

Banking Watch

US

Houston, October 17, 2013
Economic Analysis

US
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Quarterly Credit Quality Update: 3Q13

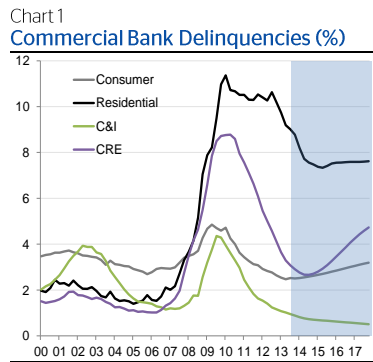
- Commercial banks in the U.S. are certainly seeing an improvement in asset quality, particularly in consumer and C&I lending. However, the real estate story remains unchanged, with the mortgage delinquency rate down only a few percentage points since the recession.
- Household finances are on the right track as deleveraging slows and debt obligations dwindle. With interest rates expected to remain low for the next few years, it is likely that consumers will start to take on more debt again, albeit in small doses.

Breakdown of the Recent Data

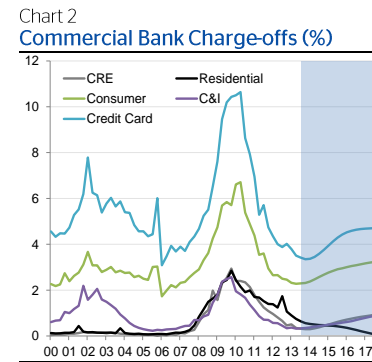
As usual, residential lending remains the sore spot in an otherwise healthier banking environment. Even CRE asset quality, which took a big hit in 2008, has mostly recovered to pre-crisis conditions. The damage to the residential sector appears to be largely structural, and we do not expect that mortgage delinquencies will even come close to approaching pre-recession levels for the next few years. Charge-offs, on the other hand, have definitely stabilized for all loan types.

On the Horizon for Credit Quality

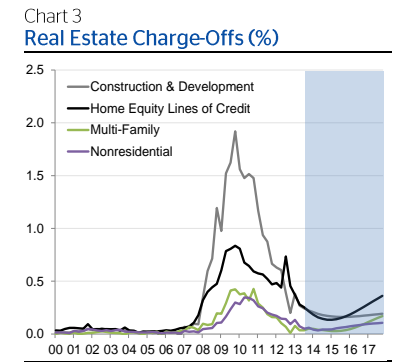
The economic recovery has definitely been sluggish, and both businesses and consumers remain hesitant to fully commit to increased spending. At the same time, low interest rates provide a very attractive market for those looking to invest. Although risks have not completely diminished (particularly for the housing market), we expect to see increasing demand and a gradual easing of credit conditions over the next few years. Of course, looming fiscal uncertainty poses a threat to overall economic confidence.



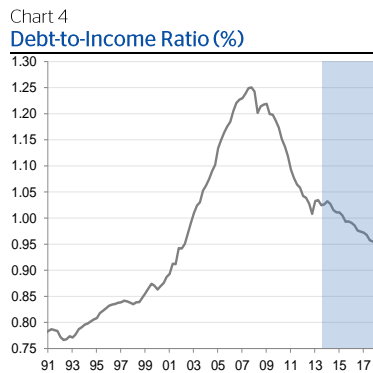
Source: BBVA Research



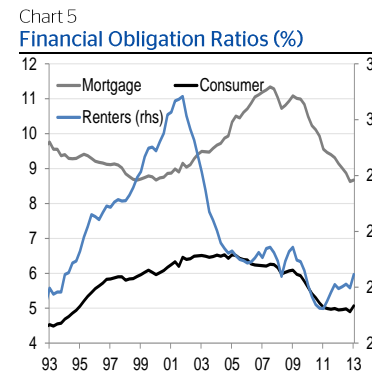
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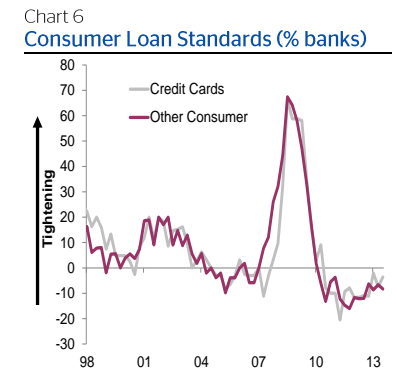
Source: BBVA Research



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