

## Home Capital Group Inc.: New Management Team, New Results?

### Description

A copy of an independent report done by auditor KPMG obtained by a number of reputable news sources has shed new light on just how poorly **Home Capital Group Inc.** ([TSX:HCG](#)) managed its risk-management division prior to Ontario Securities Commission (OSC) allegations, which led to a run on the Canadian alternative lender. This report was commissioned by Home Capital's board in 2015 due to a whistle blower outside the firm, and it has been brought to the forefront of late as investors digest how the lender's management team and practices have changed to avoid a similar situation moving forward.

The detailed report highlights a number of internal issues relating to Home Capital's IT systems as well as a lack of automated controls and an effective control system for how loans would be processed. These issues ultimately led to 45 brokers being dismissed — brokers which accounted for nearly \$1 billion in loan origination each year.

As mortgage origination numbers subsequently dropped, and Home Capital's board dug deeper into the causes of the mortgage origination issues, the OSC began investigating Home Capital's practices and ultimately filed formal allegations that securities laws had been breached by senior managers, leading to a settlement and a reshuffling of Home Capital's leadership team.

The question now remains as to how confident investors are in the ability of one of the largest players in the Canadian alternative lending space to rebuild its reputation and inspire confidence among stakeholders moving forward. The lender has made a number of positive steps in the right direction of late, and it appears market sentiment is moving in a positive direction as well, evidenced by the very public investment of Mr. Warren Buffett himself.

With Warren Buffett's **Berkshire Hathaway Inc.** (NYSE:BRK.A)(NYSE:BRK.B) investing a significant amount of money into Home Capital, an argument could be made that the smart money has done its research, and investors have nothing to worry about. Certainly, alternative loans are riskier than loans made by Canada's largest banks, but with a blessing from the Oracle of Omaha, the thought from many investors is that the "Buffett security blanket" just might be enough to permanently save this lender from a continued run, allowing the company to begin a rebuild stage, which may take some time.

### Bottom line

This OSC saga, largely considered to be settled and out of the way, remains a large shadow that Home Capital's new management team will need to rid itself of in a bid to regain investor and consumer confidence moving forward.

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