Is 2020 the Year of Reckoning for CIBC’s (TSX:CM) Mortgage Loans?

Description

With the start of 2020, we are past all the fourth-quarter financial results for 2019 in the banking sector. The results present us with a crucial insight into how things can turn out for banking sector stocks. We know that Canadians are heavily indebted right now, and the lower interest rates can only go so far in mitigating the effects of mortgage loans on the housing market.

I am going to discuss a significant banking stock that you need to look at again in light of the housing market bubble and mortgage situation. There is a possibility that **Canadian Imperial Bank of Commerce** (TSX:CM)(NYSE:CM) might finally see the crippling effects of the housing market correction come to light.

Let’s take a look at the bank stock and the overall situation, so you can reevaluate your investment portfolio and decide if you need to reprioritize your investments.

Increasing loan-loss provisions

The Canadian government is continuously making efforts to help indebted Canadians climb out of the situation they are in. According to Statistics Canada, the debt-to-income ratio increased to a massive 170% in 2019 for the average Canadian citizen. The ratio has kept rising over recent years, and it places Canadian families at significant risk.

An increasing number of indebted citizens spells horrible news for the banking sector. The credit ratios will continue to go from bad to worse, and the loan-loss provisions will rise drastically high. The last few quarters of fiscal 2019 showed us the effects of the debt problem, the housing situation, and the loan-loss provisions, despite decreasing interest rates on mortgage loans.

Canadian Imperial Bank of Commerce reported an alarming rise in provisions for credit losses in the fourth quarter of 2019. The provision was up by almost 40% compared to the previous quarter at $402 million. The figure was also more than 50% higher than the loan-loss provisions in the same period last year.

Disappointing results

Just a few days into the new decade, we can expect the rising loan loss provision trend to continue this year. The bank's Q4 2019 results reported highly disappointing results for the market. The earnings per share stood at $2.84 compared to market expectations of $3.06. A miss of more than 7% resulted in CIBC stock dropping 5% in value right after the results were posted.

The slowdown in loan growth is evident in its financial results for the latest quarter. The management stated that the mortgage and real estate loans slowed down more drastically than it expected. Canadian Imperial Bank of Commerce is warning everybody that the environment will remain challenging for the sector through 2020.

Foolish takeaway

The Canadian banks are at a critical point right now. Low interest rates are fast on the heels of the banks, as the overall interest margins for the sector decreases. The loan growth slowdown and credit losses accelerating are also going to make things more challenging.

I think it is an excellent time to reconsider your investment in CIBC stock and move to safer stocks to protect your investment portfolio from the effects of the housing market's seemingly inevitable downfall.

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adamothman