Toronto-Dominion Bank's (TSX:TD) New Way to Make Money

Description

The Toronto-Dominion Bank (TSX:TD)(NYSE:TD) is one of Canada's best bank stocks. Over the past five years, it has returned north of 50%–much better than the TSX in the same period.

But now, with mortgage growth slowing and house prices tanking, the bank is facing a conundrum. Mortgages are the biggest single segment of the company's lending operations, but they're threatened by present real estate trends. In order to drive growth in its domestic operations, TD needs a bold new idea. And lo and behold, it has come up with one:

Mortgage matching

Last year, TD announced that it was adding a "mortgage concierge service" to its popular mobile app. The service offers the ability for home buyers to find mortgage brokers who will get mortgages for them at the right price. In a time of falling house prices and slowing mortgage growth, the idea behind this app is sound. It can help homeowners by finding them mortgages they can afford, and TD itself by increasing mortgage growth. But–assuming the app sees wide adoption–will it work?

How it works

TD's mobile concierge is part of the TD mobile app, which is wildly popular with over one million downloads on the Google Play Store. The feature works by connecting users to mobile mortgage specialists based on their location. Although TD customers have always had the ability to speak with mortgage specialists, finding ones based on geolocation is new. Assuming this feature sees wide adoption, it will allow TD customers to make mortgage appointments more quickly than ever before, which could drive mortgage growth at the company.

Why mortgages are TD's #1 concern

Mortgages are the biggest concern in TD's domestic operations for a number of reasons. For one, they make up 30-35% of the company's lending income. For another, Canadian mortgage growth is slowing, having fallen to 3.1% (the lowest in 17 years) last month. And finally, Canadian home prices have fallen for four consecutive months, which means that new mortgages being issued are smaller than in the past.

In order to get its domestic revenue up, TD needs to work hard on its domestic mortgage lending business. In past articles I've discussed how this might be achieved by changing mortgage rates. The company's mobile mortgage feature may also help with the effort if it catches on.

One final thing worth noting is that TD is uniquely positioned among Canadian banks to withstand the housing slump. About 30% of its total revenue comes from the U.S., and that figure grows each quarter. The U.S. is not currently experiencing any housing slump, so that segment of TD's business remains sound. As for whether it will be enough to produce another year of growth around 10%, we'll have to wait for the next quarterly report to find out.

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Date
2025/09/19
Date Created
2019/02/22
Author
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