

Banking Watch

US

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Economic Analysis

US
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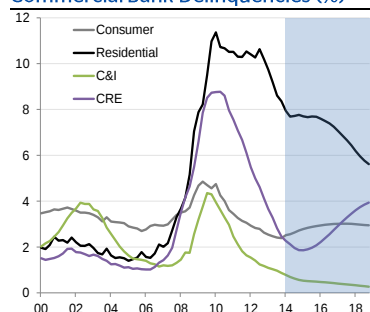
Quarterly Credit Quality Update

- As delinquencies and charge-offs hover near pre-recession lows for consumer and commercial lending, banks remained focus on residential loan quality. While we have seen improvement, the mortgage delinquency rate remains above 8.0% vs. 5.0% before the crisis.
- Household debt has recovered from the recession and consumers are looking to leverage once again. At the same time, commercial banks are maintaining relatively easy lending standards on credit cards and other consumer loans as the quality of borrowers improves.

Breakdown of the Recent Data

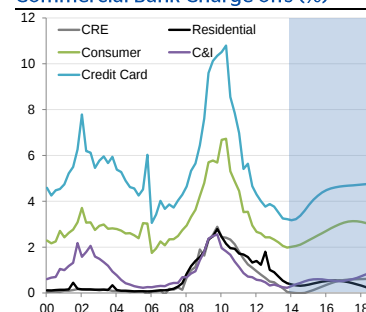
Asset quality has bottomed out near pre-recession lows and should remain stable for most loan categories, with residential being the major exception. Although mortgage delinquencies remain high, banks have brought charge-offs back down to usual levels. Commercial real estate is in much better shape, with the delinquency rate near 2.0%. At the same time, banks continue to increase consumer lending activity as confidence in the economy is gradually restored.

Chart 1
Commercial Bank Delinquencies (%)



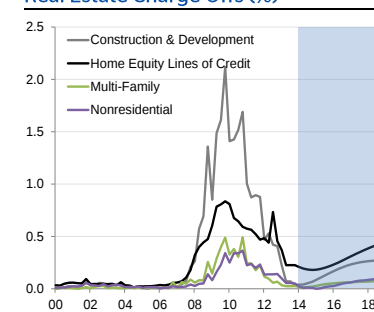
Source: BBVA Research

Chart 2
Commercial Bank Charge-offs (%)



Source: BBVA Research

Chart 3
Real Estate Charge-Offs (%)

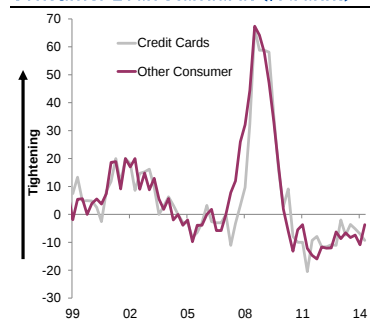


Source: BBVA Research

On the Horizon for Credit Quality

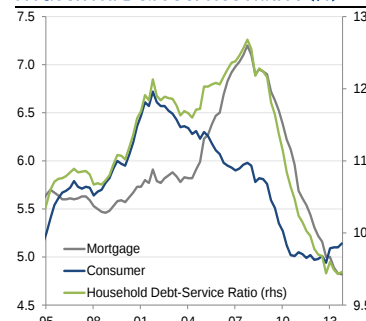
Aside from another year of low interest rates, 2014 brings us closer to the end of household deleveraging and continued improvement in economic confidence. As such, we are experiencing an increased willingness to borrow and lend. Consumer delinquency rates have reached historical lows but the "normal" business cycle suggests a healthy uptick in the near term. Meanwhile, pre-crisis levels remain far out of reach when it comes to residential lending.

Chart 4
Consumer Loan Standards (% banks)



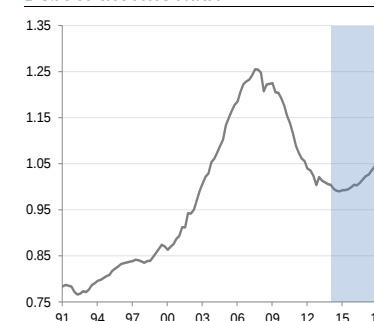
Source: FRB & BBVA Research

Chart 5
Household Debt-Service Ratios (%)



Source: FRB & BBVA Research

Chart 6
Debt-to-Income Ratio



Source: BBVA Research

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