Will the Canadian Housing Crash Materialize in 2019?

Description

A Canadian housing crash seems to have already begun.

Canadian real estate sales fell over 11% in 2018, with mortgage rates and risk rising. Home prices are falling, and the stock market has been falling.

All of these affect the real and perceived wealth of Canadians, thereby affecting the volume and creditworthiness of mortgages and loans.

Let's look at two financial stocks that are at risk.

Toronto-Dominion Bank (TSX:TD)(NYSE:TD) stock is pretty much flat on a one-year basis but down almost 10% from its 2018 highs.

In a somewhat counter-intuitive result, Canadian residential mortgages at TD grew by 1.8% in the fourth quarter of fiscal 2018 — the highest growth rate in mortgages for TD in the last year.

Residential mortgages accounted for almost 47% of the bank's Canadian retail lending portfolio.

So, the bank is vulnerable to a slowdown in new mortgages, but as far as credit issues with existing mortgages, it is pretty sheltered.

With CMHC mortgage loan insurance, which borrowers who put a down payment of less than 20% on their mortgage must purchase, the lender is protected in case payments cannot be made.

It does not bear as big a risk as it would otherwise have.

A bigger risk lies in credit lines tied to home prices as well as the bank's corporate loan books.

Home equity lines of credit are at risk of seeing downward pressure as real estate prices fall, and this would reduce the bank's line of credit balances, and consequently, their revenue-generation capability.

The diversification of the bank's loan portfolios and the risk-limiting strategies of TD Bank ensure that they will make it through the good times and bad times, all while driving shareholder value.

Home Capital Group (TSX:HCG) is a different story.

Home Capital stock is down a bit versus last year in what has been a very volatile year for the stock.

As of the third quarter of 2018, residential mortgages at Home Capital accounted for 58% of its total loan portfolio.

And this portfolio is an extremely vulnerable one, because it focuses on the "higher-risk" homeowners, those who typically do not meet all the lending criteria of traditional financial institutions.

Therefore, uninsured mortgages at Home Capital represent approximately 75% of total mortgages, making the company a higher-risk proposition.

And contrary to TD Bank, whose mortgage loan growth is accelerating, Home Capital's mortgage loan growth was a negative 2% year over year in the latest quarter.

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