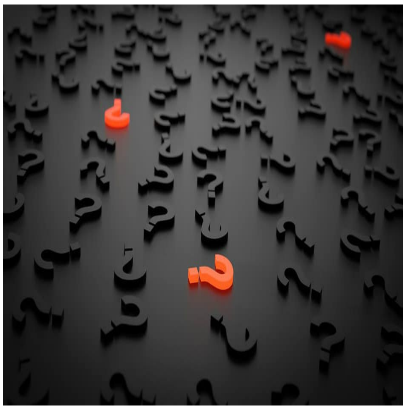

# The End of Easy Money? 3 Stocks to Watch as Credit Tightens

## Description

Statistics Canada released data on March 15 that revealed debt to income fell in the fourth quarter of 2017. For some analysts, this is an encouraging sign that Canadian households and consumers at large have started to adjust to the new reality of higher interest rates. The total-household-debt service ratio was static at 13.8% and household-credit market debt rose 1.1% to $2.13 trillion.



The Bank of Canada elected to hold the benchmark interest rate at 1.25% at its most recent meeting, citing trade and housing concerns. However, for the long term, the central bank intends to bring Canada closer to its "neutral" rate, which is now between 2.5% and 3.5%. Some analysts have predicted as little as one more rate hike in 2018, and at the rate the central bank is moving, it could be a while before we see the benchmark move to this target.

In any case, barring a sluggish economic turn, the central bank will proceed with tightening in the coming months and years. Today, we will look at three stocks that could be affected by this policy.

**Goeasy Ltd.** (TSX:GSY)

Goeasy is a Mississauga-based company that provides alternative financial services, such as the merchandise leasing of household furnishings and other products. The company is specifically geared to consumers that may have a lower-than-average credit rating. Shares are up 3.2% in 2018 as of close on March 15.

In the fourth quarter, Goeasy reported record originations and loan book growth. The company projects to expand its gross consumer loans portfolio to over $1 billion by 2020 and expects double-digit revenue growth into the next decade. Goeasy could benefit from a tightening credit environment as more consumers turn to alternative options.

**Home Capital Group Inc.** (TSX:HCG)

Home Capital Group is a Toronto-based financial services company that offers residential and commercial mortgage lending. Home Capital stock has plunged 12.6% in 2018 thus far. The Canadian Real Estate Association revised down its projections for the housing market in 2018. It now sees sales falling 12% year over year in Ontario and 11% in British Columbia.

In the fourth quarter of 2017, Home Capital mortgage originations fell 64.1% year over year to $872.1 million. The company has undergone major internal restructuring since its near collapse mid-2017. Credit tightening and new OSFI mortgage rules that apply stress tests on uninsured lenders could be a difficult mix for Home Capital in 2018, as it attempts to get back on track.

**Royal Bank of Canada** (TSX:RY)(NYSE:RY)

Royal Bank stock has dropped 0.45% in 2018 so far. In the first quarter, Royal Bank saw its mortgage portfolio grow by 6% year over year. CEO David McKay recently praised steps taken by the Canadian government to levy taxes on foreign buyers and other attempts to cool the hot housing market. McKay believes these initiatives will lead to “more healthy dynamics.” Higher interest rates should also boost profit margins for loans at major Canadian banks, which may offset slower credit growth.

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