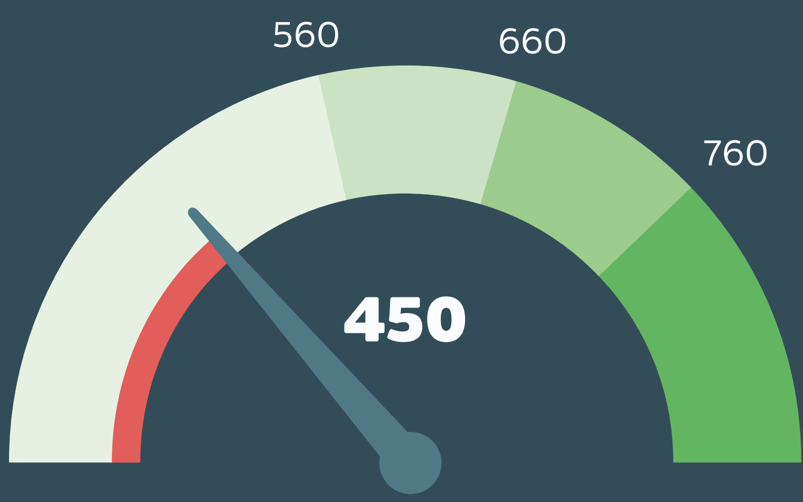
CREDIT
IN CANADA



A STUDY OF THE LEVEL OF UNDERSTANDING SURROUNDING CREDIT, HOW IT DIFFERS FROM GENERATION TO GENERATION, AND HOW IT'S IMPACTING OUR NATION'S MENTAL HEALTH.

A study by Leger, commissioned by Refresh Financial.

Leger

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96% OF CANADIANS BELIEVE A GOOD CREDIT SCORE IS IMPORTANT, AND **84%** UNDERSTAND WHY THEIR CREDIT SCORE IS AN IMPORTANT PART OF THEIR FINANCIAL WELL-BEING. YET ONLY **62%** OF CANADIANS KNOW HOW TO CHECK THEIR SCORE, AND ONLY **41%** ACTUALLY KNOW THEIR SCORE.

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INTRODUCTION

In 2018, Refresh Financial commissioned **Leger**, the largest Canadian-owned polling, research and strategic marketing firm, to conduct a survey of Canadians from across the country in order to gain a national perspective on people's understanding of credit in Canada.

Canadians continue to owe more debt per dollar of disposable income compared to any of the G7 countries[1]. At the same time, the population is becoming more aware of the effect of rising interest rates[2]. Many Canadians have not traditionally given their credit portfolio consideration until they are denied a financial product, be that a cash loan, credit card, car loan etc. due to a low credit score.

However, the combined effect of high debt-loads, rising interest rates, and low credit scores is beginning to create a hyper-awareness among Canadians around the potential fallout, leading to more people thinking about their financial future, as well as an increased awareness about the impact of good vs. bad credit.

This study examines the level of understanding surrounding credit scores and their importance, and how this differs between Canadians from different economic backgrounds and generations.

The online survey of 1901 Canadians was completed between June 4 and 11, 2018, using Leger's online panel of approximately 400,000 members nationally. The margin of error for this study was +/-2.2%, 19 times out of 20.

EXECUTIVE SUMMARY

Only 51% of Canadians have **savings for an emergency.** In the case of an emergency, **35%** of Canadians would take out a **small loan** or pay for it on their credit card, and this increases to **43%** of those who are living paycheque to paycheque. Too many Canadians are counting on experiencing no financial emergencies in their life. Yet the chances of one happening are high. Needless to say, using credit cards or taking out a loan is not an emergency plan.

96% of Canadians believe a **good credit score is important,** yet only **41%** actually **know** their score. Despite this, **62%** of people feel at least somewhat confident that they would be approved at a credit check. This shows either that people a) are pretty confident that they have a good credit score, even if they don't know it or b) are naive as to the importance of their credit score when it comes to passing credit checks.

Canadians who have scores **below 700** are over **5x more likely to feel negative emotions** such as anxiety, fear, depression, and hopelessness relating to their credit score. 700 is considered to be about the score needed for prime bank interest rates, so anyone with a score below 700 will be paying higher interest for any credit products they have. Low income/high expenses and low credit score go hand in hand with negative emotions relating to credit score. In fact, negative emotions are 3x higher among those living paycheque to paycheque vs those who aren't.

Millennials (born early 80s to mid 90s) **and Gen Z** (born early 90s to mid 2000s) are more likely than any other generation to be experiencing more **stress about credit** than they were a year ago. **39%** of those aged **18-34 agreed**, compared to **17%** on average across all other age groups. They are also the least confident generation when it comes to building credit - **25% of 18-34 year olds are not confident** that they know what makes up their credit score.

ALMOST HALF OF CANADIANS (42%) LEARNED ABOUT CREDIT THE HARD WAY – BY 'MAKING A MISTAKE'. CANADIANS ARE NOT FORMALLY TAUGHT ABOUT CREDIT, AND A LACK OF FORMAL CREDIT EDUCATION COULD BE A LEADING CONTRIBUTOR TO CREDIT CARD DEBT AND LOW CREDIT SCORES.

60% of Millennials and Gen Z don't learn about credit before getting their first credit card. Millennials are feeling more anxiety and stress related to their credit score because they are being given financial products at a young age, before they've learned how to use them responsibly. With minimal knowledge of how credit works and what influences credit score, this is a dangerous introduction to high-interest debt.

This is leading to mistakes by young Canadians that can impact their credit, well-being, and mental health for years to come, potentially changing their financial trajectory.

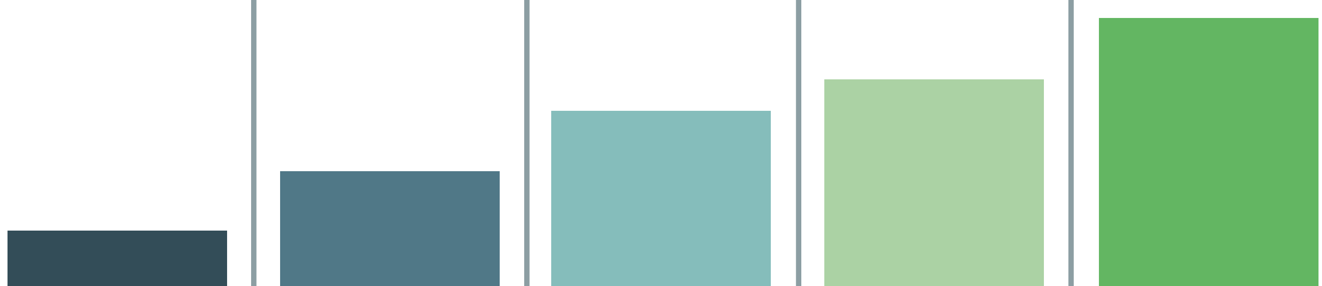
WHAT IS CREDIT?

Credit is just money that is borrowed. Someone asks to borrow money from someone else and they either say "sure" or "no way!"

Your **credit score** is a number between 300 and 900, used to represent everything on your credit report. Your score is created by a computer program that reviews what is on your report and converts all that information into a score.

Lenders use your credit score to decide whether to lend you money. If approved, the lender gives you money, either cash directly, or in the form of a credit card, car loan, mortgage etc. In return you agree to pay the amount of money back, plus interest, within a certain amount of time.

What does your credit score mean?



300-559 very poor	**560-659** poor	**660-724** fair	**725-759** good	**760-900** excellent
• You won't be approved for credit, except at payday lenders. • You will pay extremely-high interest rates and fees.	• Your borrowing options will be high-risk, alternative lenders. • You will have to pay lots of fees and high-interest.	• You might be approved at banks to get credit. • You are likely to pay slightly higher interest rates.	• Banks will be happy to extend credit to you. • You'll receive their advertised standard rates.	• Congratulations! You are able to get any credit you need. • You will have the lowest possible interest rates and fees.

Having a bad credit score can cause a lot of problems in life. Anyone with a low score will find it hard to get approved for credit at anything less than very high interest rates.

CANADIANS ARE COUNTING ON EXPERIENCING NO FINANCIAL EMERGENCIES IN THEIR LIFETIME.

Too many Canadians are counting on not experiencing any financial emergencies in their lifetime - yet the chances of one happening are high. 1 in 2 Canadians will develop cancer[3] and not enough of them will have savings to support them financially during recovery, leading to more stress on the body. With such a high likelihood of being affected by a serious illness, should it even be considered an *emergency*? Realistically, a critical illness is something that should be *planned* for.

In the case of **an emergency, 35%** of Canadians would take out a **small loan** or pay for it on their credit card, and this **increases to 43%** of those who are living paycheque to paycheque.

Needless to say, using credit cards or taking out a loan is *not* an emergency plan.

Those using credit cards for emergencies might be doing so because they do not have savings so they have no other choice. This study found that over half of Canadians consider that they are living paycheque to paycheque and 18% are actually struggling to get by. Almost 20% of people living paycheque to paycheque have found themselves in a dire financial situation such as filing for bankruptcy, having something sent to collections etc.

A survey by the Angus Reid Institute[4], 'Poverty in Canada' released in July 2018, had similar findings, reporting that 27% of Canadians say they have experienced or are currently experiencing financial difficulties with 16% struggling.

However, this study found that 27% of people *not* living paycheque to paycheque would still use a credit card or take out a loan in an emergency, implying that poor financial management or a lack of financial education is to blame, not low income or high living expenses. The assumption could be made that people are using their credit cards *because they do not see anything wrong with it* – a credit card is simply seen as a source of funds. Perhaps people who are doing this do not realize, or worse, do not care, that credit cards come with high interest rates. Plus, of course, any missed payments are reported negatively to credit bureaus, bringing down credit scores.

Only 51% OF CANADIANS HAVE SAVINGS FOR AN EMERGENCY.

CANADIANS ARE NOT FORMALLY TAUGHT ABOUT CREDIT.

Almost half of Canadians (42%) learned about credit the hard way – by 'making a mistake'. Lack of formal credit education could be a leading contributor to credit card debt and low credit score. 60% of Millenials do not learn about credit before getting their first credit card, however, the age at which people are getting their first credit card is getting younger with each generation. The average across all age groups is age 21.7, whereas Millennials got their first credit card aged 19.5 and seniors were over 24 years old.

The reason for getting a credit card was cited by 27% of survey participants as simply being "because I turned 18" or "because I felt like I was supposed to". In the 18-34 age group this number was 36%! Giving young people access to credit before they know how much of an impact it can have on their lives, if mismanaged, can be a recipe for disaster.

Furthermore, the problems extend beyond being taught about credit. 54% of people surveyed learned their money management skills by teaching themselves, and 8% of Canadians have *never learned* money management skills.

Canadians who have never learned money management skills or have not been taught about credit at all are over twice as likely to be living paycheque to paycheque, and over 4x *less* likely to have a credit score over 700.

People living paycheque to paycheque have more financial related problems than not, which is hardly surprising. They are:

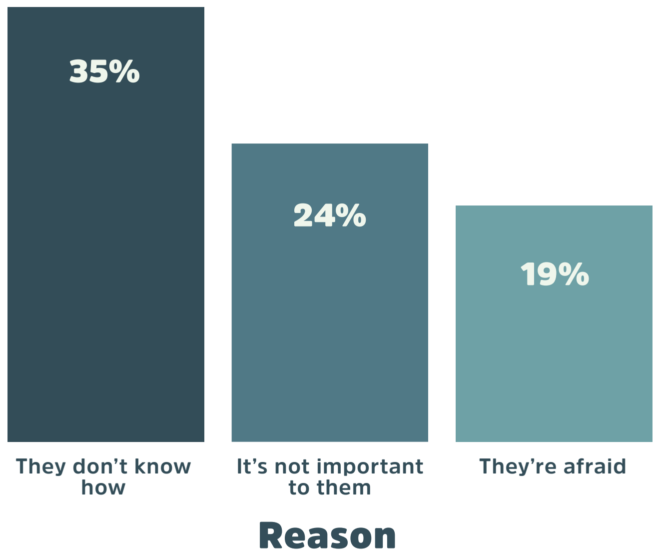
- 2x as likely to have to ask for a co-signer on a credit product.
- 3.5x as likely to have had an item sent to collections or been declined for a purchase or loan due to failing a credit check.
- Over 3x as likely to file for bankruptcy or consumer proposal.

96% OF CANADIANS BELIEVE A GOOD CREDIT SCORE IS IMPORTANT, YET ONLY **41%** ACTUALLY KNOW THEIR SCORE.

Credit score is the key that unlocks access to more affordable financial products, from car loans, to cash loans, to mortgages. Credit has a huge impact on the lives of Canadians, and the majority of people recognize that.

- **84%** understand why their credit score is an important part of their financial well-being, and **70%** view their score an important part of their own financial well-being.
- **86%** of people are confident that they know how to build good credit and **62%** know how to check their score.

WHY DO ONLY 41% OF CANADIANS ACTUALLY KNOW THEIR CREDIT SCORE?



They don't know how: 35% of Canadians don't know how to check their score.

They don't see the importance of their credit score: 24% of Canadians don't view their credit score as an important part of their financial well-being. Of those that know how to check their score, 19% don't see their score as an important part of their financial well-being.

They are afraid to check their score: 19% of Canadians are afraid to check their score. Credit score causes negative emotions (anxiety, fear, depression, hopelessness) in **27%** of Canadians, therefore it's understandable why **almost 1 in 5** prefer to remain ignorant.

According to a TransUnion report released in March 2018, **almost 9M** Canadian adults are in the sub-prime or near-prime risk categories – contributing to a fear of checking their score. However, people who do not know their score might be in for a surprise when they do come to check their score – good or bad. **36%** of people who have had their credit score checked were positively surprised by the results versus only **9%** who were negatively surprised.

WHY IS IT SO IMPORTANT FOR CANADIANS TO KNOW THEIR CREDIT SCORE?

While it's encouraging to see that almost every Canadian believes a good credit score is important, it's discouraging that those who know their score amount to less than half of all Canadians. If people are not even aware of their score, or how to check it, they can't be monitoring their score for fraudulent activity or even identity theft. A decline in credit score can be an indication of this happening.

When making big decisions like getting a mortgage or getting hired at a new job, credit scores can be the difference between getting a good or bad interest rate or getting hired (that's right - employers can check potential employees credit scores!)

Despite only 41% of people claiming to know their score, 62% of Canadians feel at least somewhat confident that they would be approved at a credit check. This shows that people are either pretty confident that they have a good credit score (even if they don't know it) or are naïve as to the importance of a score when it comes to passing credit checks.

Credit reports form a vital part of one's financial portfolio. Going back six to seven years, all of an individual's credit decisions made will be listed, as well as payment habits, the total money borrowed and owed, who it is owed to, and limits on each form of credit. Best practice is to check at least once per year to make sure that everything listed in the report is correct and up-to-date.

Having loans in your name is not a bad thing. In fact, loans in good standing that are reporting positively to the credit bureaus are irrefutably a good thing as it builds positive credit history. Loans can also be investments. Mortgages, for example, are usually a positive loan, as it means you're improving your financial situation. A credit score improvement can open the door to credit at lower interest rates allowing people to achieve their life goals more affordably. 23% of Canadians believe their credit score is holding them back from important life decisions – and this is too high. People must be empowered and enabled to make financial improvements to their lives. The first step? Knowing your credit score. Don't be part of the 59% that is in the dark.

You can instantly get your credit score at:
https://refreshfinancial.ca/find-credit-score/

IRONICALLY, **4 OUT OF 5** CANADIANS WANT THEIR PARTNER TO HAVE A GOOD CREDIT SCORE WHILE ONLY **2 OUT OF 5** KNOW THEIR OWN SCORE, AND ONLY **HALF** (56%) VIEW THEIR CREDIT SCORE AS IMPORTANT TO THEIR OWN SELF-WORTH!

CREDIT SCORES ARE LEADING TO STRESS AND ANXIETY AMONG CANADIANS.

A lower credit score means access only to high interest forms of credit, if any credit at all. High interest means payment amounts are higher, or terms are longer, increasing the likelihood of missing loan repayments, which negatively impacts credit scores even more.

Credit scores can have a huge impact on emotional and mental well-being. 23% of people on average are feeling more stressed about their credit score than a year ago, however that number is 3.6x higher for those with a credit score below 700 (54%) compared to those with a score over 700 (15%).

Low credit scores can be an unfortunate circumstance of those living paycheque to paycheque. This study found that 18% of people living paycheque to paycheque believe their score to be below 700 compared to 3% not living paycheque to paycheque.

Low income/high expenses or low credit score go hand in hand with negative emotions relating to credit score. In fact, negative emotions are 3x higher among those living paycheque to paycheque.

Lending to high-risk borrowers

TransUnion's March 2018 report states that the increase of bankcards to those in the sub-prime risk tier has increase 3.9% year over year (YOY), indicating a risk expansion on the part of lenders. However, the same report goes on to say that people in sub-prime and prime risk tiers are carrying the highest average balance on their cards, and it's increasing YOY (2.1% for sub-prime, and 3.7% for near-prime). The majority of Canadians in these risk tiers with high balances will be paying sky-high interest rates. Similarly, the highest growth in average auto loan balance and installment loan balance is being experienced in the sub-prime risk tier - 14.1% YOY compared to the average across all risk tiers of 7%. According to TransUnion, consumers have been gaining more access to credit in these two categories as the economy has expanded.

CANADIANS WHO HAVE SCORES **BELOW 700** ARE OVER 5X MORE LIKELY TO FEEL NEGATIVE EMOTIONS SUCH AS **STRESS** AND ANXIETY RELATING TO THEIR CREDIT SCORE COMPARED TO THOSE WITH A SCORE OVER 700.

Canadians in sub-prime risk tiers should be wary of taking on more debt at high interest rates, just because they are being offered it.

- People with a credit score below 700 are 4x more likely to have had an item sent to collections, and 5x more likely to experience negative emotions relating to credit.
- 75% of people with a credit score below 700 believe their score is holding them back from important life choices.
- The likelihood of feeling negative emotions related to credit score increases steadily as a) household income levels decrease and b) credit scores slide from above 700 to below 700.

Which begs the question, are lenders really doing the right thing by allowing people in sub-prime risk tiers to borrow at such high interest rates?

MILLENNIALS AND GEN Z ARE MOST LIKELY TO BE EXPERIENCING STRESS ABOUT CREDIT.

Credit scores are on the mind of Millennials, and Gen Z more so than any other generation. And not necessarily in a good way. It's this age group that is feeling more stressed about their credit score than a year ago – 39% of those aged 18-34 agreed, compared to 17% on average across all other age groups. 34% of this age group also believe their credit score is holding them back from important life choices, a figure which decreases consistently as people age.

25% of people in the 18-34 year-old age group are nervous they won't be approved upon a credit check.

Canadians' average consumer debt sat at almost $30,000 in 2017, with the country's youngest generations leading the way in taking more debt, according to TransUnion[5]. In fact, Gen Z were the only generation to see a rise in delinquency rates. Millennials and Gen Z are also the least confident generations when it comes to building credit with 25% of 18-34 year olds stating that they are not confident they know what makes up their credit score.

37% OF 18-34 YEAR OLDS HAVE EXPERIENCED NEGATIVE EMOTIONS IN RELATION TO THEIR CREDIT SCORE SUCH AS ANXIETY AND FEAR, **3.7X HIGHER** THAN THOSE AGED 65+

60% OF MILLENNIALS and Gen Z **DON'T LEARN** ABOUT CREDIT BEFORE GETTING THEIR **FIRST** CREDIT CARD.

The age at which people are getting their first credit card is getting younger with each generation. The average across all age groups is 21.7 years old. However, 18-34 year olds got their first credit card aged 19.5 and seniors were over 24 years old. Many 18-34 year olds (29%) claimed they got their first credit card simply because they had turned 18. However, across all age groups, the top reason why people got their first credit card was to **build credit** (52%).

Transunion's report states that average consumer non-mortgage debt is rising (4.5% YOY), but that serious delinquency rates (90 days past due) are declining (4.9% YOY), indicating an ability that consumers are better able to manage payments. Credit cards are an excellent way to start building credit, if managed properly. A secured credit card is even better at ensuring that no debt is incurred but while experiencing the flexibility of a credit card and the credit-building benefits.

CONCLUSION

Although 96% of Canadians believe a good credit score is important, **41%** do not even know their score. This disconnect between thoughts and actions suggests either Canadians are naive as to how important a credit score is, or they are simply content to not know their score.

According to TransUnion, the average **credit score across Canada is between 600-650. Given that a score of 650-700 is recommended to get access to lower interest rates,** it seems that low credit is a national problem. The younger generations are the least confident when it comes to building credit, yet they are accessing credit and at younger age. The perfect storm is being created for a future generation that is going to struggle to get ahead financially. The lack of formal education on credit and money management is contributing to a nation of Canadians struggling with low credit scores, high costs of living, and more debt being added to credit cards.

APPENDIX

About the respondents

Gender:

- Women: 51%
- Men: 49%

Age

- 18-34: 27%
- 35-44: 16%
- 45-54: 18%
- 55-64: 17%
- 65+: 21%

HH Income:

- Less than $40K: 22%
- $40-$80K: 33%
- $80+: 33%
- Unknown: 13%

Children:

- Yes: 29%
- No: 69%
- Unknown: 2%

Education:

- University: 37%
- College/Some college: 29%
- High school or less: 33%
- Unknown: 1%

Marital Status:

- Single: 28%
- Married/Common Law: 60%
- Windowed/Divorced/Separated: 11%
- Unknown: 1%

Home ownership:

- 62% home owners
- 29% renters (17% want to own a home)
- 8% live with parents (7% want to own a home)
- Unknown: 1%

Vehicle ownership:

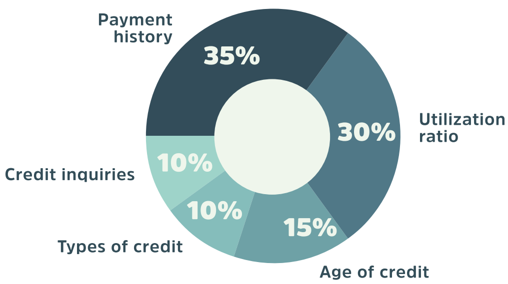
- 83% own a vehicle
- 62% fully own their vehicle
- 14% have a car loan
- 8% lease

Location:

- BC: 14%
- AB: 11%
- SK: 3%
- MB: 4%
- ON: 38%
- QC: 23%
- Atlantic Provinces: 7%

* Numbers may not equal 100 due to rounding.

WHAT MAKES UP A CREDIT SCORE?



1. Payment history
Makes up 35% of your score

Payments should be on time and in full. Anything other than this will negatively affect your score.

Did you know...? Bill payments and parking tickets don't *help* your credit score, but if they go to collections they will hurt your score.

2. Utilization ratio
Makes up 30% of your score

Credit usage percentage is the total amount of credit you have to your name versus how much of it you have used.

3. Age of credit
Makes up 15% of your score

If you've been making steady payments (on-time and in-full) towards a loan for several years, it indicates that you are a responsible borrower, and your score will reflect that. It's a good reason why you should start building credit as soon as possible, even if you're going through a bankruptcy or consumer proposal.

4. Types of credit
Makes up 10% of your score

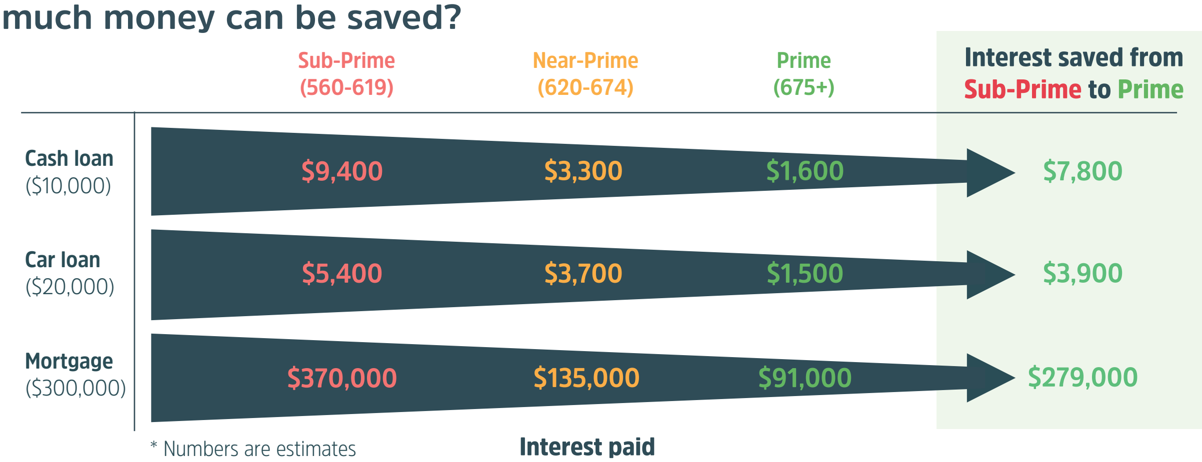
Believe it or not seven credit cards is not the best way to build credit! Credit cards are revolving credit. You want a revolving trade line *and* an installment line, such as a loan with a fixed repayment amount each month – this will have the biggest impact on your score.

5. Credit inquiries
Makes up 10% of your score

Every time someone does a 'hard check' on your credit, your score takes a hit as it can look like you're desperate to find a source of credit. Hard credit inquiries should be limited, especially if you are declined after the first one. Hard credit inquiries include:

- Cash loans
- Credit cards
- Cell phones
- Electricity bills
- Car loans

How much money can be saved?



CREDIT IN CANADA BY PROVINCE:

BC:

40% of British Columbians have **taught themselves about credit** through experience.

28% of BC residents feel that **their credit score is holding them back** from important life choices (owning a home, getting a car, starting a business, etc.)

AB:

44% of Albertans are likely to **learn** about their credit score **reactively** – when they make a mistake.

22% of Albertans are **not confident** that they know what makes up a credit score.

Albertans are the least confident that they know what makes up a credit score, **with 76%** being at least somewhat confident they know, compared to the **national average of 82%.**

ON:

41% of Canadians from Ontario are likely to **learn** about their credit score **reactively** – when they make a mistake.

More residents from Ontario than any other province believe their **credit score to be over 700.**

SK-MB:

44% of Canadians from Saskatchewan or Manitoba are likely to **learn** about their credit score **reactively** – when they make a mistake.

1/5 people from Saskatchewan or Manitoba are **not confident** that they know what makes up a credit score, or if what they are doing in their finances currently is **building good credit**.

Saskatchewan/Manitoba have some of the **lowest rates** of filing for **consumer proposal** (1% vs 5% nationally) and **bankruptcy** (5% vs 9% nationally).

QC:

39% of Canadians from Quebec are likely to **learn** about their credit score **reactively** – when they make a mistake.

Quebecers are more likely than any other province to **know their credit score** and place a higher importance on credit score as an important part of financial well-being.

Only 12% of QC residents live pay cheque to pay cheque and **are struggling** to get by (compared to national average of 18%), and **only 7%** of QC residents have had an **item go to collections** (compared to national average of 14%).

TransUnion reports (2018) Quebec as having **lower non-mortgage delinquency rates** than anywhere else in Canada. The average across the country sits at 5.43% whereas Quebec averages 4.38%.

Atlantic Provinces:

More people in Atlantic Canada (NB,NS,PE and NFL) **than anywhere else in the country** (72%) are claiming to live paycheque to paycheque, and 28% **struggle to get by**.

50% of Canadians from Atlantic provinces are likely to **learn** about their credit score **reactively** – when they make a mistake.

3/4 of Atlantic Canadians have **no plan for a financial emergency.**

23% of Atlantic Canadians have been **declined for a purchase or loan** due to failing a credit check, compared to the national average of 14%.

TransUnion reports (2018) New Brunswick (8.44%), Nova Scotia (7.03%) and New Foundland (6.92%) as having **higher non-mortgage delinquency rates** than anywhere else in Canada.

Refresh Financial Inc. www.refreshfinancial.ca is a Canadian owned and operated Fintech, based in Kelowna, BC. Since inception, the company has helped more than 65,000 clients from coast-to-coast build and re-establish positive credit history. With over 800 referral partner locations and a complimentary online financial intelligence training program, Refresh F.I.T., Canadians can now access tools to help them achieve and sustain long term financial success.

Sources:

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2. http://www.cbc.ca/news/business/debt-canadians-interest-rates-1.4487919
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