

Toronto-Dominion Bank Just Got Some Great News From the United States

Description

Toronto-Dominion Bank ([TSX:TD](#))([NYSE:TD](#)) has faced plenty of challenges since entering the United States just over a decade ago.

Most notably, the financial crisis of 2008-2009 came right after TD's US\$8.5 billion takeover of New Jersey-based Commerce Bancorp. America's recovery from the crisis has been slow, and persistently low interest rates have compressed margins. And to top it all off, the industry remains very competitive.

But TD's U.S. banking operations got some great news on Friday, and it may be a sign of greater things to come.

Some perspective

Most Canadians still don't know that TD actually has more branches in the United States than it does in Canada. At the end of last fiscal year the bank had 1,318 locations in the U.S. compared with only 1,165 locations here in Canada.

Yet TD's Canadian operations are far more profitable. To be more specific, TD's Canadian retail business earned roughly three times as much income as the U.S. business last fiscal year. Return on equity in Canada was roughly five times as high.

There are a few reasons for this difference. As mentioned, the United States is far more competitive. But there's another big reason: TD has too many deposits in the U.S. and not enough loans. This has forced the bank to invest in lower-yielding securities.

The good news

On Friday, the U.S. Bureau of Labor Statistics revealed that the country added an astounding 271,000 jobs in the month of October. Most estimates had called for less than 200,000.

This bolsters the case for an interest rate hike by the Federal Reserve. Futures markets are pricing in a 70%+ probability of this taking place in December. Banks have been waiting for such a rate hike for years as it will provide a nice boost to loan margins.

To put this in perspective, TD has \$360 billion worth of deposits in the United States. So, if the bank was able to earn an extra 1% on these deposits, that would equate to \$3.6 billion (pre-tax), or \$2 per share.

Only the beginning?

In reality, you shouldn't expect such a big uplift so quickly. But this could be the start of a very strong period for TD's U.S. business.

First of all, with more Americans working, you could easily see a larger demand for loans. And if the Fed does indeed raise rates, then TD could earn a higher margin on those loans, too.

Meanwhile, the U.S. banking industry is slowly consolidating as smaller banks are having a tough time dealing with heightened regulations and technology requirements. This may allow TD to expand its business—as well as its margins—even further.

CATEGORY

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