This Stock Is up Over 55% Thanks to New Changes on How Canada Regulates Mortgages

Description

Shares in Toronto-based alternative lender **Home Capital Group** (TSX:HCG) are up over 57% so far in 2019.

A lot of that success is the result of recent changes the federal government has made to the process Canadians go through to qualify for a residential mortgage.

Just this week, the Canadian government announced a reduction in its official qualifying mortgage rate from 5.34% to 5.14%.

That changed marked the first reduction in Canada's official qualifying rate in three years, since dropping it in September of 2016 by 0.10% from 4.74% to 4.64%.

Since then rates have only continued to trend higher, which, combined with tighter lending regulations, have made it more and more difficult for would-be homeowners and particularly would-be first-time homebuyers to get into the market.

But experts are hoping that by dropping the official policy rate by a quarter of a percentage point, it should help to stoke some optimism on the part of those who have up until now been forced to sit idly by on the sidelines.

Financial experts are also hoping that the change could provide a catalyst to a lending markets that have struggled to show growth in recent years amid historically low interest rates.

Essentially, lenders make money in two ways with one of those ways being higher interest rates and the other being a larger market for credit.

If the Bank of Canada, Canada's central bank, ends up electing to follow suit with the Fed later this year, enacting an interest rate cut of its own and increasing the size of the available credit pool in terms of those who would qualify for a mortgage, it would certainly come as welcome news for Canada's lenders, including its biggest banks and companies like Home Capital.

In fact, you could easily make the case that HCG could end up as an even bigger beneficiary as such a large percentage of its business originates from "fringe-type" borrowers who may not typically qualify against the more stringent credit standards that are often used by Canada's larger and more conservative financial institutions (FIs).

Foolish bottom line

At present, Home Capital shares don't pay any dividend, and that's going to be another major difference between HCG as an investment and the likes of more traditional FIs, like **Royal Bank of Canada** and **Bank of Nova Scotia**, which pay annual yields of 3.87% and 4.98% to their shareholders, respectively.

The lack of any dividend payout at present in combination with the memories that will still be fresh in some investors' minds of what happened to Home Capital just a few short years ago means this is a prospective investment opportunity not without its share of risk.

Yet if you were to ask those who had the foresight to plunge their capital into HCG stock back in the spring, chances are, you wouldn't be hearing any mention of the work *risk* when they refer to how they feel about that decision now, after the fact.

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