



TFSA Investors: 1 Value Stock in Canada's Red-Hot Housing Market

Description

Home Capital ([TSX:HCG](#)) is a holding company that offers residential and non-residential mortgage lending, securitization of residential mortgage products, consumer lending, and credit card services. In addition, the company offers deposits via brokers and financial planners and through Oaken Financial.

Diverse geographical base

Licensed to conduct business across Canada, Home Capital has offices in Ontario, Alberta, British Columbia, Nova Scotia, and Quebec. The company had an average of 755 active employees during 2020 and competes with [regulated mortgage lenders](#), such as Canadian chartered banks, insurance companies, and financial institutions, and lenders that provide mortgage financing in the single-family dwelling, multiunit residential, and non-residential commercial mortgage lending segments.

Wide array of products

Further, the company offers deposits, such as guaranteed investment certificates, Registered Retirement Savings Plans, high-interest savings accounts, Tax-Free Savings Accounts, Registered Retirement Income Funds, and short-term certificates. It competes against regulated [financial institutions that issue credit cards](#) and lines of credit and provide other consumer retail lending.

Growth opportunities in select segments

The uninsured single-family residential portfolio is the company's primary mortgage portfolio, which consists of primarily uninsured mortgages with loan-to-value ratio of 80% or less, serving selected segments of the Canadian financial services marketplace that traditionally have not been the focus of the major financial institutions. These mortgages are generally funded by the company's deposits and financing activities.

Lucrative mortgage portfolio

Insured residential lending is very profitable for Home Capital. It includes the company's insured single-family accelerator mortgages and insured securitized multi-unit residential mortgages. These mortgages are generally funded through Canada Mortgage and Housing Corporation (CMHC) sponsored mortgage-backed security and Canada Mortgage Bond securitization programs. In some cases, these mortgage portfolios may be sold off-balance sheet, resulting in recognition of gains on sale.

Loans funded by deposits

Residential commercial lending is another lucrative area of Home Capital's portfolio. It comprises insured and uninsured residential commercial lending, which includes commercial mortgages that are secured by residential property such as non-securitized multi-unit residential mortgages and builders' inventory. Insured multi-unit residential mortgages are included in this portfolio until it has been securitized. These loans are funded by deposits.

Deposit diversification strategies

The company's uninsured assets are largely funded by Home Capital's deposit activities. Deposits are generally taken for fixed terms, varying from 30 days to five years and carry fixed rates of interest. The company also has deposit diversification strategies, including growing Oaken Financial.

Low-risk residential securities

In addition to Home Capital's lending portfolios, the company manages a treasury portfolio to support liquidity requirements and investment of excess capital. The company also has a structured program to provide private placement of residential mortgage-backed securities (RMBS). The RMBS are backed by a portfolio of the company's uninsured single-family residential mortgages.

Range of mortgage products

The company appears committed to offering a range of mortgage products through Home Capital's distribution channels. In addition, Home Capital's subsidiary Home Bank, a Canadian retail bank, offers deposits and mortgages.

Overall, Home Capital appears to be trading at a very attractive valuation and could provide great returns over the long term.

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