CMHC and CDIC: Dire Warnings of a Looming Housing Crash

Description

A historic housing market recession is looming in 2020. Evan Siddall, president and CEO of Canada Mortgage and Housing Corporation (CMHC), warn lenders about risky mortgage lending. However, some quarters hope the CMHC is not correct. Now a housing market controversy is brewing.

default watermark

Housing outlook

The CHMC thinks the housing market is in a precarious state. Siddall expects house prices to weaken towards late 2020 and 2021, as the COVID-19 emergency packages wind down and unemployment remains high.

The CMHC fears the competition for market share between big banks and private lenders poses risk. With ridiculously low interest rates, highly leveraged Canadians are gaining access to mortgages due to non-implementation of the strict lending guidelines passed effective July 1, 2020.

For its part, the Canada Deposit Insurance Corp. (CDIC) stands beside CMHC. Its CEO Peter Routledge backs the housing agency and agrees the scenario exposes too many people to foreclosure. There could be unintended consequences on the long-term economic recovery of Canada if lenders focus on short-term gains.

Undermines financial system

Gordon Nixon, chairman of **BCE** and former CEO of **Royal Bank of Canada** (TSX:RY)(NYSE:RY), or RBC, finds the CMHC head’s message somewhat extreme and alarming. While the concerns are valid, Nixon said the mortgage market has been continuously vigilant and responsible. Others are saying the warning is divisive and undermines Canada’s financial system.

CMHC, a government-backed insurance provider, is losing market share, because it's imposing restrictions on high-risk borrowers. Siddall said private insurers are taking advantage of CMHC's weakening position. The CHMC might lose its ability to protect the mortgage market in case of a crisis.

Investors' pick

Canada's banking sector is under the microscope, including the country's largest bank. In the second-quarter earnings season, the big banks raised their credit loss provisions and granted mortgage payment deferrals. The banks expect credit losses to increase in the coming quarters.

RBC's residential mortgage portfolio rose 10.48% (from $248 billion to $274 million) year over year, but its credit loss provision jumped to 546% to $2.83 billion. As a result, net come dropped 54% to $1.48 billion. The bank now has $5.9 billion in total allowances to absorb future loan losses.

Globally, RBC approved 492,500 deferral requests, which are worth $76 billion of outstanding loans. Mortgage deferrals accounted for 14% of all approved deferrals ($47 billion). Notably, 71% of RBC's mortgages are uninsured. According to the bank's chief risk officer Rod Bolger, mortgage growth should taper to mid- to single digits by year-end.

default watermark

Despite the higher loan-loss provision and deferral programs, RBC remains as appealing to income investors. The bank stock is trading at less than $100 and is losing by only 1.6% year to date. Its dividend yield is 4.44%, while the payout ratio is below 55%. Keep in mind that RBC's dividend track record is 150 years.

Risks to recovery

The CHMC and CDIC have reasons to worry. Potential homeowners are rushing to obtain mortgages for fear of missing out on the housing market. However, CHMC said they're living too close to the edge. If low housing prices and high unemployment rate plays out, it will compromise economic recovery.

CATEGORY

1. Bank Stocks
2. Dividend Stocks
3. Investing

POST TAG

1. Editor's Choice

TICKERS GLOBAL

1. NYSE:RY (Royal Bank of Canada)
2. TSX:RY (Royal Bank of Canada)

PARTNER-FEEDS

1. Business Insider
2. Koyfin
3. Msn
4. Newscred
5. Sharewise
6. Yahoo CA

Category

1. Bank Stocks
2. Dividend Stocks
3. Investing

Tags

1. Editor's Choice

Date
2025/08/27
Date Created
2020/08/25
Author
cliew

default watermark

default watermark