



## The Next Catalyst for Home Capital Group Inc.

### Description

Last week, the Office of the Superintendent of Financial Institutions (OSFI) announced that banks (and their clients) would be subject to new rules that would make it even more difficult to qualify for new mortgages or refinance already existing mortgages. Although this more conservative approach may benefit the country over the long term, many people are more apprehensive about the short-term effects on the market and lenders alike.

The major difference with these new changes will be the impact on borrowers who have the 20% down payment required to obtain a traditional mortgage. Effectively, the government regulators now expect each borrower to be able to pass a “stress test,” meaning that they will be able to qualify for their mortgage, even if the rates increase by 2% or so. What this essentially means is that consumers would be required to be financially stable to make the monthly payments based on the posted rate of interest instead of simply qualifying at the discounted rate offered by the banks once the customer enters the branch and begins negotiating.

As Canada's banks are regarded as A+ type of institutions on a global scale, this announcement will continue to solidify their reputations, while the available borrowers who fit the tighter criteria continue to decline. Essentially, many of the borrowers who can comfortably qualify for a mortgage today will have no other option but to seek out alternative lenders such as **Home Capital Group Inc.** ([TSX:HCG](#)) to obtain mortgage financing.

For those investing in securities, the huge potential this presents is that the borrowers gravitating to alternative lenders will no longer be those at the bottom of the barrel; instead, it will lead to a higher quality of client for the alternative lenders.

At a current price of approximately \$14 per share, the market is pricing in a lot of bad news for Home Capital Group, as those who are most often hardest hit by an economic slowdown are those who had difficulty qualifying for a mortgage in the first place. With more than \$21.50 in tangible book value on the balance sheet, investors in this alternative lender will greatly benefit from a stronger clientele.

In addition to the news from OSFI, Home Capital Group recently announced the conclusion of its cost-

savings initiative and the departure of two C-Suite managers. Although cost cutting is always a good thing, investors may now need to be a little more cautious, as the company may recognize some of the one-time expenses related to the departure of a number of employees who were cut over the past few months. The cuts have happened at all levels of the company.

Home Capital Group has the potential to rebound by close to 50% in addition to the future expected profits. Investors in Home Capital Group are holding a significant amount of upside with this lender.

## **CATEGORY**

1. Investing

## **TICKERS GLOBAL**

1. TSX:HCG (Home Capital Group)

## **PARTNER-FEEDS**

1. Msn
2. Newscred
3. Sharewise
4. Yahoo CA

## **Category**

1. Investing

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## **Author**

ryangoldsman

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