Why Home Capital Stock (TSX:HCG) Is Down 13% This Month

Description

Shares in **Home Capital Group Inc** (TSX:HCG) are down 13.9% through the first four weeks of October, as the outlook for the Toronto-based alternative mortgage lender continues to become increasingly bleak.

That said, on the whole, things at Home Capital are much better then where they were last spring**,** but the firm still has handful of very serious threats staring it down.

The most obvious – and most pertinent – threat is that of higher mortgage rates.

The central bank of Canada on Wednesday raised its official policy rate for the fifth time since last summer, to 1.75%.

But the cost for Canadians to borrow money to buy a home are significantly more expensive than what it costs the government to borrow money.

A five-year fixed rate today would cost the average Canadian a little less than 4% per year.

While that's still well below historical averages, it is higher than a years ago and the fact of the matter is that the Bank of Canada has been pretty clear that it is intent to keep the country's housing prices in check.

Along with a more "hawkish" or restrictive monetary policy on the part of the central bank, federal and provincial governments, along with regulators continue to enact measures to quell speculative and aggressive buying in the market.

While those measures have been intended to slow down the real estate market – they do so by targeting the most "at risk" homebuyers.

These can typically be defined as first-time home buyers – those who have less equity to begin with – or sometimes those who may have less stable incomes.

It can also include home buyers who require assistance from a family member or relative in order to get approved for a mortgage.

While the central bank's intention is to curb housing price appreciation more broadly, the measures aimed at the most at risk individuals are exactly the clientele that Home Capital has in the past targeted for its book of business.

As a result of the new regulations, the company will need to gradually refocus its business away from the riskier segments of the market while pivoting toward a more conventional approach, and the type of mortgage practices that are more commonly employed by Canada's largest banks.

However, because Home Capital is so much smaller than the "Big Five" Canadian lenders, it might prove difficult for the firm to be able to compete on equal footing with its larger rivals.

That's not to say that it can't compete. It just means that things are going to be harder going forward than the success it had enjoyed during its prior 15-year run.

The latest threat to emerge…

As if that weren't enough, it now looks as though the ongoing trade dispute between Canada and the U.S. over steel and aluminum could have a negative impact on the country's housing markets.

Jesse Goldman, a trade lawyer whose clients include the Canadian Coalition for Construction Steel, recently suggested that he expects that higher aluminum and steel prices may increase the cost to build a condominium by as much as $10,000.

Not only would that serve to make the country's downtown condo market more unaffordable for the average Canadian, but with interest rates rising, none of this is looking particularly good for Home Capital at the moment.

Investors may find that they'd be better off looking for opportunities elsewhere.

Fool on.

CATEGORY

1. Bank Stocks
2. Investing

TICKERS GLOBAL

1. TSX:HCG (Home Capital Group)

PARTNER-FEEDS

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

Category

1. Bank Stocks
2. Investing

Date
2025/07/24
Date Created
2018/10/29
Author
jphillips