Has Home Capital Group Inc. Weathered the Storm?

Description

The share price of **Home Capital Group Inc.** (TSX:HCG) has declined 12% month over month as of August 9. After plunging to a low of $5.06 in late April, the first time the stock has reached the single digits this decade, the company has found its footing. It was given a big boost after Warren Buffett's company **Berkshire Hathaway Inc.** acquired $400 million worth of common shares in late June.

Home Capital Group has experienced more adversity since then. The stock has floundered since the Bank of Canada decided to hike its base rate by 25 basis points. Housing in the Greater Toronto Area has also declined after regulations by the Ontario government were put into practice, casting a further shadow on the industry.

On Monday, August 7, an independent report on the company revealed that higher-ups were inattentive when it pertained to negligent underwriting practices. Home Capital Group chose to disregard concerns from regulators and other industry leaders while continuing to accept bad loan applications from brokers. There was a plethora of other issues exposed when it came to Home Capital's digital transformation, such as warning signs seen by management that new credit was of low quality, poor data, and other instances of oversight and mismanagement. More than anything, the report detailed that the problems at Home Capital Group were not simply the instance of the failure of 45 brokers who were fired at the height crisis, but an internal failure from the top down.

During a recent conference call, chief operating officer Christopher Whyte said that the entire underwriting and mortgage origination process had undergone reorganization.

The Ontario Securities Commission (OSC) approved a settlement with the company on August 9 that will see Home Capital Group pay $10 million and reimburse the OSC $500,000. Key executives were also hit with big fines and prohibited from acting as directors of public companies for several years.

Home Capital Group now finds itself restructured and staring at a different real estate environment from the post-2009 boom in housing that saw the stock reach highs of over $55 in 2014. The company will now look to grow business after a re-orientation from within and having to contend with a number of new regulations brought in by the Ontario government specifically designed to cool a red-hot market.

Canadian banks have also tightened credit standards.

There are some positives to draw from developments in the Canadian housing market of late. Though prices have dropped close to 20% since April, and sales have dropped 40% year over year, the market has stabilized in recent weeks, and those in the industry are confident that September will reveal a more balanced environment. A report from the Canadian Mortgage and Housing Corp. on August 9 showed Canadian home construction was on track for its best year since the recession.

Investors may want to note that the stock price for the company was at single digits in early March 2009, but it managed to reach above the $20 mark before the end of that year. Though a similarly long period of low rates and loose credit appears unlikely to mimic the post-2009 period, there are signs that the housing market may be ready to roar back sooner than expected.

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