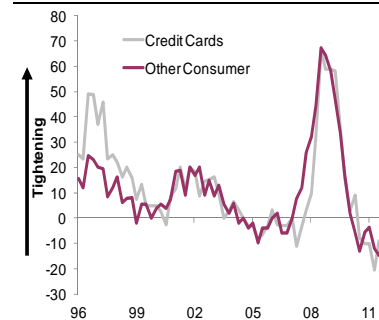
Source: BBVA Research

Chart 3
State Loan Loss Reserves (\$mn)



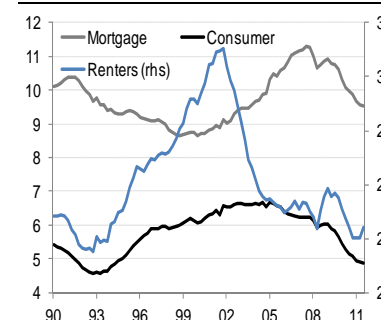
Source: BBVA Research

Chart 4
Consumer Loan Standards (% banks)



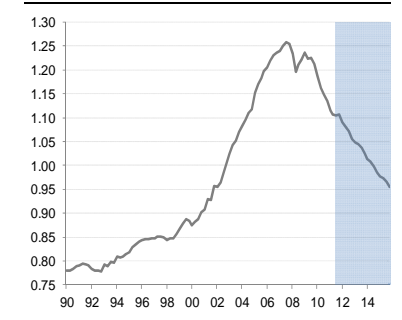
Source: FRB Senior Loan Officer Survey

Chart 5
Financial Obligation Ratios (%)



Source: Federal Reserve

Chart 6
Debt-to-Income Ratio (%)



Source: BBVA Research