

# Banking Watch

US

Houston, September 17, 2012  
Economic Analysis

US

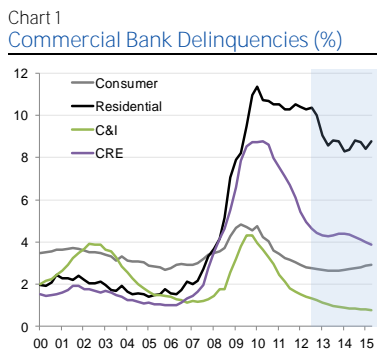
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## Quarterly Credit Quality Update

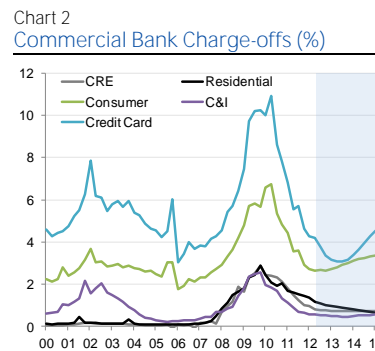
- Residential delinquencies continue to be the weak spot in overall asset performance, yet the CRE delinquency rate has declined significantly. On the other hand, charge-offs are mostly back to pre-recession levels for all major loan categories.
- Economic uncertainty is weighing on consumers, discouraging consumption despite gains in personal income. Household financial conditions have improved since the recession but remain strained due to continued deleveraging.

### Breakdown of the Recent Data

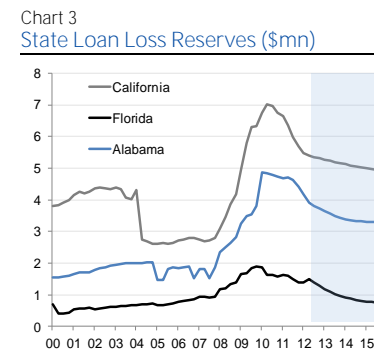
Asset quality in the second quarter of 2012 improved only slightly for most major loan categories, but we expect that this gradual trend will continue through the next year. The residential delinquency rate hovers just below 10.5% and has basically been flat since 2010. Charge-off rates have declined much faster and show almost a full performance recovery. In fact, we expect that the normal pre-recession cyclical patterns will resume after the next year or so.



Source: BBVA Research



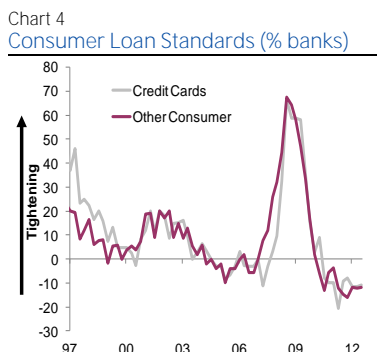
Source: BBVA Research



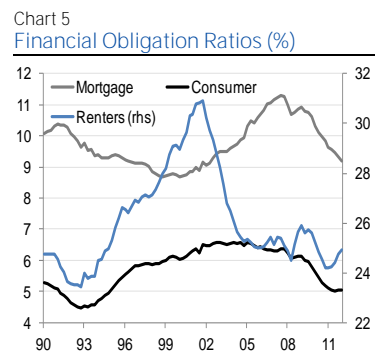
Source: BBVA Research

### On the Horizon for Credit Quality

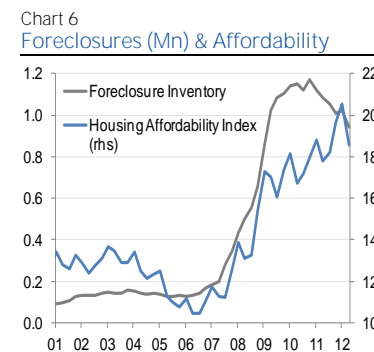
Bank performance clearly hit rock bottom a few years ago, so the only way to go is up. Consumer activity is gaining momentum, and recent actions from the Fed should help to stimulate the housing market. The process will no doubt be very gradual, depending in large part on the fiscal cliff impact in 2013. In general, though, we expect that by 2014 we should see accelerating improvement in real estate lending, as most other categories will have fully recovered.



Source: FRB Senior Loan Officer Survey



Source: Federal Reserve & BBVA Research



Source: NAR & BBVA Research

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