
Yes, You Should Worry About Banking Stocks, but Not TD Bank (TSX:TD)

### Description

There’s a word that banking investors should be thinking about right now, and that word is “delinquency.” According to **Equifax Canada**, rates of delinquency – in this context, a failure to make good on one’s debt – carried on rising in the first quarter of 2019.



The new report from the business information agency took up the issue of rising debt among consumers, and noted that seniors in particular were skipping out on non-mortgage debt repayments, with a 9.4% year-on-year rise for the 3-month period among that cohort.

Overall, the average increase across all demographics was a worrying 3.5%. Worse still, the amount of debt an average Canadian currently carries went up by 2.6% compared to last year to $71,300 in the first quarter.

## Consumers’ dependence on credit is an increasing risk

Equifax Canada’s VP, Bill Johnston, commented, “We continue to see signs of increasing strain for Canadian borrowers. The utilization of credit cards has been trending higher and gaining momentum. With more consumers growing their average debt, we expect to see further increases in delinquencies in the coming months.”

The report is timely, if not particularly encouraging for banking investors. Stockholders have been left jittery after the May-June sell-off that saw increased market uncertainty and an array of missed expectations among some of the biggest domestic lenders. The effect has been increased fear: You may have heard Steve Eisman’s bearish warnings over Canadian banks or Bay Street’s own Nigel D’Souza cautioning about the threat that lenders face from bad loans.

This is not the only source of danger for an already bear-addled banking sector, however. Equifax Canada was also careful to point out that the mortgage market was slowing down due to the additional regulations that came into effect last year. The stifling effect of these regulations on the sector has contributed to a decline of 12% in the value of new mortgages.

## Canadians should still invest in banks, though with caution

Offering a 3.9% forward annual dividend yield, **Toronto-Dominion Bank** (TSX:TD)(NYSE:TD) is part of the hard core of defensive income stocks on the **TSX**. Potential and current shareholders alike should bear in mind that of all the Big Five banks, TD Bank is arguably the least at risk from a market correction. A glimpse of this defensiveness was seen in the speed at which it recovered in the first week of this month.

In a year of reshuffling, TD Bank is also cutting seven of its mutual funds in order to streamline the TD Bank Asset Management offering line-up, effective September this year, and will also buy back 20 million of its own shares over the next 12 months. In addition to having a greater ability to absorb bad loans than most of its peers, the streamlining of assets in combination with a strong appetite for growth make TD Bank a solid choice for a long-range dividend portfolio.

## The bottom line

Thanks to its size, range, outlook and management style, TD Bank is the lender least likely to reduce its dividend out of the top six banks in Canada. This fact alone makes it a buy for anyone looking to add recession-ready passive income to a TSX stock portfolio this summer.



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