



Will New Mortgage Rules Deal Another Blow to Alternative Lenders?

Description

A report from **Toronto-Dominion Bank** on August 28 commented on an OSFI proposal to come down on non-insured mortgages. The proposal would require those with a down payment of 20% or above, which allows buyers to avoid mortgage insurance, to qualify based on a rate 200 basis points above what is contracted. The report predicted that this move could depress demand by 5-10% and decrease prices by 2-4% from the original forecast in 2018.

Prices have dropped over 20% in the Greater Toronto Area after new regulations introduced by the Ontario government and an interest rate hike by the Bank of Canada. Regardless, experts expect prices to remain high, just not at the red-hot levels seen in the spring of 2017.

Equitable Group Inc. ([TSX:EQB](#)) released its second-quarter results on August 10. Net income rose 16% compared to Q2 2016, but that's a drop of 10% from Q1 2017. Mortgages under management were reported at \$10 billion, up from \$9 billion the previous year. Equitable Group commented on OSFI's Guideline B-20 and said that it was likely to result in the reduction of available lending opportunities.

Tightening on the qualifications for insured loans will also likely drop insured prime originations, but the business represents only 2% of Equitable Group's after-tax earnings. The stock has fallen 1.4% month over month as of close on August 30. It offers a dividend of \$0.24 per share, representing a 1.76% dividend yield.

Home Capital Group Inc. ([TSX:HCG](#)) released its second-quarter results on August 2 which included extensive updates on the revamped management team. It reported a net loss of \$111.1 million compared to a net profit of \$66.3 million in Q2 2016. Total loans under administration were reported at \$25.9 billion, which was a slight uptick from \$25.7 billion.

Home Capital Group also reviewed the OSFI Guideline B-20 in the quarterly report. The company deduced that the proposal would likely reduce the size of the uninsured mortgage market available. It also predicted that the proposed changes would increase the rate of renewals of mortgage loans. The conclusion is that tightening mortgage rules would improve retention as mortgage hunting would be

made more difficult for large swathes of consumers.

The stock has fallen 4.6% month over month as of August 30. Shares have declined and now flattened since the purchase of a major stake by **Berkshire Hathaway Inc.** In addition to lingering concerns about the company, investors may also be driven away due to rising rates and the dramatically cooling housing market.

New mortgage regulations, if implemented, will undoubtedly slow the rate of growth that Home Capital Group and Equitable Group experienced in the past. Increased rate of retention could be a silver lining, but declines across the entire real estate industry will likely create downward pressure on both stocks in the short and medium term.

Investors should steer clear of alternative lender stocks as the Canadian housing market finds itself in a period of adjustment and the possibility of stagnation in the medium term.

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