

*Gerald M. Soloway, President &
Chief Executive Officer*

Home Capital Group Inc. (HCG.B; Not Rated; C\$15.04)

Gerald Soloway, President and CEO of Home Capital Group (HCG), delivered a compelling strategic overview and financial history on this high-growth financial services player. As the first choice alternative provider of residential first mortgages in Canada, HCG balances strong growth and credit discipline in creating a sustainable business platform. While the core business is 99.9% first mortgages, split between residential mortgages (98.7%) and non-residential (1.3%), HCG has just recently ventured into mortgage-backed securities and consumer lending products (Visa). The company expects to continue evolving and find new opportunities in niches that are either under-served or not currently served.

■ **Operations and Opportunity**

The Canadian residential mortgage market is a \$350-\$400b market, and HCG's 100%-owned Home Trust has a presence in regions representing \$260b of the total (excludes Quebec and certain provinces). Home Trust accesses an 800-broker network, strong customer base and receives referrals from several of the big banks. While Home Trust holds less than 2% market share, the company is targeting \$60-\$70b (~20% share) over the next several years.

In 2001, Home created four new pools of mortgage-backed securities (MBS) totaling \$57.7m and generated \$3m in revenue. HCG issued a further \$18.4m in 1Q02, to bring total MBS assets under administration to \$81m. The consumer-lending segment launched a new Visa product in 1Q02, which allows customers to use home equity as collateral. Retail credit services provide financing for customers purchasing products from established merchants. HCG has relationships with 20 retailers, including Staples/Business Depot.

■ **Credit Quality and Reserves**

Home Capital ended the first quarter of 2002 with \$1.1b in assets (down 0.4%) and a \$969m loan portfolio (up 1% qoq). The loan portfolio consists of \$920m residential mortgages, \$39m other mortgages and \$15m retail services and credit cards. Net impaired loans stood at 51 basis points (bps) of gross loans (excluding the general provision of \$5.8m) at the end of 1Q02 compared to 52bps in 4Q01 and 48bps a year ago, increasing the reserve-to-impaired loan coverage ratio to an estimated 115%. HCG is well capitalized, with a tier I capital ratio of 11.4%, up from 10.9% at year-end. The general allowance, as a percentage of risk-weighted assets, increased to 91bps in 2001 from 86bps in 2000, and ended 1Q02 at 93bps. HCG expects the general allowance to be at 100bps for fiscal 2002, as the loan portfolio continues to grow.

■ **Strategy for the Future**

Home Capital plans to continue to build strong business lines that do not compete head-on with the major Canadian banks, such as mortgages and consumer lending. The company is focused on "Best in Class" risk management procedures and efficient, low-cost production. For 2002, HCG set an ROE target of 20%, and expects earnings and asset growth of 20% and fully diluted EPS growth of 17%-20%. Using 2001 as a base, HCG expects to double earnings and assets in three to four years.

James Keating