



## This Red Flag From the Big Short Just Flashed in Canada

### Description

One of the best scenes of *The Big Short* was when Dr. Michael Burry is hiring an employee and he is explaining to him about significant identifiers before massive housing crashes.

He points to the 1930s, and how mortgage fraud had been growing and could of been used as an identifier beforehand. He then mentions that it hadn't been that high again till the early 2000s in America.

At this point, we all know how that turned out, and once again mortgage fraud rates are making headlines.

According to a new survey, nearly a fifth of all millennials in Canada have admitted to inflating their income on a mortgage application. It also said about 12% of the total population has admitted to the act.

Lying on a mortgage application or providing incorrect information is considered mortgage fraud.

It's also interesting to note that 16% of the population believes mortgage fraud is a victimless crime, and for millennials, it's nearly a quarter of them.

The trouble with increased mortgage fraud and lying on mortgage applications is it leaves those individuals exposed to risks that they may not be able to handle.

The government has put in strict stress-test policies to protect borrowers from themselves and overconsuming something they may not be able to afford.

By lying, mortgage applicants are directly going around the exact policies that are put in place to make sure they will be able to afford the mortgage for the length of it, without any major problems.

As the number of people lying increases, the stability of the entire system becomes more fragile until it reaches a tipping point and a full-blown housing crash happens, triggered by those who default because they could never afford the properties in the first place.

Im not saying we are near that tipping point, but each time mortgage fraud ticks up, we evidently get closer to it, and what's troubling is that nobody knows where the tipping point is.

It's already known by many that the housing market in Canada is on the higher end of the value scale, but now with increased mortgage fraud impacting the economic system further, investors should definitely stay vigilant.

A company like **Home Capital Group** ([TSX:HCG](#)), for example, is one I'd keep an eye on. Home Capital is a specialty finance company that offers residential and non-residential mortgages as well as consumer lending.

It has quite a large portfolio with more than \$22 billion in loans under administration and has been growing the portfolio by originating more than \$1.2 billion in mortgages each of the last few quarters.

Its loan-to-value ratio on all uninsured mortgages stands above 70%. This is something to watch for that could pose significant downside potential.

Another thing to watch is its net-non-performing loans as a percentage of gross loans. Although it's still relatively low at less than 0.5%, it has crept up more than 50% since the first quarter of 2018.

It's also worth noting that [Home Capital](#) is no stranger to mortgage fraud. Back in 2015, it fired a number of its mortgage brokers for creating mortgage documents with fraudulent information.

Whatever happens in the housing market, Home Capital is sure to face a number of headwinds over the coming years. Investors never want to see capital losses, but at the same time, you don't want to park your money in an asset that's going to plateau for the next couple of years.

Home Capital has done a decent job to turn itself around after the controversy from a few years ago. Although it has taken a number of steps to make itself more stable, there still lies inherent risk that investors should be cognizant of.

As this plays out, investors should tread carefully and identify what new developments will impact their holdings the most. It's important to always pay attention to the market and your holdings, assessing your portfolio to see if any of your exposed stocks need to be sold.

## CATEGORY

1. Dividend Stocks
2. Investing

## TICKERS GLOBAL

1. TSX:HCG (Home Capital Group)

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