



Home Capital Group Inc. Moves off Life Support

Description

The good news for embattled alternate lender **Home Capital Group Inc.** ([TSX:HCG](#)) continues to build. There are signs it has beaten the naysayers, resolving its liquidity crunch and bouncing back with a fresh sense of purpose.

Now what?

Key among these developments has been management's ability to stabilize the lender's financial position. According to the latest announcement, overall liquidity, including the undrawn portion of the usurious loan from the Healthcare of Ontario Pension Plan, or HOPP, remains at over \$1 billion.

Importantly, compared to a week earlier, the balance of on call deposits has risen by roughly \$9 million to \$254 million. Guaranteed Investment Certificates (GICs) remain stable at just over \$12 billion with only \$141 million in a cashable position.

This is good news for the company, particularly the growth in on-call deposits.

Home Capital also has found an opportunity to bolster its liquidity by entering an agreement to sell \$1.2 billion of commercial mortgage assets to KingSett Capital.

The latest news for the embattled alternative lender is that it has secured a deal with Warren Buffett, who will provide a \$2 billion credit facility through his company **Berkshire Hathaway Inc.** (NYSE:BRK.A)(NYSE:BRK.B). He has also agreed to acquire 40 million Home Capital shares valued at \$400 million in a private placement that will give him a 39% equity stake in the company.

By making such a large loan on superior terms to that provided by HOPP, coupled with the substantial equity stake, Buffett has expressed a significant vote of confidence in the company and its future.

This not only ensures the company's survival but highlights the soundness of its mortgage portfolio, further reassuring investors that the crisis does not relate to credit quality or Home Capital's lending practices.

Along with the other positive developments, the deal has been greeted enthusiastically by investors, causing Home Capital's shares to surge by 81% over the last month.

There are signs that Home Capital can perform strongly now that its financial position is secure and the liquidity issues have been resolved. As Buffett stated when making his investment, "Home Capital's strong assets, its ability to originate and underwrite well-performing mortgages, and its leading position in a growing market sector make this a very attractive investment."

So what?

In a short amount of time, Home Capital has taken itself off life support and demonstrated the resilience of its business. Its new management team, high-performing portfolio of mortgages, solid growth prospects in a growing market, and attractive valuation make it an appealing investment, particularly when Buffett's new-found association with the company is considered.

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