500,000 Mortgage Deferrals: Will Canadian Bank Stocks Crater?

### Description

The coronavirus-fueled pandemic is making the situation increasingly challenging for Canadians. As the country-wide shutdown drags on, the Canadian Bankers Association (CBA) said that the Big Six are taking measures to help their clients.



In a press release on April 3, 2020, the CBA announced that Canada's six most significant banks have deferred more than 10% of the mortgages in their portfolio. Since the launch of the deferral program announced by the CBA, almost 500,000 Canadians have submitted requests for a mortgage deferral to skip payments.

I am going to discuss why this is a sign we can witness a housing market crash in Canada.

## An insurmountable debt?

Canadian households have borrowed more money to purchase property than in any other developed country in recent years. The burden of debt was bad enough already, but the pandemic has made things much worse.

By the end of 2019, Canada's household debt was more than 100% of Canada's annual gross domestic product (GDP). It means the average Canadian has borrowed more money than the nation's output. This was a worrying situation for a mid- to long-term future for Canada, but the onset of the pandemic has made the debt burden much more drastic.

## Housing market perils

The COVID-19 pandemic has led to a sudden spike in unemployment and the shutdown of businesses. Canadian banks cannot allow people to borrow more money with their debts already substantial. If people cannot borrow or earn any more money, there is a likelihood of a housing market crash.

The 500,000 applications for mortgage deferrals can increase further, as the shutdown continues to impact the Canadian economy. A housing market crash is not an unrealistic fear to have at a time like this. Canadian banks do need to squeeze liquidity.

Between the rising debt and oil price decline, we might have all the right ingredients for a decline in the housing market.

## A REIT to get rid of

The economic hardship we are witnessing right now can have a devastating impact on the stock market. I think real estate investment trusts (REITs) in particular could be hit hard. A widespread incapacity to pay mortgages or rent will dent the income statements for REITs.

While REITs with significant cash and low debt can survive, I don't think the prospects are so bright for REITs with weak balance sheets. **Boardwalk Real Estate Investment Trust** is one of the stocks that I feel could suffer the most during a housing market crash. The REIT has extensive exposure to residential properties in Calgary.

With the decline in crude oil prices and the risk of a crash in residential property value, Boardwalk could be headed towards devastating valuation, and there is nothing it can do about it.



## Foolish takeaway

The mortgage deferrals are a step to help make things easier for Canadians. Still, there is only a point to which delaying or skipping mortgage payments can help the average Canadians. As the lockdown continues, we might be in for a housing market crash.

The broader market might take a significant hit, and REITs with weak balance sheets and overexposure to residential properties could be worse off. At writing, Boardwalk REIT is trading for $24.54 per share, and it is down 52% from its February 2020 peak. I believe there could be a further downward correction, and it would be wise to cut your losses if you own the stock.

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adamothman