Impact of Mortgage Rules and Shifting Demographics Continue to Shape the Canadian Consumer Credit Market

- ***A generational shift*****:** Millennials now represent the same proportion of total consumer debt in Canada as Baby Boomers
- ***The continued emergence of FinTech lenders:*** Increased lending to Millennials and Gen Z run parallel to the growth and greater penetration of FinTech lenders, especially for installment loans
- ***Changing mortgage landscape:*** Bank lending across mortgages has continued to decline, in contrast to non-bank lending which has increased, albeit from a lower base

Toronto, August. 20, 2019 – The newly released Q2 2019 TransUnion (NYSE: TRU) Industry Insights Report shows that overall consumer credit balances continued to grow in the second quarter—up 4.3% compared to the same period a year ago—bringing total outstanding consumer credit to $1.88 trillion. Over the last 12 months, the number of consumers with access to credit also grew, up 1.7% year-on-year (YoY) in Q2 2019.

Helped by the continued emergence of FinTech lenders and an increased focus by the whole lending market on subprime and near prime consumer segments, total balances for non-revolving credit products (primarily installment and auto loans but excluding mortgages) increased over the year. The average non-revolving balance per consumer grew 6.2% YoY to $31.4K in Q2 2019. At the same time, borrowing for revolving products (including credit cards and lines of credit) saw a slight drop, down 1.2% YoY to end Q2 2019 at $18.5K. Encouragingly, consumer-level delinquencies remained broadly stable across all major lending categories, the exception being installment loans where consumer-level delinquencies improved by 24 basis points.

“Buoyed by low unemployment and recent interest rate stability, consumers in Canada continue to build debt, particularly on auto and installment loans. And to date, consumers continue to do a good job of managing their debt levels, with delinquency rates stable over the past year. However, as the economy slows and risks of an economic downturn remain prevalent, it will be important for consumers to manage these higher debt levels diligently to remain current on their obligations,” said Matt Fabian, director of financial services research and consulting for TransUnion Canada.

Originations, the measure of new accounts opened, were strongest for the Line of Credit category – up 13.9% YoY. Conversely, with the market still adjusting to new qualifying rules for mortgages, there was a decline in mortgage originations of 8.9% YoY in this key category. After the increased regulatory control came into force in January 2018, chartered bank lending in mortgages began to cool, while non-bank lending conversely grew. TransUnion’s Industry Insights Report shows a drop in origination volume from the major banks of 9.8% during the 12 months ended Q1 2019, while secondary banks and credit unions—which are not subject to the new rules—saw a 2.1% increase in origination volume over the same period.

A generational coming-of-age and the continued emergence of FinTech lenders

As consumers mature through various stages of their lives and careers, their needs for various assets and expenditures evolve, including transportation, housing, and everyday purchases. Correspondingly, their borrowing requirements evolve as well. Q2 2019 marked a significant landmark for Millennials, as they became the age segment with the second-highest outstanding credit balances, behind Generation X.

Total Generational Borrowing as at end of Q2 2019

Generational Grouping[1]	Total Balances (B)	YoY Growth	Average Number of Credit Products Per Consumer with Credit
Silent	$ 52.5	-7.45%	2.2
Baby Boomers	$ 514.3	-1.80%	3.7
Gen X	$ 767.4	3.40%	4.2

Millennials	$ 515.9	12.33%	3.4
Gen Z	$ 24.8	50.53%	2.1

(1) Silent Generation: Born 1945 and before, Baby Boomers: Born 1946–1964, Generation X: Born 1965 – 1979, Millennials: Born 1980 – 1994, Gen Z: Born after 1994

During the quarter, Millennials (born 1980-1994) reached parity with Baby Boomers (born 1946-1964) in terms of outstanding debt – each with slightly over $500B in total debt. This trend represents a fundamental shift in generational lending, as banks and other institutions continue to adapt and evolve their business models to provide more options and more tailored customer experience for Millennials and Gen Z.

"At a headline level, the consumer credit market continues to grow. However, growth hasn't been uniform, and in major categories like mortgages, we continued to see a decline in origination volumes when compared to the same period a year ago," continued Fabian. "The shift in focus toward non-revolving credit products is something we've seen over recent quarters. The rise of Millennials, who have equaled and slightly surpassed Baby Boomers when looking at outstanding balances, is having a fundamental impact on the approach lenders take to how they market to and service their customers."

Q2 2019 Metrics for Major Credit Products

Credit Product	Q1 2019 Originations(1) – All Borrowers	Annual Change	Average New Account Limit	Annual Change	Consumer-Level Serious Delinquency Rates(2)	Annual Change
Consumer Credit Cards	1,519K	-5.21%	$4,739	0.8%	3.07%	- 5 bps
Captive Auto Loans	192K	-1.55%	$31,724	1.9%	1.77%	- 17 bps
Lines of Credit	337K	13.92%	$42,004	-19.7%	1.07%	- 9 bps
Installment Loans	731K	-0.10%	$21,619	-5.7%	4.30%	+ 13 bps
Mortgages	159K	-8.91%	$276,579	-3.6%	0.45%	- 6 bps

(1) Originations are viewed one quarter in arrears to account for reporting lag.
(2) Serious delinquency rates are 90 or more days past due for credit cards and 60 or more days past due for all other credit products.

The report also reveals some caution in the market, as there has been a decline in the size of new credit limits, which suggests some pullback by lenders. The changes weren't uniform, as the average new limit issued for new credit cards and auto loans increased, while lines of credit, installment loans and mortgages decreased.

In the hyper-competitive credit card market, against a backdrop of falling new card volumes (down 5.2% YoY), issuers have increased new card limits to better performing credit consumers – limits for credit cards to super prime consumers increased 12.8% while card limits issued to high risk subprime consumers fell 13.9% as lenders continue to risk balance their portfolios. Additionally, card issuers have been aggressive in extending credit limit increases to existing customers to offset slower growth in new accounts. There was a 3.7% YoY rise in overall card credit limits across all risk tiers in Q2 2019. Limits in the below-prime segments grew the most in percentage terms, with subprime and near-prime tiers seeing limit increases of 5.6% and 4.6%, respectively.

Across installment loans, the report shows increased participation from younger age cohorts, with consumers in Millennial and Gen Z segments taking on more installment loans. Conversely, the rate of loans issued to older consumer tiers has declined. This may be due to increased participation of FinTechs – lenders which originate solely through online channels and which focus heavily on personal installment loans. In other markets, including the U.S. where FinTechs have been operating for over a decade, FinTechs have proven successful in appealing to younger consumers and bringing them into the personal loan market by offering fast turnaround times and a positive customer experience.

The total number of open installment loans grew by 5.1% YoY in Q2 2019. The report also showed that originations by traditional lenders (major banks and credit unions) were flat YoY in the most recent quarter, while alternative lenders, including FinTechs, grew 34% over the prior year, albeit still relatively small in overall volume compared to traditional lending.

The continued shift in mortgage lending and the impact of mortgage legislation

The report also looked at the mortgage market and observed a significant drop in originations in the most recent quarter, down 8.9% YoY. While the mortgage market is affected by multiple factors, including house price growth, longer-term consumer sentiment, interest rates and unemployment levels, there can be no doubt regulatory changes have had a material impact on the Canadian mortgage market since early 2018.

From a demographic perspective, the biggest erosion in mortgage originations has been among younger cohorts, led by the 18-25 segment, which saw a reduction of 13.4% in originations YoY. The new mortgage rules affect this group perhaps the most, as they will typically be starting their careers and have lower incomes relative to older cohorts. This limits both their ability to qualify under the mortgage stress test rules, as well as the size of mortgages they can obtain. In many of the major Canadian housing markets, many younger consumers have now been effectively priced out of buying.

"The new mortgage regulations seem to be having the intended effect in cooling the overheated housing market and broadly preventing consumers from overextending themselves with mortgage debt. This is now the fourth consecutive quarter we have seen a decline in both mortgage originations and balances. However, there are signs of some potentially unintended consequences. We have started to see an uptick in co-borrowing as the means of getting a foothold on the property ladder, where multiple consumers make an application together – in effect combining the power of their salaries. Although this is nothing new, it is now often with the help of a parent, other relative or a friend rather than just a partner or a spouse," said Fabian.

Regional variations

There continues to be significant regional variation in both credit demand and performance. Alberta continues to have the highest average non-mortgage credit debt per consumer at $37,048. This is likely due to higher demand for credit in this region in recent years resulting from the effects of lower oil prices on the resource-dependent province, as well as a series of natural disasters that have affected large areas of Alberta.

Volatility in the oil sector and its effect on employment have impacted delinquencies as well. In Alberta and Saskatchewan, there were YoY increases in consumer-level non-mortgage delinquency rates to 6.6% (+21 bps) and 6.8% (+37 bps), respectively, in Q2 2019. There has also been an increase in revolving balances, which in down markets can be an indicator of borrowing to finance day-to-day expenses.

British Columbia and Ontario rank second and third highest for average non-mortgage borrowing per consumer at $33,516 and $31,888 respectively. This is likely driven by a combination of a higher cost of living in the large metropolitan areas in each province, as well as the effect of significant recent housing cost increases, which can impact consumer disposable income and increase reliance on borrowing.

A cautious approach to a cooling economy

Although the Canadian consumer credit market continues to look sound, with overall delinquency rates remaining broadly stable, there are significant variations in origination and balance growth across regions, categories and risk tiers.

"As concerns continue about the prospect and timing of an economic downturn, the Canadian consumer credit market remains generally resilient. The continued increase in overall lending is now at a slightly slower pace than in previous quarters, suggesting that consumers and lenders may be exercising some caution. Despite data showing a cooling economy, strong job growth and accelerating wages continue to mitigate the pressure on household finances and prevent a softening in consumer credit demand. That said, a future downturn in economic growth will put pressure on credit consumers and may affect delinquency rates, especially in more vulnerable regions of Canada." concluded Fabian.

More information about the TransUnion Canada Industry Insights Report, including details about a variety of credit products, can be found here. Among the details are more information about balance and delinquency trends, including for auto loans, installment loans, lines of credit and mortgage loans. Please visit the following website to register for TransUnion's Q2 2019 Industry Insights Report webinar scheduled for August 27 at 2 pm ET.

TransUnion CreditVision score risk tier segment definitions: subprime = 300-639; near prime = 640-719; prime = 720-759; prime plus = 760-799; super prime = 800+

About the TransUnion Canada Industry Insights Report

TransUnion's Canada Industry Insights Report is an in-depth, full credit-active population-based solution that provides statistical information every quarter from TransUnion's national consumer credit database, aggregated across virtually every active credit file on record. Each file contains hundreds of credit variables that illustrate consumer credit usage and performance. By leveraging the Industry Insights Report, institutions across a variety of industries can analyze market dynamics over an entire business cycle, helping to understand consumer behavior over time and across different geographic locations throughout Canada. Businesses can access more details about and subscribe to the Industry Insights Report.

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For more information or to request an interview, contact:
Aabida Dhanji, Ketchum
aabida.dhanji@ketchum.com
416-355-7424