TD Bank (TSX:TD) Could Be Doomed With a Housing Crash

Description

The Canadian housing market is losing upward momentum partly due to the implementation of stringent rules on mortgage lending in June of this year. With Canadian home sales plunging, **Toronto Dominion** (TSX:TD)(NYSE:TD) is bound to take a hit should there be a housing crash.

Toronto Dominion has significant exposure to the housing market. Last July, home prices throughout Canada hit a record high. With the exception of Calgary, however, prices began falling in August.

Based on the data from the Canadian Real Estate Association, home sales for September declined in all major Canadian cities.

Housing sector on the ropes

Toronto Dominion may well be in a precarious state amid the slowing of the housing market for the last three months. About 59% of the bank's retail loans portfolio is a residential mortgage with 0.32% outstanding already considered impaired.

The introduction of more stringent rules in July resulted in a 32.5% drop in home sales in the Greater Vancouver area from a year ago. There was a corresponding drop in the average home price (0.8%) as well in the same period.

While the new measures would not directly impact on TD's mortgage books, its real estate income would diminish due to lesser mortgage originations. Meanwhile, TD is shielded from defaults, as the bank insures mortgages with less than 20% equity in compliance with banking regulations.

Likewise, regulators realize that the chances of a housing crash are higher if housing prices continue to rise without a corresponding increase in household income. Hence, they want to decrease the demand for mortgage loans.

Still, TD derives a significant portion of its revenues from Canada's housing markets. The bank's profit might decline in the coming quarters.

Housing sector correction

With plummeting sales and tighter credit parameters, a severe housing correction looms — an added pressure for TD as the bank has significant exposure to the housing markets. A crash would result in lower house prices, which in turn would put recoveries for TD at risk should its clients start to default.

Aside from mortgage growth, there could be inadvertent consequences on the bank's other consumer lending portfolios in case of a sudden downturn.

Regulators, however, are exerting efforts that would ensure that TD and the other Canadian banks grant loans to borrowers who are able to meet their mortgage loans.

By covering the loans with insurance or maintaining adequate loan-to-security ratios, TD would have a significant cushion if home prices continue to fall.

Resilient bank

There could be fallout if the housing bubble bursts. Apart from being a very durable Canadian bank, TD is a conservative bank as well. Management is fully aware that excessive mortgage growth is not suitable for the bank.

As an investor, a housing crash shouldn't worry you. Toronto Dominion would incur loss only if housing prices fall significantly. The bank is in great shape and has one of the best credit ratings in the banking industry.

TD is also one of the top-performing stocks in the sector so far in 2019. Since 1858, it has been paying dividends and has increased by more than 10% over the past couple of decades. TD is the bank stock you can buy today and hold forever.

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