



TFSA Investors: 1 Dirt-Cheap Bank Stock to Buy Now

Description

VersaBank (TSX:VB) is a Canadian Schedule I chartered bank. The bank became the world's first [fully digital financial institution](#) when it adopted a highly efficient business-to-business model using a proprietary state-of-the art financial technology to profitably address underserved segments of the Canadian banking market in the pursuit of superior net interest margins while mitigating risk.

VersaBank obtains all deposits and provides the majority of the bank's loans and leases electronically, with innovative deposit and lending solutions for financial intermediaries. In addition, leveraging the bank's internally developed information technology (IT) security software and capabilities, VersaBank established a wholly owned subsidiary, DRTC, to pursue significant large-market opportunities in cyber security and develop innovative solutions to address the rapidly growing volume of cyber threats challenging financial institutions, multi-national corporations, and government entities on a daily basis.

Well-secured loans

Commercial loans are originated through a well-established network of mortgage brokers and syndication partners and through direct contact with VersaBank's clients. These loans are well secured by real estate primarily located in Ontario. VersaBank approaches the mortgage business with caution and lets the non-core portion of the portfolio run-off. Loans in the most recent quarter amounted to about \$700 million.

Small loan and lease receivables are electronically purchased from VersaBank's network of origination partners, who make point of sale loans and leases in various markets throughout Canada. This business continues to indicate strong potential for growth and enhanced profitability and, further, has been structured such that the risk profile remains within the bank's risk appetite.

Significant competitive advantages

Accordingly, VersaBank continues to allocate considerable resources to the development of innovative enhancements to maintain the bank's [competitive advantage](#) and increase the rate of portfolio growth.

Lending assets amount to about \$1 billion.

The bank has established three core low-cost diversified funding channels that provide it with a significant cost of funds advantage. These include personal deposits, commercial deposits, and holdbacks retained from VersaBank's loan and lease receivables origination partners that are classified as other liabilities. Personal deposits, consisting principally of guaranteed investment certificates, are sourced primarily through a well-established and well-diversified deposit broker network that the bank continues to grow and expand across Canada.

State-of-the-art technology

Commercial deposits are sourced primarily through custom operating accounts made available to insolvency professionals. VersaBank has developed state-of-the-art customized banking software that is used by insolvency professionals. VersaBank's custom banking software integrates banking services with the market-leading software platforms used primarily in the administration of consumer bankruptcy and proposal restructuring proceedings.

Solid capital position

VersaBank's leverage ratio is one of the most conservative in the industry, being more than twice the average leverage ratio of the major Canadian banks. The bank's business strategy involves taking lower credit risk but achieving higher returns by providing innovative, technology-based solutions and superior service in niche markets that are not well served by the larger financial institutions. VersaBank consistently leads the Canadian lending industry with very low credit losses.

Further, the bank has the ability to scale up operations to address large-market opportunities and develop innovative solutions to address the rapidly growing volume of Canadians looking for efficient banking services.

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