



Home Capital Group Inc.: Is This Troubled Stock Ready to Soar?

Description

The past month has been very productive for many top Canadian lenders. Investors who have been waiting on the sidelines since this spring scooped up banking stocks to take advantage of bargains and to pick some attractive dividend yields.

Canadian Imperial Bank of Commerce ([TSX:CM](#))([NYSE:CM](#)), a stock which was the hardest hit among the top Canadian banks due to its higher exposure to the overheated housing market, rose 6%. **Bank of Montreal** ([TSX:BMO](#))([NYSE:BMO](#)), another laggard, surged 8% during the same period.

But when you look at **Home Capital Group Inc.**([TSX:HCG](#)) stock, it hasn't done much for its investors, despite the fact that this troubled lender has almost overcome a serious threat to its survival, after getting a lifeline from Warren Buffett's **Berkshire Hathaway Inc.** in June. Trading at \$13.79 a share, its stock is just up over 1% during the past month.

Is HCG stock ripe for a rally?

Investors in Home Capital Group shares have suffered huge losses this spring, as the company's shares have lost over 60% of their value after the banking regulator found out that the company didn't disclose the scale of mortgage brokers' fraud, accusing the lender of misleading shareholders about falsified mortgage applications. Home Capital Group later settled with the regulator.

Going forward, I think, Home Capital Group stock still has some obstacles to overcome before it can resume its journey for a meaningful recovery.

One of the biggest threats hurting many non-bank mortgage stocks in Canada is the proposed mortgage stress-test rules, which are likely to take effect this fall.

The Office of the Superintendent of Financial Institutions (OSFI) has proposed to stress test home buyers who don't need mortgage insurance with mortgage rates two percentage points higher than they negotiated with their lender. The change would ensure lenders don't face high levels of loan defaults if interest rates rise.

Another proposal is about prohibiting co-lending or mortgage “bundling” arrangements that appear designed to circumvent regulatory requirements.

The co-lending prohibition, if adopted, is expected to have the greatest impact on mortgage companies, like alternative lender Home Capital Group, which primarily provides loans to people who don’t qualify for funding from the big banks.

The bottom line

Home Capital Group shares look quite attractive at current levels with 23% upside potential, according to a 12-month consensus price target by analysts.

Despite this encouraging forecast, I think long-term investors are still better off to wait on the sidelines until we have some clarity on the new mortgage rules.

The proposed stress test and co-lending prohibition are being proposed at a time when the Bank of Canada is raising interest rates and Toronto’s real-estate market has cooled substantially.

BMO economist Robert Kavcic believes OSFI’s new rules could have “a material impact” on the market and could “prolong/deepen” the house-price adjustment in the Toronto area.

Let’s wait and see how the dust settles before taking any position.

CATEGORY

1. Bank Stocks
2. Investing

POST TAG

1. Editor's Choice

TICKERS GLOBAL

1. NYSE:BMO (Bank of Montreal)
2. NYSE:CM (Canadian Imperial Bank of Commerce)
3. TSX:BMO (Bank Of Montreal)
4. TSX:CM (Canadian Imperial Bank of Commerce)
5. TSX:HCG (Home Capital Group)

PARTNER-FEEDS

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

Category

1. Bank Stocks

2. Investing

Tags

1. Editor's Choice

Date

2025/08/17

Date Created

2017/10/11

Author

hanwar

default watermark

default watermark