



**CANADIAN
LENDERS
SUMMIT**

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Credit Invisibles & Credit Deserts in Canada



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INTRODUCTION:

- About PERC
- Our supporters
- Where we work
- Importance of credit information
- The problem of credit invisibility

About Us



PERC Canada is a non-profit, non-partisan policy research and development institution dedicating to increasing financial inclusion through information solutions

Introduction












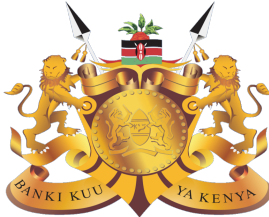





















PERC Research

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Future Research

Key Takeaways

PERC Supporters

Foundations	NGOs	International	U.S.G.	Associations	Industry
    	     	    	   	   	        
Introduction	PERC Research	Canada		Future Research	Key Takeaways

Why are credit reports/scores so important?



Home ownership

2 most
important

ways to
build assets



Small business ownership

- These take loans!
- In an automated underwriting system, no credit file = automatic rejection
- Lack of information about borrower's riskiness treated as high risk
- What if you're not in the system?

Problem: Credit Invisibility

- Not everyone has a credit report (no-file) or enough information in their report (thin-file)
- Unable to access credit at mainstream, affordable rates
- No way to build assets
- Must access credit through predatory lenders ➡ debt trap

- Current system is unfair & unforgiving
- Negative non-financial payment information gets reported but positive info does not
 - Effectively a **blacklist**
- Low awareness of who is reporting & what ➡ difficult for consumers to build credit



OUR RESEARCH

- Credit invisible population
- Solution: more data
- Specifically, proven payment data
- PPD helps both individuals & small businesses
- Credit deserts

Who is credit invisible in the U.S.?



Lower-income
Americans



Minority
Americans



New
Americans



Younger
Americans



Elderly
Americans

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Key Takeaways

How do we solve the credit invisibility issue?

**Giving Underserved
Consumers Better Access
to the Credit System:**

**The Promise of
Non-Traditional Data**

Information Policy Institute | July 2005



- Data on borrowers that is predictive of likelihood to repay
- What kind of data would this be?
- Reliability: Accurate, Regular, Standardized, Predictive

Source	Credit-like	Coverage	Concentration	Reliability
Utility	+	+++	+++	ARSP
Telecom	+	+++	+++	ARSP
Rent	-	+++	+	AR?P?
Auto insurance	-	++	++	ARSP
Payday loans	+	+	+	AS

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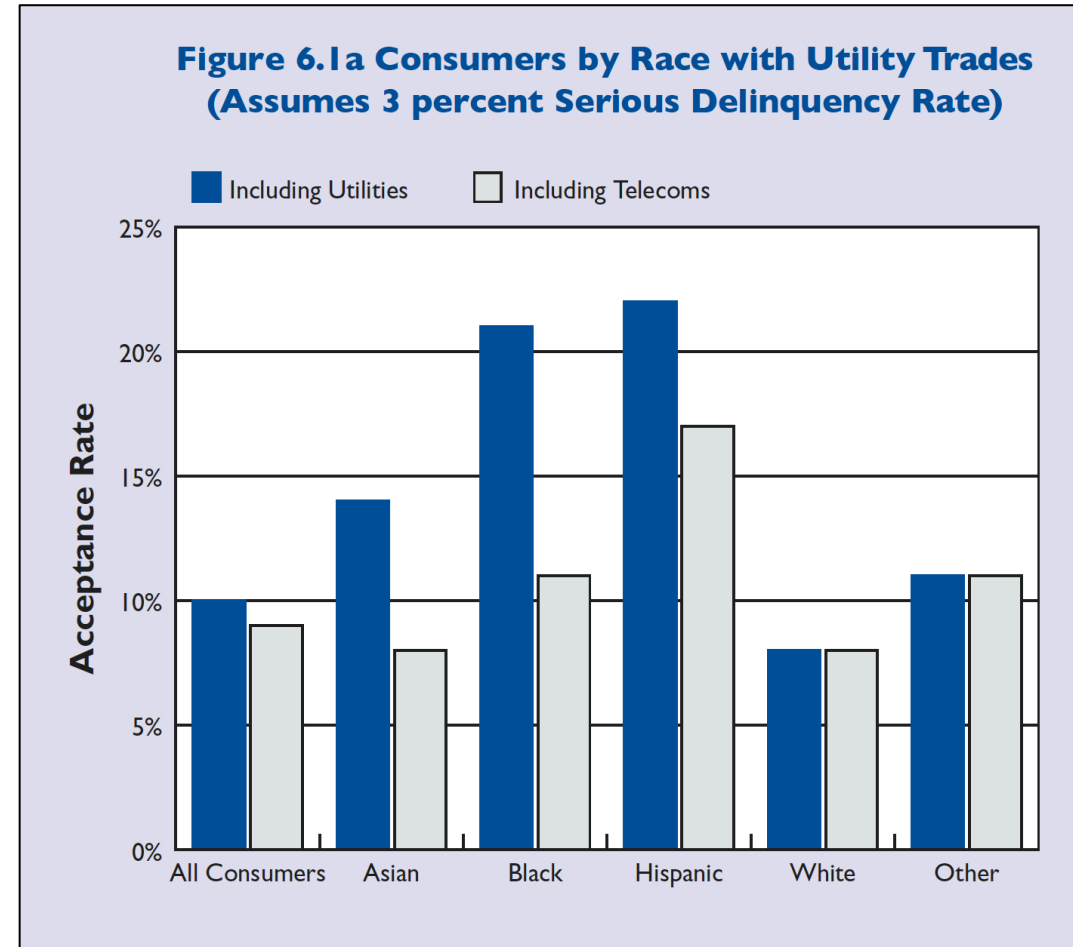
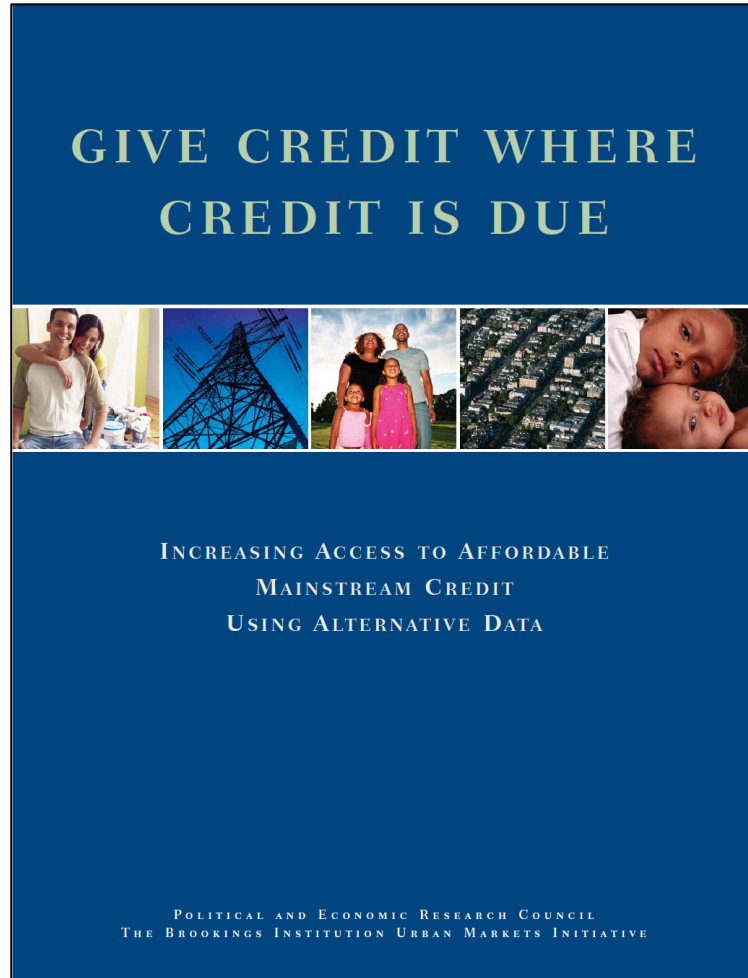
Alternative Data Initiative

General Research Findings

- Those without credit files have similar risk distribution to general population
- Proven payment data is predictive and improves scoring models
- Including proven payment data in credit scores makes lending fairer & more inclusive
- Disproportionally benefits traditionally under-served populations



Give Credit Where Credit Is Due



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Impact on Financial Sector

ON THE IMPACT OF CREDIT PAYMENT REPORTING ON THE FINANCIAL SECTOR AND OVERALL ECONOMIC PERFORMANCE IN JAPAN

BY
MICHAEL TURNER, PhD
ROBIN VARGHESE, PhD
PATRICK WALKER, MA

Information Policy Institute | March 2007



- Robust consumer credit information sharing system is crucial for micro & small business loans
- Business owner's personal credit information is predictive
- "Every 10% rise in coverage of a nation's population with full-file credit reporting is associated with a 6% increase in private sector lending as a share of GDP."

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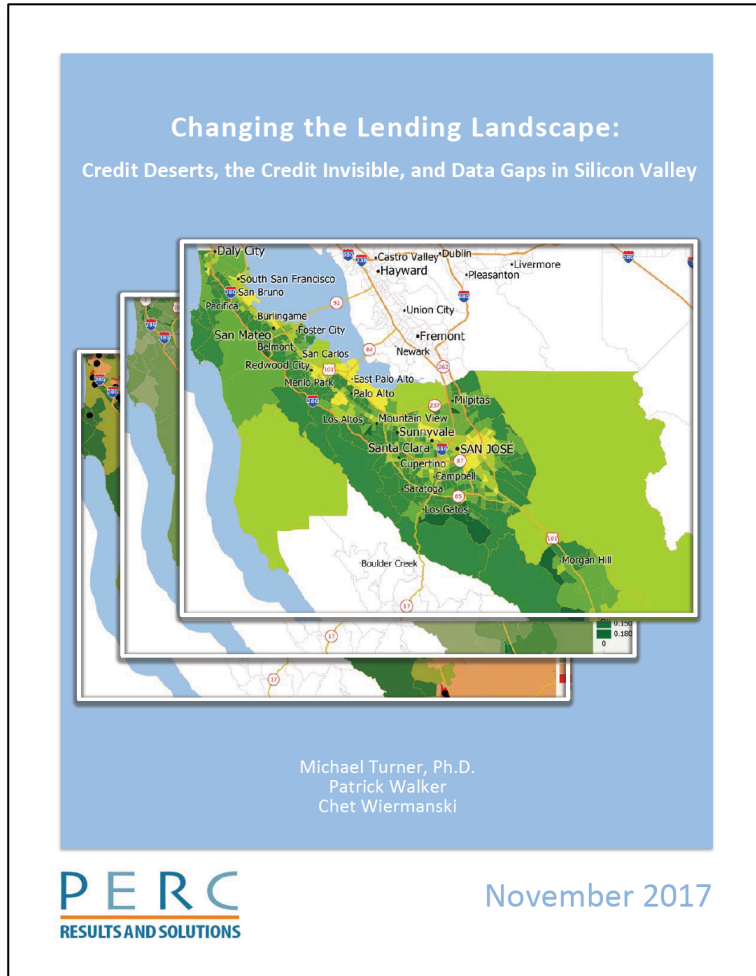
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Changing the Lending Landscape



Credit deserts



High concentration of credit invisibles



Lower-than-average median income

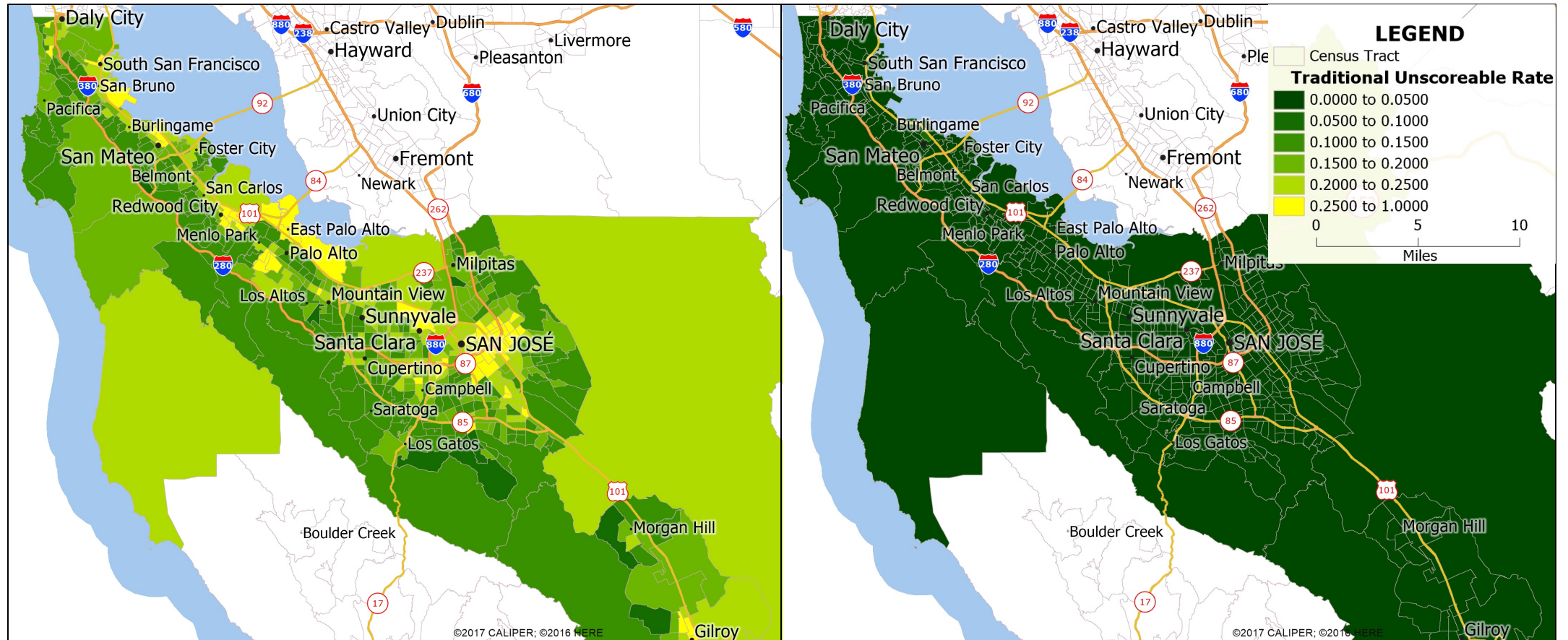


Lower-than-average credit scores



High concentration of fringe financial institutions

Credit Deserts



Traditional data & score

Alternative data & score

CANADA



- Current situation in Canada
- Methodology
- Data Limitations
- Credit invisibility by province
- Credit invisibility by income bracket
- Credit invisibility in Indigenous communities
- Credit invisibility in New Canadians
- Credit desert maps

What's Happening in Canada?



Young Canadians
421,000 Canadians
turned 18 in 2018



New Canadians
1 million immigrants
entering 2018-2020



**Canadians without
access to banks**
4 Canadians/km²



**Population of
underserved
Canadians**

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Payday Lending Boom in Canada



- 2009-2014: % of Canadians accessing payday loans more than **doubled** from **1.9% to 4.5%**
- During that time, Canadians became the most indebted consumers among G7
- Household debt to income ratio increased from 145% to 160%
- Record high in 2017 of 165%
- Canadians are **asset-poor**: 55% unable to last 3 months if income suddenly dried up

Methodology



2016

CENSUS • RECENSEMENT

- Forward Sortation Area (first 3 digits of postal code)
- # of consumer files in FSA with positive CreditVision risk score
- # of consumer files in FSA with **thin file** (0-2 tradelines & positive CreditVision risk score)
- # of consumer files in FSA with **thick file** (3+ tradelines & positive CreditVision risk score)
- Append with sociodemographic data from 2016 Census

Data Limitations

Issues

Statistics Canada produces
estimates at points in time

2016 Census v. 2019 TU Data

Census segments age into 15-
19

Defunct FSAs

Adjustments

Will need to assume growth
rates to match TU data date

Use *distribution* of socio-
demographic characteristics

Multiply by 0.4 to get 18+
adult population

Excluded (could recode)

Canadian credit invisibility by province

Province	% of Files with 0 tradelines	% of Files with 1-2 tradelines (Thin File)	Credit Invisible Rate
NFL	10.4%	20.9%	31.3%
NS	11.9%	21.7%	33.6%
PEI	11.3%	21.6%	32.9%
NB	10.0%	21.3%	31.4%
QC	8.1%	25.6%	33.7%
ON	12.6%	23.9%	36.5%
MB	16.7%	21.3%	37.9%
SK	15.4%	20.3%	35.6%
AB	15.3%	20.1%	35.4%
BC	12.2%	25.0%	37.2%
NU	15.9%	22.5%	38.3%
NT	20.1%	30.1%	50.2%
YK	28.2%	36.9%	65.1%
Canada	11.7%	23.6%	35.3%

Source: TransUnion Canada

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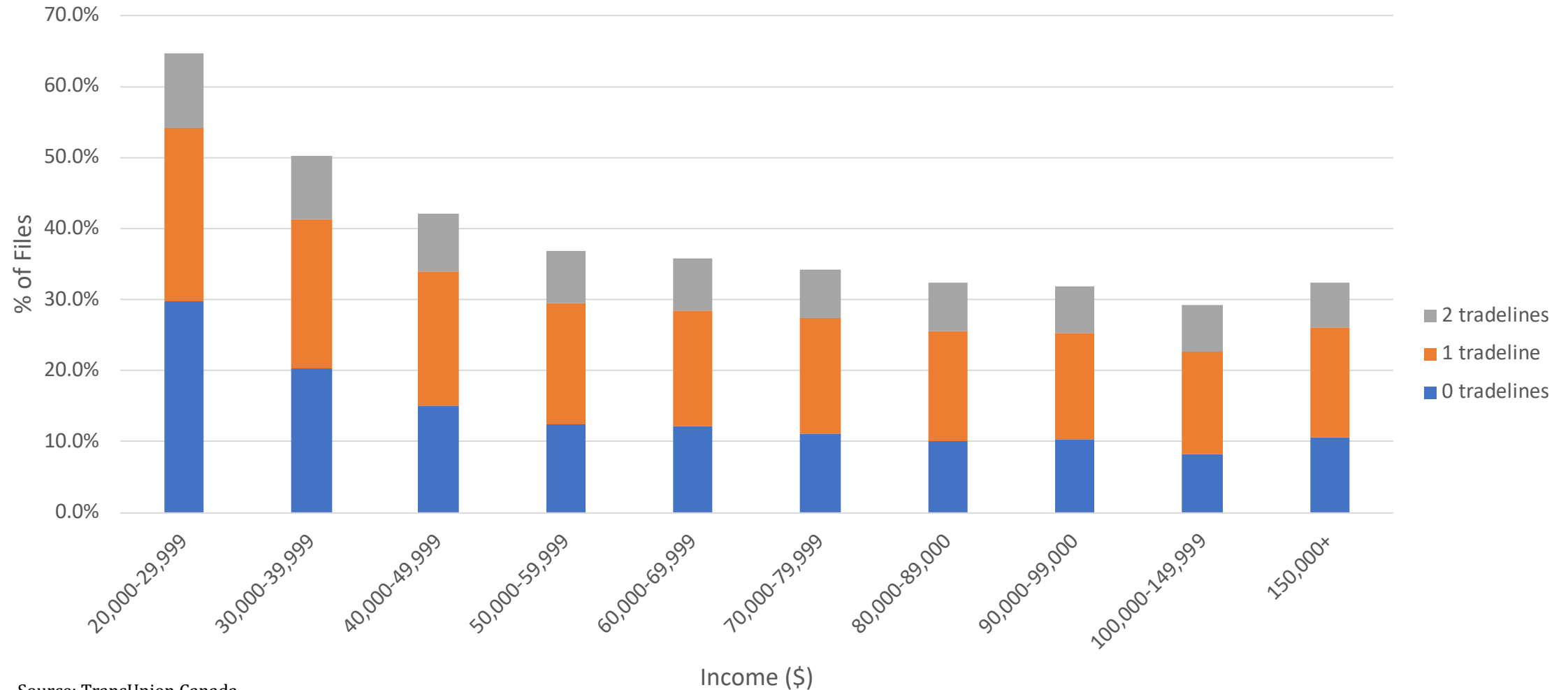
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Credit invisibility by income bracket



Source: TransUnion Canada

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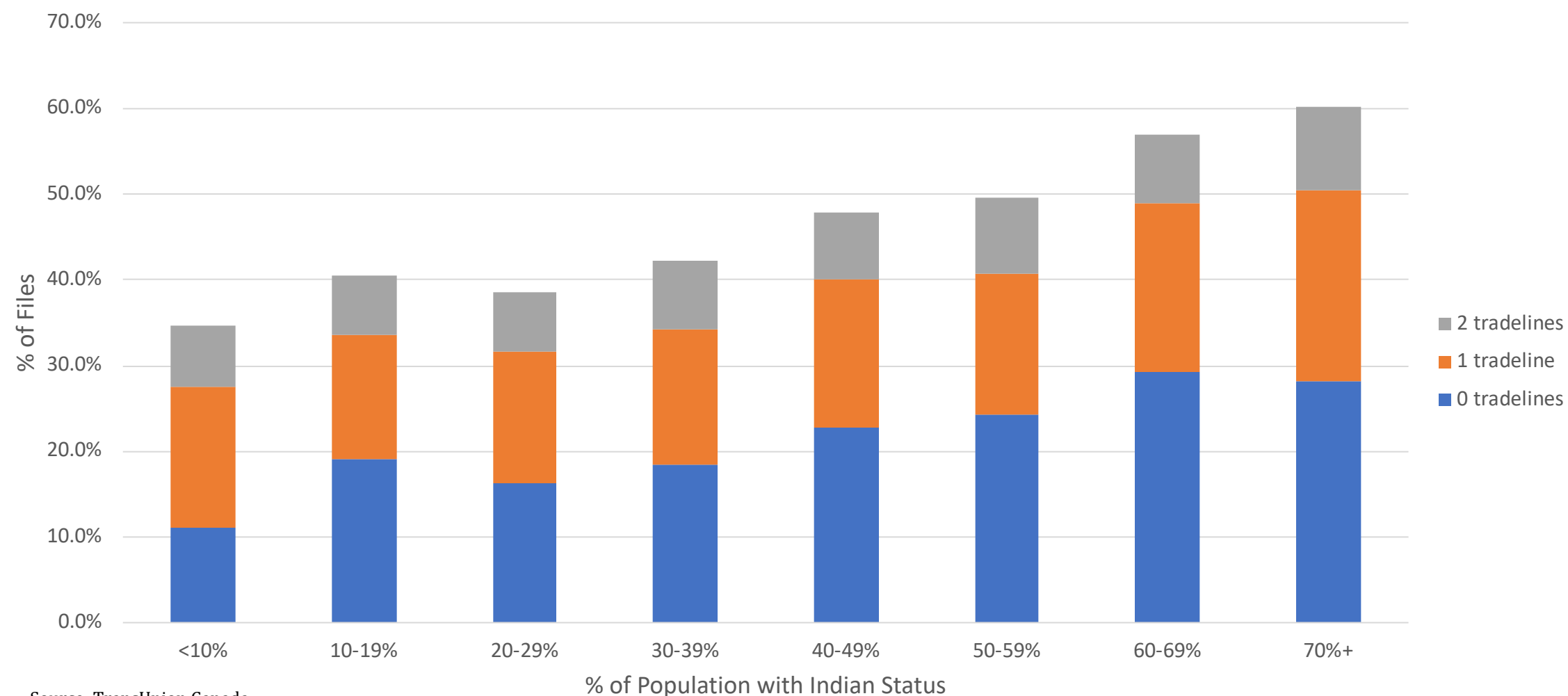
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Credit invisibility in Indigenous communities



Source: TransUnion Canada

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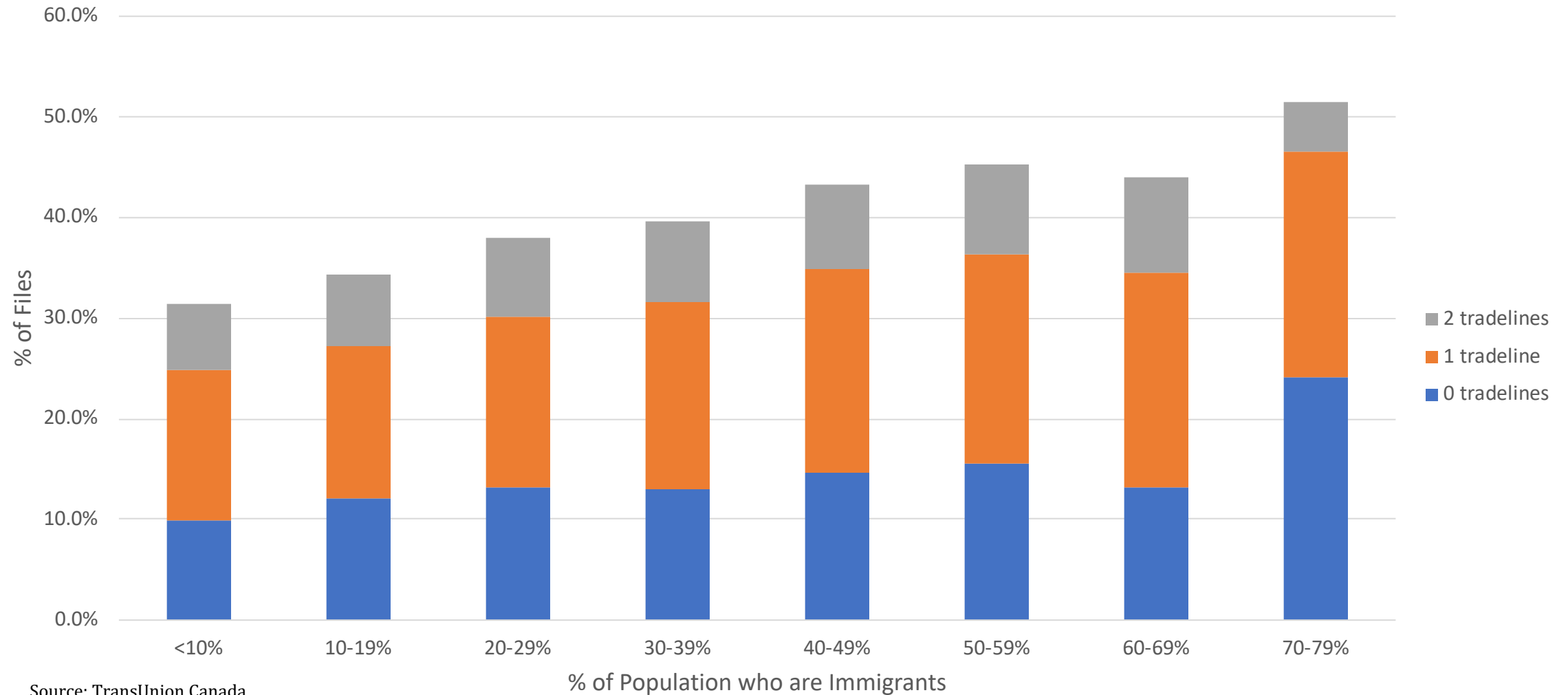
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Credit invisibility in New Canadians



Source: TransUnion Canada

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Credit Invisibility Rate

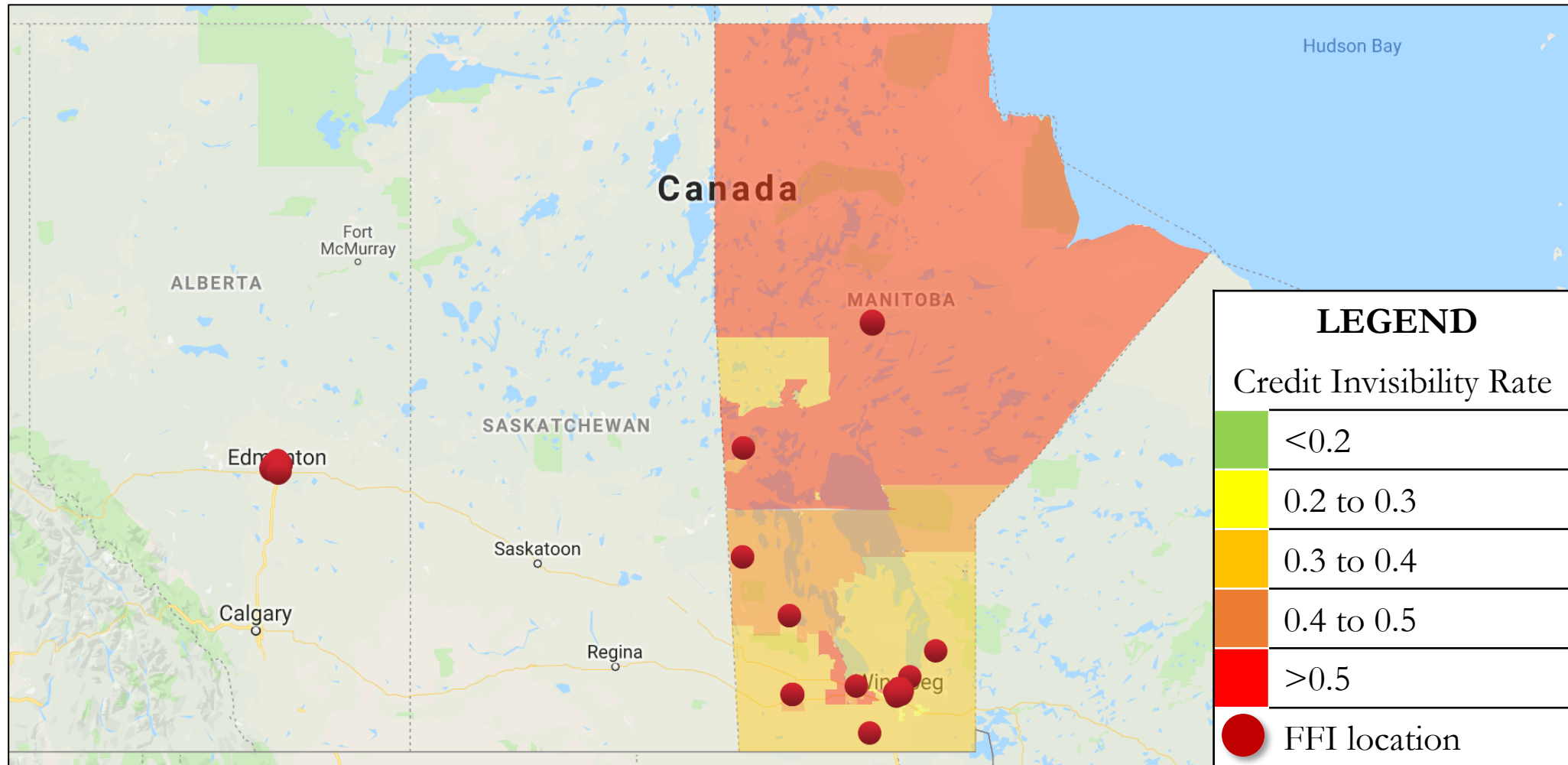
■	<0.2
■	0.2 to 0.3
■	0.3 to 0.4
■	0.4 to 0.5
■	>0.5

● FFI location

Key Takeaways



Manitoba



Source: TransUnion Canada

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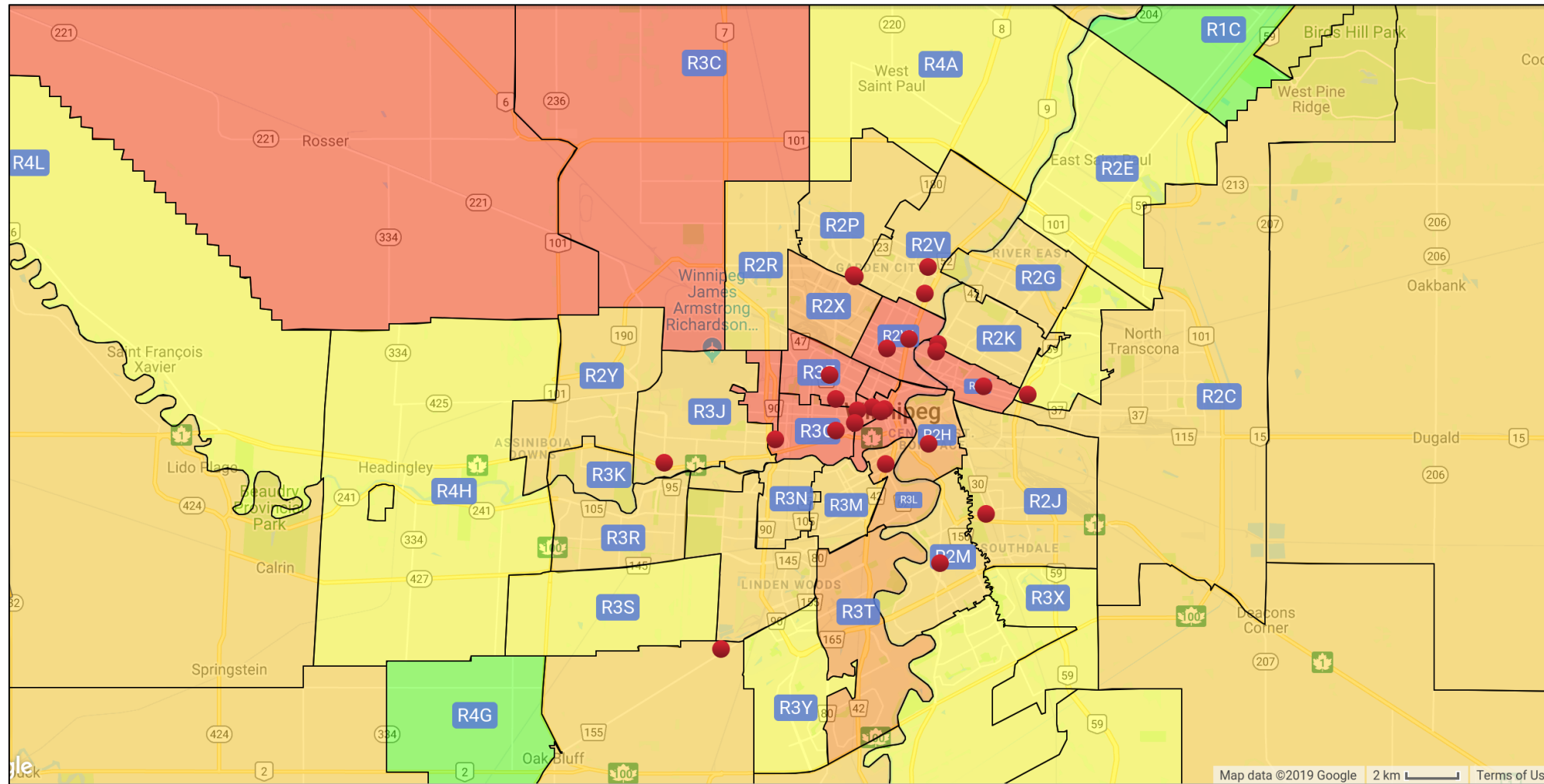
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Winnipeg



Source: TransUnion Canada

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Credit Invisibility Rate

<0.2

0.2 to 0.3

0.3 to 0.4

0.4 to 0.5

>0.5

● FFI location

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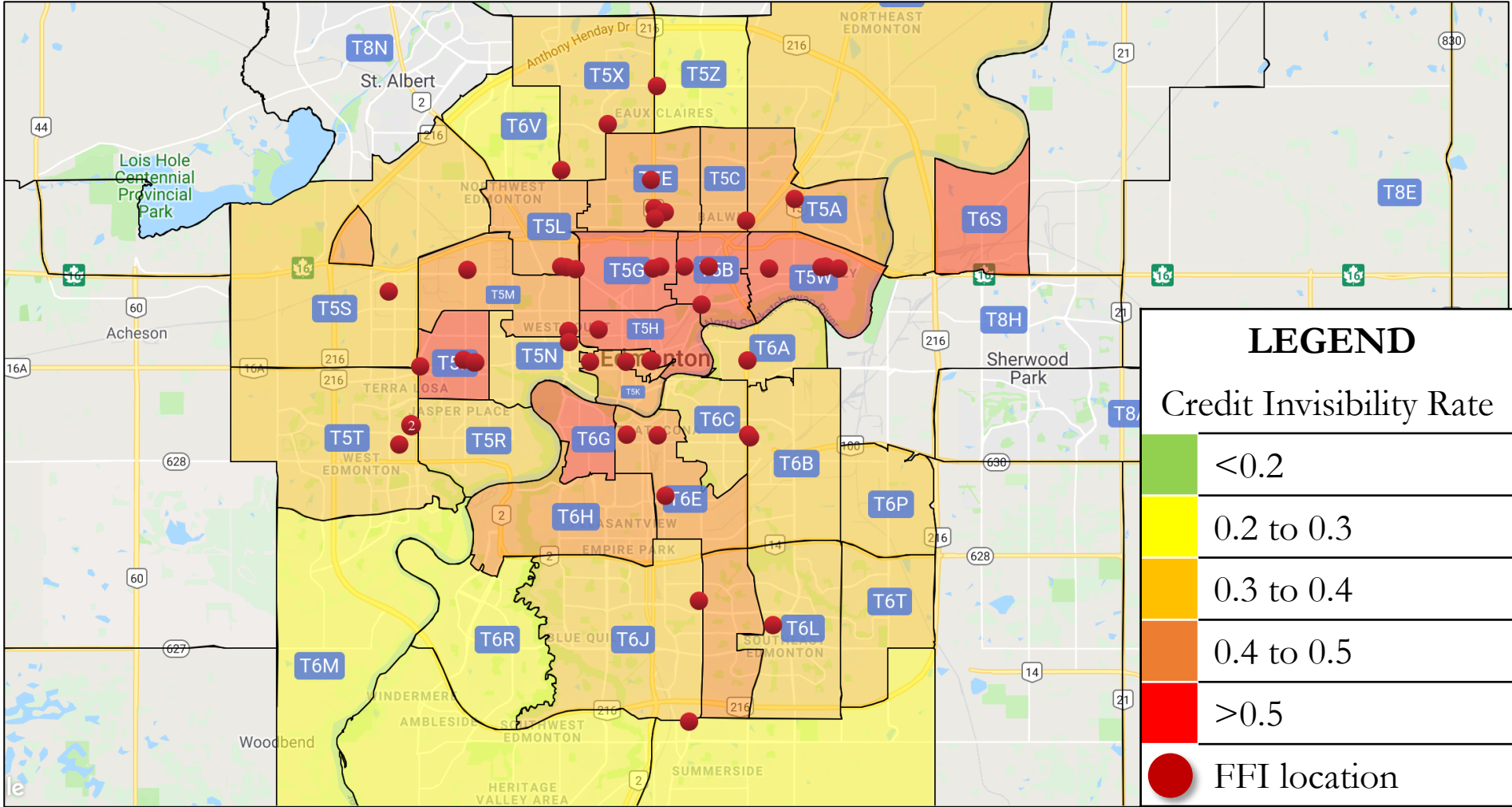
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Edmonton



Source: TransUnion Canada

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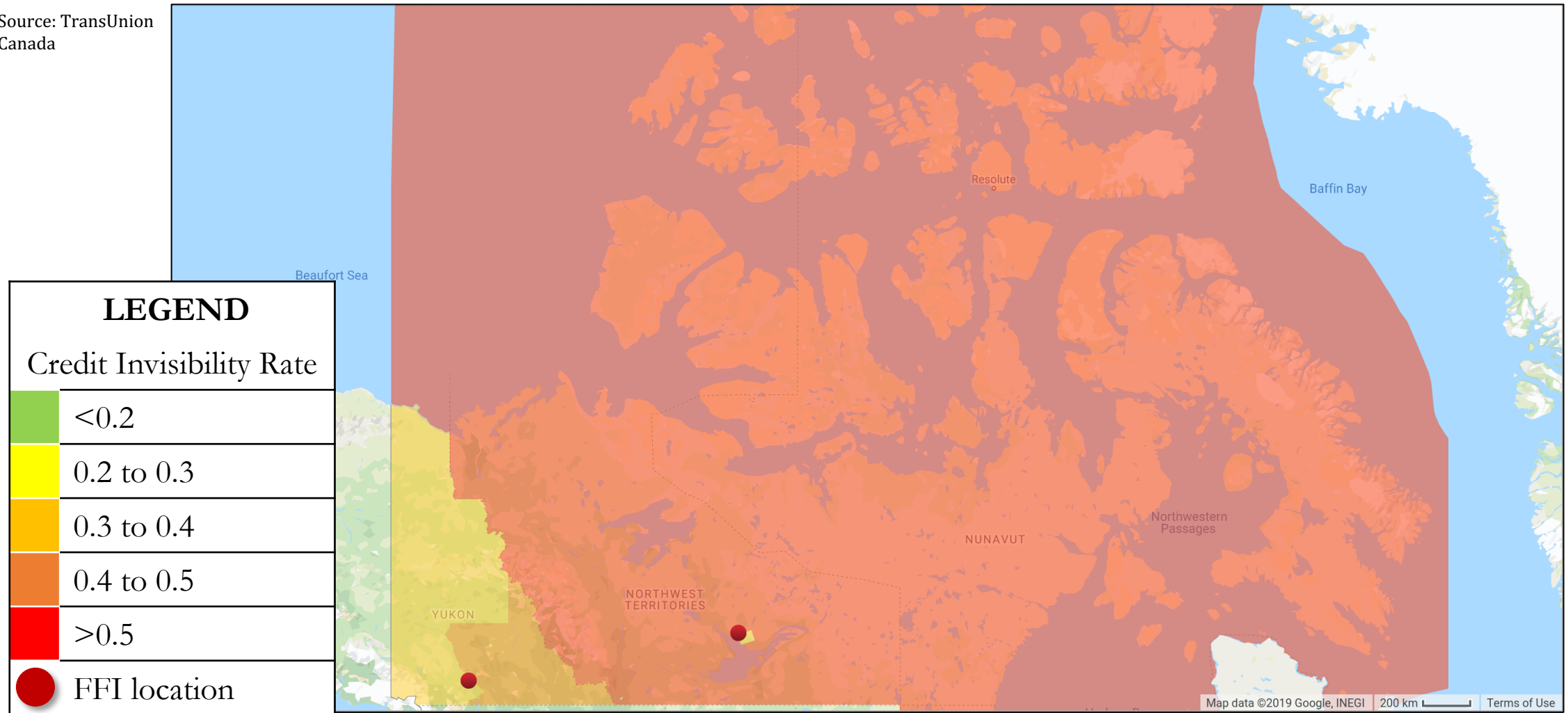
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Territories

Source: TransUnion
Canada



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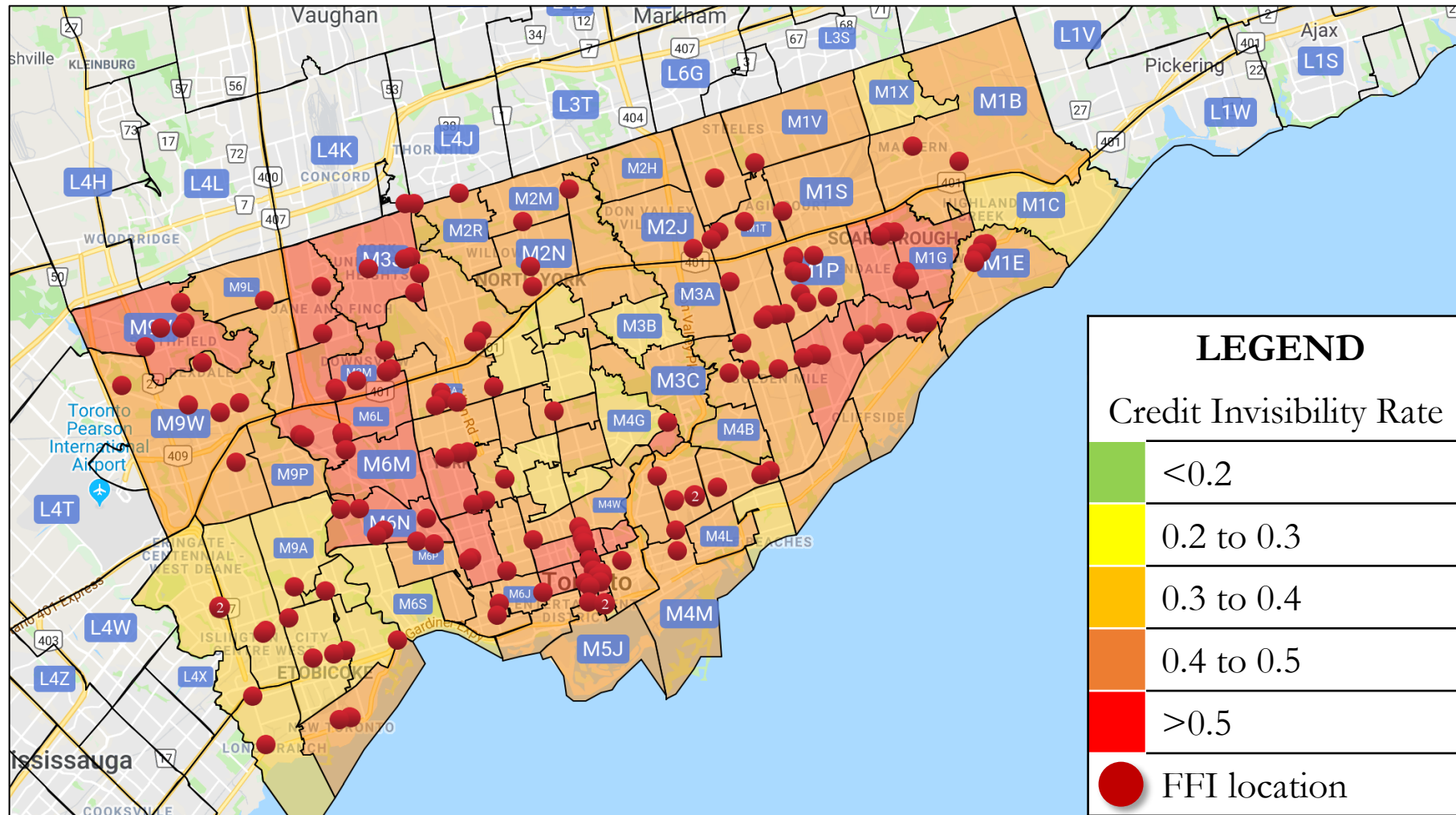
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Toronto



FUTURE RESEARCH

- Accurately measure scale/scope of credit invisibility in Canada
- Sociodemographic analysis of credit invisibility
- Mapping credit deserts across Canada defining features of credit deserts, including:
 - Average household income
 - Average credit scores
 - Presence of FFIs
- Assessing impact of including proven payment data on lending landscape in Canada

| Research results will drive advocacy campaign |

Policy Implications



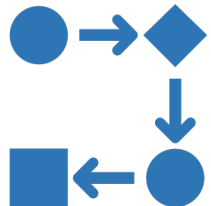
Mandate full-file & comprehensive credit reporting

Data to eradicate credit invisibility/deserts is there



Relax licensing requirements to enable competition

Credit bureau licensing requirements should be made easier
Regulatory sandboxes for data



Lawmakers/regulators must embrace data-sharing culture

Data is the solution, not the problem

Credit Invisibility/Credit Deserts must be viewed as policy priorities

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Thank you for listening!



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