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Subject: (Financial Times)Home Capital woes spark fears on Canada property market(Livermore interviewed)

Date: Thu, 18 May 2017 15:40:58 +0000

Inline-Images: bottom.letterhead

To Partners:

Please find below an article in this morning's Financial Times regarding Home Capital and the state of the Canadian housing market. It is an interesting read.

Sincerely,

Livermore Partners

<https://www.ft.com/content/59f8e496-3b45-11e7-ac89-b01cc67cfeec>

Home Capital woes spark fears on Canada property market Non-bank mortgage lender has battled to stem outflow of deposits

Financial Times May 18th, 2017

9 HOURS AGO by: Ben McLannahan in New York

A fight for survival at **Home Capital Group**, Canada's biggest non-bank mortgage lender, is sparking fears of a broader meltdown in the country's super-heated property market. Shares in Home Capital came under pressure last month after Ontario's securities regulator said it had failed to promptly disclose possible fraud among some of its mortgage applicants.

The company has since battled to stem an outflow of deposits despite agreeing to tap a high-interest credit line to shore up its finances. Stephen Poloz, governor of the **Bank of Canada**, said in an interview over the weekend that Home Capital's problems were "idiosyncratic", and that he saw no sign of broader contagion. But the reality of vanishing deposit funding — down about \$600m this month, from about \$13.5bn at the end of April — has prompted parallels with New Century, the second-biggest subprime lender in the US that hit serious trouble about 18 months before the Lehman crisis. "Regulators have their heads in the sand," said Marc Cohodes, a veteran short-seller who began to target Home Capital a couple of years ago. "They should have said, 'these guys are done, the big banks will pick up the slack, we've got rid of a bad actor'.

Instead, they're trying to sweep it under the rug, trying to pretend it's a one-off." Analysts have been warning about excessive leverage in Canada's property market for years, as home-price appreciation has run well ahead of incomes. Last week *Moody's* docked its credit ratings for the six biggest Canadian banks, citing "elevated" house prices among a host of risks.

Home Capital's woes are "not an encouraging sign of the health of the Canadian housing market and the country's broader financial sector", said David Neuhauser, managing director of **Livermore Partners**, an event-driven Chicago-based hedge fund.

Authorities have tried to let some air out of the market. Last summer, the **Office of the Superintendent of Financial Institutions** tightened supervisory standards for mortgage underwriters, while officials in Ontario last month imposed a string of curbs including rent controls and levies on foreign buyers. But the measures could come too late for Home Capital, which said last week that reputational hits could have cast "significant doubt" over its ability to stay in business.

On an earnings call with analysts, Home Capital director Alan Hibben said the company was exploring various strategic options. "We've obviously done scenarios out the yin yang here . . . scenario A, B, C and up to whatever letter you want," he said. "As you can appreciate here, the run-off scenario is the last one that we ever hope to be executing." The company declined to comment on its outlook, while **Bank of Canada** said it would not comment on specific institutions.

Mr Cohodes, who lives on a chicken farm in Sonoma County, California, said he became interested in Home Capital after seeing a 2013 presentation by Steve Eisman, one of the central characters of *The Big Short*, Michael Lewis's book about the US mortgage crisis.

About a year later, after it became clear that the company was chasing volumes at the expense of quality, he began shorting. Mr Poloz needed to get serious, he said. "When the problem happened in the US, everyone was saying it was 'contained'.

But it's like the Great Lakes: Michigan water goes to Lake Superior. Instead of saying, 'we have a problem', they need to fix it."

Financial Times

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