



A Glimmer of Hope: New Directors at Home Capital Group Inc.

Description

Home Capital Group Inc. ([TSX:HCG](#)) has lost nearly 80% of its value year-to-date amid a number of scandals which have spurred a wide-spread run on the bank's guaranteed investment certificate (GIC) and high-interest savings account (HISA) deposits of late.

On Monday, the Canadian alternative mortgage lender announced that the run on its deposits has continued; the company's HISA deposits are estimated to have dwindled to only \$192 million from more than \$1.4 billion since the middle of last month. The lender's GIC deposits, which are insured and locked in, have also seen a material drop of approximately \$220 million since the end of April with \$12.64 billion remaining as of Friday. Updates on the specific amounts remaining are expected to continue to come in over the coming days and weeks, as the bank attempts to plug the leaking ship.

Now, the good news.

Home Capital appoints new directors to the board

Home Capital has experienced a flurry of exits on the company's board of late, including founder and former CEO Gerald Salloway as well as Healthcare of Ontario Pension Plan (HOOPP) CEO Jim Keohane, who left after it became apparent that the emergency financing deal his pension fund did with Home Capital was indeed a conflict of interest.

The company announced on Monday that board director William Falk will also be stepping down as of May 11, and Kevin Smith will be replaced as the chair of the board in favour of Brenda Eprile who recently joined the board last year.

To fill some of the vacant seats available on the board, Home Capital has appointed three new directors:

- Claude Lamoureux, former CEO of the Ontario Teachers' Pension Plan;
- Paul Haggis, former CEO of Ontario Municipal Employees Retirement System; and
- Sharon Sallows, independent director for a number of other firms.

These three new directors join Alan Hibben, a former **RBC** executive, who was added to the board last week.

Why these appointments matter

In attempting to renew investor confidence in Home Capital, the company is cleaning house and working towards building a new corporate culture from the top down. Some short-sellers, who have been banging the drum on Home Capital for some time, have indicated that the disclosure issues and the issues relating to potential OSC violations have largely been a function of the management of the company. These short-sellers and many large investors have been calling for a shakeup for some time.

Bottom line

With the board now officially shaken up, it appears some investors have been placated, and many short sellers are starting to cover their positions.

All considered, the recent run-up in the company's share price has been a function of these new appointments being announced, but this does not mean that the company's loan book or its deposits are now suddenly exempt from further scrutiny and a continued run.

I would be very, very careful with this company in considering an investment; I can, however, see the argument for why covering all or a portion of a short position at this time may be considered prudent.

Stay Foolish, my friends.

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