2 Ways Bank and Insurance Stocks Could Be Impacted by Housing in 2018

Description

Canadian home sales increased for the third consecutive month in October, seemingly vindicating the calls from real estate experts that the fall months would see a bounce back for Canada housing. According to the Canadian Real Estate Association, sales in the MLS system were up 0.9% in October from September, with particularly strong results in Toronto and Fraser Valley, B.C.

Year-over-year home sales were still down 4.3%, and prices for detached homes slipped, while condominium prices have started to rally once again. In a recent article, I'd discussed the analysis from **Canadian Imperial Bank of Commerce** deputy economist Benjamin Tal. Tal predicted that pressure on inventories and high immigration rates into city centres would prop up demand in 2018.

Other experts and analysts are already predicting a rocky year for housing in 2018. Let's look at a few reasons why housing could drag down top performers next year.

New OSFI rules set to slow down uninsured buyers

When the OSFI laid out some of the changes in the summer, alternative lenders **Home Capital Group Inc.** and **Equitable Group Inc.** sounded warnings when second-quarter results were released. Both lenders believed that the new rules would stifle loan growth, as I discussed here.

Genworth MI Canada Inc. (TSX:MIC) is a Canadian private residential mortgage insurer. Shares of Genworth have increased 28.6% in 2017 as of close on November 21 and 39% year over year. The stock also offers a dividend of $0.47 per share with a 4.3% dividend yield. Genworth is unique in that it will likely see minimal impact from the proposed changes as the company deals with insured buyers.

First National Financial Corp. (TSX:FN), a commercial and residential lender, finds itself in a similar position. Its stock has climbed 9.9% in 2017 and 21% year over year. It also boasts a dividend of $0.15 per share, representing a 6.2% dividend yield.

Both insurers remain a solid buy heading into 2018.

Bank clients could migrate to alternative lenders

Uninsured buyers who opt for prime lenders will experience less flexibility starting January 1, 2018. This could funnel buyers from banks to alternative lenders, who will be subject to higher premiums. The windfall to alternative lenders would likely be welcomed considering the aforementioned drop in expectations from companies like Home Capital Group.

The news is not all bad for institutions like **Royal Bank of Canada** (TSX:RY)(NYSE:RY) and **Toronto-Dominion Bank** (TSX:TD)(NYSE:TD), both hold the largest mortgage portfolios of the major Canadian banks. Although credit growth may be hindered by the new rules, retention rates are expected to skyrocket for borrowers with the stress test spanning across both insured and uninsured mortgages as of 2018.

Though the Bank of Canada struck a dovish tone on interest rates in its latest meeting, the central bank is still expected to move forward with tightening in 2018 and beyond. This will be a big boon for bank profitability.

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Date
2025/08/20
Date Created
2017/11/27
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