



## Can Bank Stocks Still Pay Dividends Given the 6-Month Mortgage Moratorium?

### Description

The Canadian banking sector is facing a familiar scenario with the economy falling into a recession, just like it did in 2008. Many view Canada's banking system as the best in its class. Likewise, the country's six largest banks are considered "Domestic Systemically Important Banks."

With the current pandemic, however, requests for mortgage payment deferrals by customers have reached more than 200,000 already. As of January 2020, total mortgage balances are \$1.06 trillion. If the payment moratorium is six months, can bank stocks still afford to pay dividends?

**Toronto-Dominion Bank** ([TSX:TD](#))([NYSE:TD](#)) and **Canadian Imperial Bank of Commerce** ([TSX:CM](#))([NYSE:CM](#)) are two of the big lenders that are answering the call of providing immediate financial relief or cash flow break to struggling homeowners in Canada.

### Reliable dividend payers

The domestic financial sector is rock solid, because there is a strong regulatory oversight as well as protection from foreign competitors. The low-cost asset base and high switching costs for clients allow banks such as TD and CIBC to earn high margins.

Both banks have an excellent long-term record of performance and stability. History has proven that TD and CIBC are capable of [surviving a global financial crisis](#). In terms of dividends, the two banks are reliable payers. TD has been paying since 1857, while CIBC's record dates back to 1868.

The sharp drop in stock prices due to COVID-19 fears is pushing the yields higher. Currently, the dividend yields of TD and CIBC are 5.63% and 7.53%. However, the payout ratio might go above the usual 50%.

As of this writing, TD is down 21.33% with the stock trading at \$56.77%. CIBC shares have gone down by much as 26.93% to \$77.66.

TD is an esteemed bank and is well diversified in North America. It has more branches south of the

border than in Canada. The operations in the U.S. contribute roughly 30% to total revenue.

Meanwhile, CIBC derives 70% of net income from its personal banking, commercial banking, and wealth management operations in Canada. However, the bank's footprint in America is also growing.

TD and CIBC, along with the other four big banks, are swamped with calls regarding payment of mortgage and other loans. With the heavy volume, digital capability is important. Clients should be able to make requests without going to the bank branches. CIBC and all the big lenders are adding digital capabilities.

## It is not mortgage forgiveness

All six banks gave confirmations that they are allowing qualified clients to defer mortgage payments for up to six months. But the Canadian Bankers Association is advising requesting homeowners to know and understand the offering. The deferral is not mortgage forgiveness.

If you make such a request, you skip payments for a defined period. The accumulated interest and other charges are pushed back, and you'll have to pay them eventually. TD and CIBC are extending help to people facing [financial hardships](#).

## Name of the game

What is unfolding today is extraordinary. For investors with long time horizons, owning high-quality stocks like TD and CIBC is the name of the game. These banks are not in an unfamiliar terrain and should hold up in the face of a major market pullback.

### CATEGORY

1. Bank Stocks
2. Dividend Stocks
3. Investing

### TICKERS GLOBAL

1. NYSE:CM (Canadian Imperial Bank of Commerce)
2. NYSE:TD (The Toronto-Dominion Bank)
3. TSX:CM (Canadian Imperial Bank of Commerce)
4. TSX:TD (The Toronto-Dominion Bank)

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