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Home Capital suspends dividend, taps credit line, bolsters board

The entry to the Home Capital Group's headquarters is seen at an office tower in the financial district of Toronto, Ontario, Canada on May 1, 2017. REUTERS/Chris Helgren/Files

By John Tilak and John Benny

Home Capital Group Inc on Monday suspended its dividend, tapped its credit line and added new directors, the latest attempts from Canada's biggest non-bank lender to restore investor confidence and stem the flow of customer withdrawals.

The company also estimated that the balance in its high-interest savings accounts (HISA) halved in the past week and said it has withdrawn from its C$2 billion ($1.5 billion) credit line for the second time. Home Capital said the balance in its HISAs is expected to slump to about C$192 million on Monday, down 50 percent from a week ago.

Home Capital is under immense pressure as it deals with a plunge in its high-interest savings accounts deposits, the recent departures of its founder and chief executive, and faces a regulatory probe for misleading investors.

The company said it hired three well-regarded Bay Street professionals as new board directors and named a new chairwoman as it continues its management overhaul.

Home Capital has become a rare Canadian financial institution to face a run on its deposits and its troubles come at a time when the Canada's biggest province Ontario has taken a series of measures to cool its red-hot housing market. Canadian banks have enjoyed stellar reputation and they dodged the global financial crisis by avoiding risky mortgages that sparked the collapse of many U.S. financial institutions.

"Our concerns are with the company's liquidity,” said ***Anthony Scilipoti***, president of independent equity research firm ***Veritas Investment Research Corp***, which has had a "sell" rating on Home Capital since the beginning of February.

“In the event of a housing slowdown, the company could have a slowdown in earnings because of its short-duration mortgages. In the event of any shock to the system, that could lead to pressure on liquidity.”

After falling as much as 13.5 percent in early trade, Home Capital shares turned positive to trade up 2.6 percent at C$6.00. The stock is still down more than 80 percent since the end of March when CEO Martin Reid stepped down.

Home Capital said on Monday it hired Claude Lamoureux, Paul Haggis and Sharon Sallows as directors to its board, effective immediately. Brenda Eprile, who joined the board as an independent director in 2016, will replace Kevin Smith as chair.

Lamoureux and Haggis are former chief executives of Ontario Teachers' Pension Plan and Ontario Municipal Employees Retirement System, respectively, two of the country's biggest pension funds.

"They're obviously putting some pretty high-profile, highly respected people on the board," said David Anderson, CEO of advisory firm Anderson Governance Group. "For those people to agree, they must believe that the underlying business and the business model are sound and that they can see a way through this turmoil," he added, acknowledging this was still "a very high-risk situation".

The fear of contagion hit Canadian bank stocks in the past two weeks and forced rival subprime lender Equitable Group to line up a C$2 billion credit facility. The banking sub-index has dropped about 3 percent in the past two weeks.

Home Capital has suffered withdrawals and a slide in its shares since a securities regulator alleged earlier this year that its top executives hid mortgage broker fraud from investors.

As nervous depositors pull their money out and roughly three-quarters of Home Capital's funding needs come from guaranteed investment certificates (GICs), investor focus is also on the lender's term deposits and other funding sources, many of which are maturing or up for renewal this year.

The high interest savings and guaranteed investment certificates (GICs) are the key funding source Home Capital has relied on heavily to grow its business. But as the crisis of confidence gripped the company, investors pulled out deposits, forcing Canada's biggest non-bank lender to seek an expensive emergency funding.

The company also said it has now withdrawn a total of C$1.4 billion, including a drawdown of C$1 billion a week ago.

The lender paid a quarterly dividend of 26 Canadian cents per share on March 1, according to Thomson Reuters data.

Before joining Home Capital, Eprile worked at PricewaterhouseCoopers LLP as a senior partner responsible for the company's Canadian risk consulting practice.

Lamoureux retired from Ontario Teachers' in 2007, while Haggis was head of OMERS from 2003 to 2007. Sallows is currently a trustee of Riocan Real Estate Investment Trust and Chartwell Retirement Residences.

Home Capital has 13 directors, including those named on Monday, according to the company's website.

Total deposits in the lender's less-liquid GICs stood at C$12.64 billion as of May 5, down from C$12.68 billion on April 28.

($1 = C$1.37)

(Reporting by John Tilak and John Benny; Editing by Nick Zieminski and Bernard Orr)