



## The Fall of Home Capital Group Inc: What Does it Mean for the Canadian Housing Market?

### Description

Canada's housing market is a hot topic these days with close to 55% of regional markets in Canada reporting price inflation of at least 10%, not to mention Canada's largest market, Toronto, reaching bubble-like proportions with gains of 33% over the past year. When alternative mortgage lender **Home Capital Group Inc.'s** ([TSX:HCG](#)) shares fell over 60% in a single day's trading earlier this week, it had investors wondering about the greater implications for Canadian homeowners.

What transpired was the fallout from a series of OSC claims alleging that mortgage brokers working with Home Capital Group had falsified information on loan documents, and that the company did not take sufficient action to remedy the problem. When the news broke, it spooked large deposit holders of Home Capital Group, who were concerned that the bank had made irresponsible loans and feared they would not get their money back.

This led to a bank run on Home Capital Group with depositors fleeing in a panic. Home Capital Group ended March with approximately \$2 billion in cash, but by the start of the week, that number had fallen to \$1.4 billion, and by the end of the week, estimates are that the bank held under \$500 million cash on its books.

In a desperate move, the company agreed to a deal with an institutional lender, reported to be healthcare pension plan HOOP, to secure a \$2 billion credit line in an attempt to shore up short-term liquidity. But there was a punitive element to the deal as it will likely end up costing Home Capital Group \$200 million in interest and fees, or an effective 20% interest rate on the credit.

Home Capital Group's role within the Canadian residential mortgage market is to act as the marginal lender, offering financing to Canadian households that aren't able to obtain loans through traditional means. This means that Home Capital Group, in some ways, is able to push the housing market marginally higher with each loan to a borrower that couldn't get it elsewhere. If Home Capital Group ceases to exist, it means there will be one less agent acting to prop up Canada's housing market.

## What does it mean?

The good news for Canadian homeowners is that Home Capital Group only accounts for less than 1% of the total residential mortgage market, and among the company's existing book of mortgages, less than 0.3% are delinquent, meaning there is no tangible evidence of a real estate correction in the making.

However, skeptics may recall the subtle hints of a larger real estate problem happening in the U.S. in 2005 a little over two years before Lehman Brothers collapsed. While the story of Home Capital Group appears to be an isolated incident, it could also be an indication a canary in the coal mine.

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