Which Canadian Bank Is Most at Risk From a Housing Slowdown?

Description

With all the attention placed on Canada's housing market, there is a lot of concern about how the Canadian banks are affected. But which ones are the most exposed?

When comparing the different banks, it is important to keep one thing in mind: Canada is not like the United States. Here, mortgages are the lowest-risk loans that banks can hold. But a housing downturn would have other knock-on effects on the Canadian economy. Home and condo developers would struggle. People would lose their jobs. Businesses and individuals may have trouble paying their loans and credit card bills. Economic growth would slow.

So in the end, the bank with the biggest exposure to the Canadian housing market is really the bank with the biggest exposure to Canada overall. Here is how the banks compare:

Bank	Canadian Loans (% of total)	Canadian Income (% of total)
Royal Bank of Canada	89%	76%
TD Bank	74%	64%
Bank of Nova Scotia	69%	52%
Bank of Montreal	73%	69%
CIBC	92%	83%

The least exposed: Bank of Nova Scotia

This should surprise no one. **Bank of Nova Scotia** (TSX: BNS)(NYSE: BNS) is well-known as Canada's most international bank, and this shows up in the numbers. Only 69% of its loans are in Canada, as well as barely half its net income. As a bonus, two-thirds of its Canadian loans are mortgages, more than any of the other big banks.

Not just in the U.S.: TD Bank and Bank of Montreal

The two banks most aggressively pursuing the United States are **TD Bank** (TSX:TD)(NYSE:TD) and **Bank of Montreal**

(TSX:BMO)(NYSE:BMO). But these banks also have similar exposures in Canada, and they are certainly higher exposures than Bank of Nova Scotia. Also these banks have less than half of their Canadian loans in mortgages. So investors should certainly be careful.

The most exposed: Royal Bank of Canada and CIBC

Again, this should not be surprising. **Royal Bank** (TSX: RY)(NYSE: RY) and **CIBC** (TSX: CM)(NYSE: CM) have no significant retail banking operations outside of Canada. As a result, they are the most exposed. One mitigating factor is their strong emphasis on mortgages, accounting for 60% of the Canadian loan book for each bank. But both companies will certainly feel the pinch if the Canadian housing market does poorly.

Foolish bottom line

All this has been moot so far, with the Canadian housing market performing so well to this point. But these comparisons are important to make when deciding which bank to own.

Of course there is no rule that you have to own any of the banks at all. If you really believe that a housing crash is coming to Canada, it's probably a good idea to avoid the banks altogether.

CATEGORY

1. Investing

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1. TSX:BMO (Bank Of Montreal)
2. TSX:BNS (Bank Of Nova Scotia)
3. TSX:CM (Canadian Imperial Bank of Commerce)
4. TSX:RY (Royal Bank of Canada)
5. TSX:TD (The Toronto-Dominion Bank)

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Date
2025/09/14
Date Created
2014/04/22
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