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Banking Watch

US

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Economic Analysis

US
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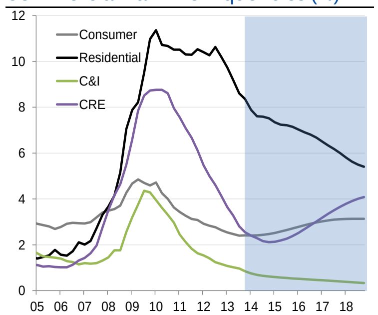
Quarterly Credit Quality Update

- 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

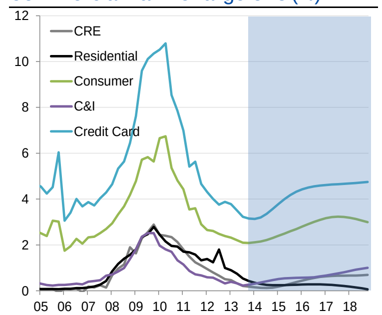
Commercial banks continue to make strides toward healthy balance sheets, with delinquency and charge-off rates falling throughout 2013. At the same time, confidence has increased and both consumers and businesses feel comfortable and willing to take on more debt. Interest rates and lending conditions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

Chart 1
Commercial Bank Delinquencies (%)



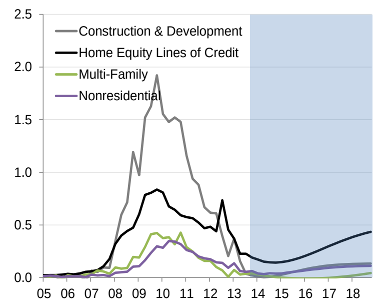
Source: BBVA Research

Chart 2
Commercial Bank Charge-offs (%)



Source: BBVA Research

Chart 3
Real Estate Charge-Offs (%)

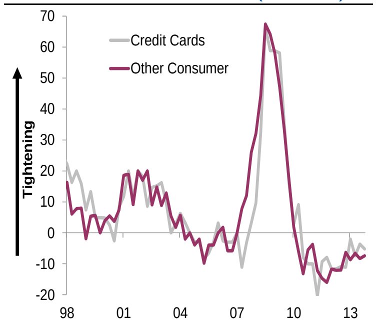


Source: BBVA Research

On the Horizon for Credit Quality

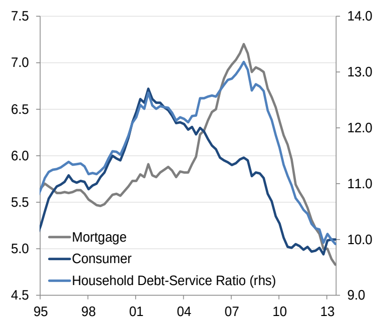
Asset quality has come a long way since the crisis, and we expect the positive trends to continue on the back of rising economic confidence. While most loan categories have recovered nicely, residential lending sticks out like a sore thumb. As many borrowers remain underwater, we do not expect a return 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.

Chart 4
Consumer Loan Standards (% banks)



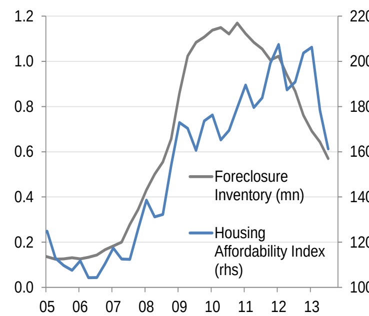
Source: FRB & BBVA Research

Chart 5
Household Debt-Service Ratios (%)



Source: FRB & BBVA Research

Chart 6
Foreclosures and Affordability



Source: MBA, NAR, & BBVA Research