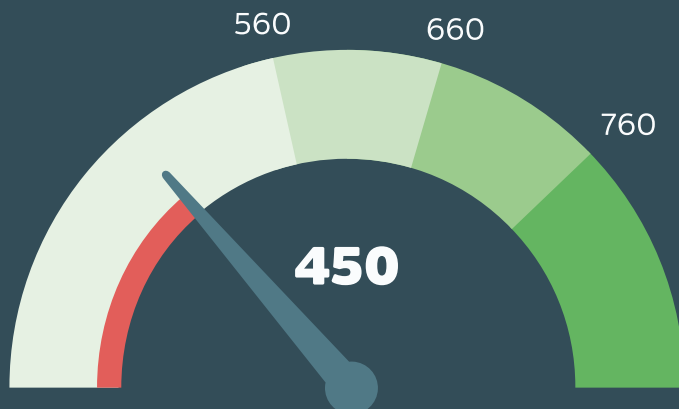


# CREDIT IN CANADA



A NATIONAL SURVEY TO ASSESS CANADIANS' UNDERSTANDING OF CONSUMER CREDIT, HOW IT DIFFERS AMONGST AGE GROUPS, AND THE IMPACT OF POOR CREDIT ON FINANCIAL AND EMOTIONAL WELLNESS.

A study by Leger, commissioned by Refresh Financial.

**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.

## CONTENTS

<b>p4</b>	<b>INTRODUCTION</b>
<b>p5</b>	<b>EXECUTIVE SUMMARY</b>
<b>p6</b>	<b>WHAT IS CREDIT?</b>
<b>p8</b>	<b>THE FINDINGS</b>
<b>p13</b>	<b>ABOUT THE RESPONDENTS</b>
<b>p14</b>	<b>CREDIT IN CANADA BY PROVINCE</b>

## INTRODUCTION

In 2018, Refresh Financial commissioned **Leger**; the largest Canadian owned polling, research and strategic marketing firm, to conduct a national survey of Canadians in order to provide insights into the nation's attitudes and understanding of credit and the credit reporting (scoring) system. The results indicate less than half of Canadians know their credit score, despite a near unanimous belief that a good credit score is important to one's financial well-being.

Canadians are not unfamiliar with borrowing money and the need for credit. In fact, Canadians carry more debt per dollar of disposable income compared to any of the G7 countries<sup>1</sup>. TransUnion Industry Insights Summary from 3<sup>rd</sup> quarter 2018 reports Canadians hold an average non-mortgage debt balance per borrower of just shy of \$30,000<sup>2</sup>, a year over year increase of 3.85%. Navigating the world of credit is an everyday reality for many Canadians.

This survey focuses on how familiar Canadians are with credit scores, the stress and anxiety that is related to having a lower credit score, and how credit comes to play in Canadians' preparation for income interruptions or unexpected financial emergencies.

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.

**This report is available for download at [Refreshfinancial.ca/creditincanada](http://Refreshfinancial.ca/creditincanada)**

## EXECUTIVE SUMMARY

- 「 **96%** of Canadians believe a **good credit score is important.** 」
- 「 **62%** know how to check their score, and only **41%** know their score. 」
- 「 **FEAR** is **keeping 1 in 5 Canadians** from checking their credit score. 」
- 「 **42%** learned about credit from **making a mistake.** 」
- 「 **1 in 4** Canadians are feeling more **STRESSED** about their credit score than a year ago. 」
- 「 **27%** have had feelings of **anxiety, fear, hopelessness, depression and panic** when it comes to their credit score. 」
- 「 **75%** of Canadians with a credit score below 700 feel their score is **holding them back from important life choices.** 」
- 「 **Millennials & Gen Z** (18 - 34 year olds) are **MORE LIKELY** than any other generation to be experiencing **STRESS** about credit and their financial well-being. 」
- 「 **Millennials & Gen Z** are the **LEAST CONFIDENT GENERATION** when it comes to building credit. 」
- 「 **60%** of millennials **DON'T LEARN ABOUT CREDIT** before getting their first credit card. 」
- 「 **53%** of Canadians are living **PAYCHEQUE TO PAYCHEQUE.** 」
- 「 **49% do not** have a plan in case of **FINANCIAL EMERGENCY.** 」

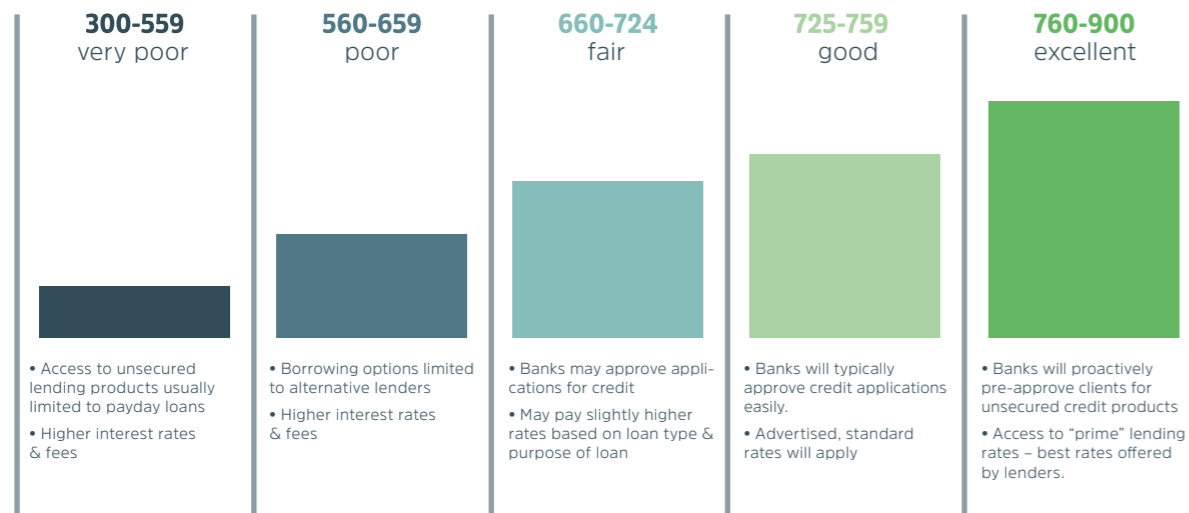
## UNDERSTANDING “CREDIT SCORE”

A **credit score** is a number that represents an individual's overall credit health. As part of a credit application, lenders will look at the full credit report and credit score to determine how likely an individual will make payments on time, and the likelihood of default, based on past and current behavior.

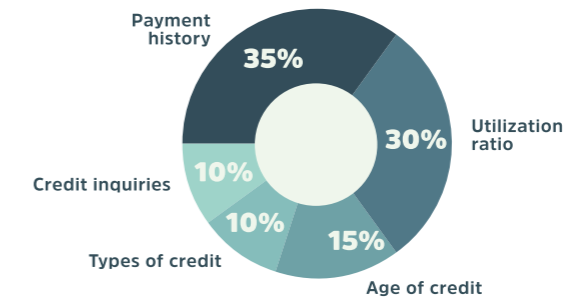
**Credit scores** range between **300 and 900**. Higher scores are related to higher credit worthiness and therefore lenders will offer credit products at lower rates. Conversely, lower scores will limit an individual's access to only higher interest rate products that will not only cost more per dollar borrowed, but also take longer to pay off in full.

### Credit Score: From Very Poor to Excellent

A credit score can range from “very poor” to “excellent”. Other terms used for this include “Sub Prime”, “Near Prime”, “Prime”, and “Prime Plus”. Applying for credit products with a sub-700 score will likely make approvals more challenging and if approved, only at higher interest rates.



## WHAT MAKES UP A CREDIT SCORE?



### 1. Payment history- 35%

Payments should be on time and in full. Late payments will lower credit score

While bill payments and parking tickets don't affect your credit score, if they remain unpaid and are sent to collections, they will have a significant negative effect on credit score.

### 2. Utilization ratio - 30%

Credit usage looks at the total “available” credit relative to how much is being used on a monthly basis. For example, a credit card with a \$10,000 limit and a \$2,000 revolving balance has a 20% utilization ratio. Similarly, the same balance on a lower limit would impact more negatively. \$2,000 balance on a \$2,000 limit would be 100% utilization. A caution for lower limit credit cards.

### 3. Age of credit - 15%

A track record of on-time and in-full payments toward a loan or credit card over several years will positively impact credit score.

### 4. Types of credit - 10%

There are two main types of credit:

- Revolving – credit cards, lines of credit, overdraft.
- Installment – mortgage, loan.

An installment loan with a fixed, on-time payment each month will have the biggest positive impact on credit score.

### 5. Credit inquiries - 10%

Every application for credit is reported on an individual's credit report and will impact credit score if too many enquiries are made within a short time, suggesting that the individual is actively seeking credit from multiple sources. If possible, these should be limited in number.

Credit applications or “hard credit enquiries” include:

- Unsecured loans
- Credit card applications
- Cell phone plan enrolment
- Application for Utility service
- Car financing/lease or loan application

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

**86%** OF PEOPLE ARE CONFIDENT THAT THEY KNOW **HOW TO BUILD** GOOD CREDIT AND **62%** KNOW **HOW TO CHECK** THEIR SCORE.

While it's encouraging to see that almost every Canadian (96%) believes a good credit score is important, less than half (41%) actually know their score. A credit score is part of an individual's credit report, and is an important piece of one's financial "snapshot." All of an individual's credit decisions over the previous 7 years 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.

Checking one's credit score annually is advised, not only to monitor progress, but also to guard against fraudulent activity or identity theft. An unexpected decline in credit score can be an indication that this may be happening.

The survey indicates that 6 out of 10 Canadians feel at least somewhat confident that they would be approved for a loan product following a credit check. This shows that people are either confident that they have a good credit score (even if they don't know it) or are unaware as to the importance of a good score when it comes to being approved by lending agencies.

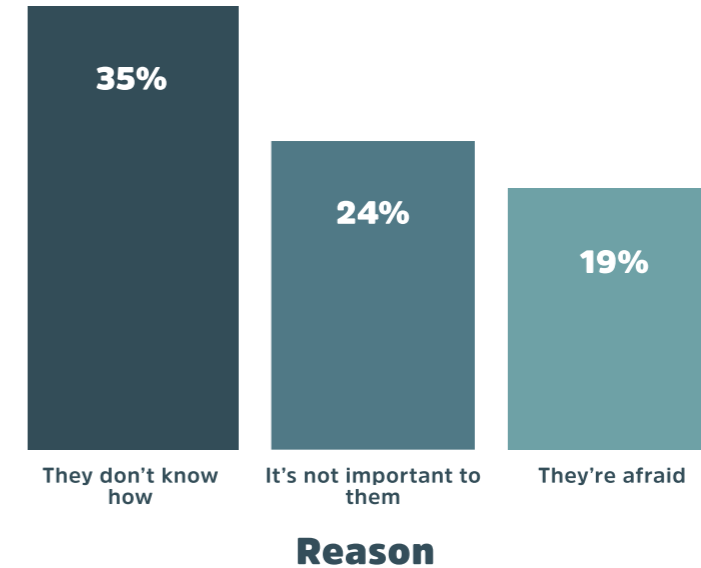
When making big decisions like applying for a mortgage or a new job, credit scores can be the difference between getting a low or high interest rate, or getting hired. That's right - employers can check credit scores of potential employees credit scores, provided the applicant gives their consent.

**23%** OF CANADIANS BELIEVE THEIR CREDIT SCORE IS **HOLDING THEM BACK** FROM IMPORTANT LIFE GOALS.

A credit score improvement can open the door to credit at lower interest rates, allowing people to achieve their life goals in a more affordable manner.

**84%** OF CANADIANS UNDERSTAND WHY THEIR CREDIT SCORE IS AN **IMPORTANT PART** OF THEIR FINANCIAL WELL-BEING

## 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. (Free online tools and websites have made this process simple.)

**They don't see the importance:** 24% of Canadians don't view their credit score as an important part of their financial well-being.

**They are afraid:** 19% of Canadians are afraid to check their score. Credit score causes negative emotions (anxiety, fear, depression, hopelessness) in 27% of Canadians.

According to a TransUnion report released in March 2018<sup>3</sup>, almost 9 millions Canadian adults are in the subprime or near-prime risk categories, a fact that may be contributing to a fear of checking one's credit 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 had their credit score checked were positively surprised by the results versus only 9% who were negatively surprised.

## CANADIANS ARE NOT FORMALLY TAUGHT ABOUT CREDIT

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

Almost half of Canadians (42%) say they were self-taught when it comes to credit, including making mistakes along the way. Lack of formal credit education is likely contributing to credit card debt and low credit scores.

60% of Millennials and Gen Z (18 – 34 year olds) do not learn about credit before getting their first credit card. One quarter of Canadians said they got their first credit card simply because they turned 18 or felt like they were supposed to. In the 18 - 34 age group, this number was more than one third. Access without awareness can lead to difficulties with credit down the road.

Canadians who were never formally taught money management skills are more than twice

as likely to be living paycheque to paycheque, and more than four times likely to have a credit score below 700. People living paycheque to paycheque have more financial related problems.

- Twice as likely to have to ask for a co-signer on a credit product.
- More than three times as likely to have had an item sent to collections or been declined due to poor credit.
- More than three times as likely to have filed a consumer proposal (to deal with debt) or declared bankruptcy.

**25% OF 18-34 YEAR-OLDS ARE NOT SURE WHAT MAKES UP THEIR CREDIT SCORE.**

## CREDIT SCORES ARE LEADING TO STRESS AND ANXIETY AMONG CANADIANS

The findings of this Credit in Canada survey suggest lower credit scores are having an impact on emotional and mental well-being. 23% of Canadians say they are feeling more stressed about their credit score than a year ago. That number is nearly four times higher for those with a credit score below 700 (54%) compared to those with a score over 700 (15%).

**Question: Have you ever experienced any of the following when it comes to your credit score?**

- Anxiety – 19%
- Fear – 9%
- Loss of Sleep – 8%
- Hopelessness – 8%
- Depression – 8%
- Panic – 7%

People with a credit score below 700 are five times 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.

**37% OF 18-34 YEAR OLDS HAVE EXPERIENCED NEGATIVE EMOTIONS IN RELATION TO THEIR CREDIT SCORE SUCH AS ANXIETY AND FEAR.**

Stress surrounding credit and credit scores is impacting 4 in 10 Canadian Millennials & Gen Z. 39% of those aged 18 - 34 admit feeling more stressed about their credit score this year than a year ago, compared to 17% across all other age groups. 25% of 18 - 34 year-olds are nervous they would be turned down for a loan product following a credit check. 34% of Canadian Millennials & Gen Z believe their credit score is holding them back from important life choices, a figure which decreases consistently as people grow older.

## HOW PREPARED ARE CANADIANS FOR FINANCIAL EMERGENCIES?

**ONLY 51% OF CANADIANS HAVE A DEDICATED SAVINGS PLAN FOR AN EMERGENCY**

Too often, Canadians are unprepared for interruptions in income or unexpected financial emergencies. 49% do not have a specific savings plan for financial emergencies. 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.

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 difficult financial situations, such as having something sent to collections or filing for bankruptcy.

- 14% of survey respondents have had something sent to debt collections.
- 14% have filed a consumer proposal (to address debt loads) or filed for bankruptcy.

Many Canadians appear ill-prepared to handle income interruptions and financial emergencies. The results suggest Canadians are relying on access to credit to cover shortfalls, which may come at a high short and long term cost.

**53% OF CANADIANS ARE LIVING PAYCHEQUE TO PAYCHEQUE.**

## ABOUT THE RESPONDENTS

### Gender:

- Women: 51%
- Men: 49%

### Age

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

### Household 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%
- Widowed / 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%

## CREDIT IN CANADA BY PROVINCE:

### BRITISH COLUMBIA:

**40%** have **taught themselves about credit** through experience.

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



### ALBERTA:

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

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

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

### SASKATCHEWAN / MANITOBA:

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

**1 in 5** are **not confident** in what makes up a credit score

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

### ONTARIO:

**41%** 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**.

### QUEBEC:

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

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

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

### ATLANTIC PROVINCES:

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

**50%** are likely to **learn** about their credit score **reactively** – when they make a mistake.

**3 in 4** have **no savings plan** for a financial emergency.

**23%** have been **declined for a purchase or loan** due to a low credit score, compared to the national average of 14%.



**Refresh Financial Inc.** [www.refreshfinancial.ca](http://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:**

1. [https://www.huffingtonpost.ca/2018/12/14/household-debt-revision-statcan\\_a\\_23618167/](https://www.huffingtonpost.ca/2018/12/14/household-debt-revision-statcan_a_23618167/)
2. <https://newsroom.transunion.ca/healthy-canadian-consumer-credit-market-forecast-to-continue-in-2019/>
3. <https://newsroom.transunion.ca/youngest-borrowers-leading-canadian-consumer-credit-growth/>

