2 Canadian Bank Stocks for Housing Market Contrarians

Description

A meltdown in the housing market could mean that Canadian banking investors take a big hit if they get their timing wrong. The following two stocks are vulnerable to a potential housing bubble but could potentially survive a downturn thanks to two saving graces: a pinched market turning to alternative finance and a government-endorsed drive to get first-time buyers onto the housing ladder.

A growth stock in the banking space

Roll over Bay Street, because capital gains investors have found a way to boost their wealth without stodgy Big Five stocks. Paying a dividend that currently yields just over 2%, **goeasy** (TSX:GSY) is also a contender for passive income in the financials sector, albeit at a lower rate than its high street peers.

A high-flying banking space disruptor, goeasy hit the TSX 30 at number 14, showing investors that finance can be high growth with the right angle. The alternative finance business saw its share price rocket by 209% over the last three years after growing its presence in the lending and leases market with more than 400 outlets and a strong digital footprint.

A correction could put these stocks on equal footing

Bank of Nova Scotia (TSX:BNS)(NYSE:BNS) may be vulnerable to cracks in the housing market — at least, some investors and market commentators are starting to see it that way. While Scotiabank is well known among investors for being geographically diversified through its Pacific Alliance ties, it's the bank's domestic exposure — specifically, via mortgages and other lines of credit — that are the biggest cause for concern.

However, banks like Scotiabank could find themselves immune to some of the pain from a housing downturn, thanks to government-endorsed routes to first-time home ownership. While a repeat of the subprime crisis could be fomented by such initiatives, Scotiabank could find itself propped up at a federal level, thereby offering investors shelter.

While banks such as Scotiabank would almost certainly find themselves having to eat into profits to stress-proof their businesses in the event of a crashing housing market, “fringe” stocks in the financials space could potentially do better in a tight spot. And even if alternative credit ultimately exacerbates a housing or credit bubble, or both, exposure to those kinds of lenders could nevertheless prove lucrative.

And as appealing as the CMHC-type schemes might seem to first-time buyers, especially a young cohort weighed down with the idea that they will never own property, a state-led drive to sell houses might equally exacerbate the situation. For a first-time investor, then, goeasy and Scotiabank could appear equally attractive in a housing/credit bubble if alternative lenders can navigate the market.

The bottom line

Since goeasy’s position as a last-resort lender is underpinned by the cost of its products, the lender will have to learn to roll with the punches, such as lowered interest ceilings or customers facing reduced levels of solvency. Meanwhile, with the weight of government-endorsed housing policies encouraging first-time buyers behind them, Big Five stocks like Scotiabank could prove more or less untouchable in the long run.

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