

Non-bank financial intermediation, 2007 to 2019

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Non-bank financial intermediation is defined as financial intermediation activities, such as lending, that are outside the traditional, regulated financial system. Understanding financial vulnerabilities goes beyond the traditional entities where oversight and risk assessment are well established. Because of the many interlinkages between non-bank financial intermediaries and other financial institutions and the important role they play in the financial system, it is necessary to better measure their activities to more comprehensively monitor risk.

Statistics Canada is updating its economic account of non-bank financial intermediation, which was developed in partnership with the Bank of Canada. Revised estimates for reference years 2007 to 2018 and preliminary estimates for 2019 are now available for non-bank credit intermediaries (NBCIs)—a subset of non-bank financial intermediaries. These NBCIs serve as an important source of funding for both businesses and households. They encompass mortgage investment corporations (MICs), mortgage finance corporations (MFCs), consumer and business transportation leasing companies, other leasing companies, and finance companies.

Slowing asset growth among non-bank credit intermediaries

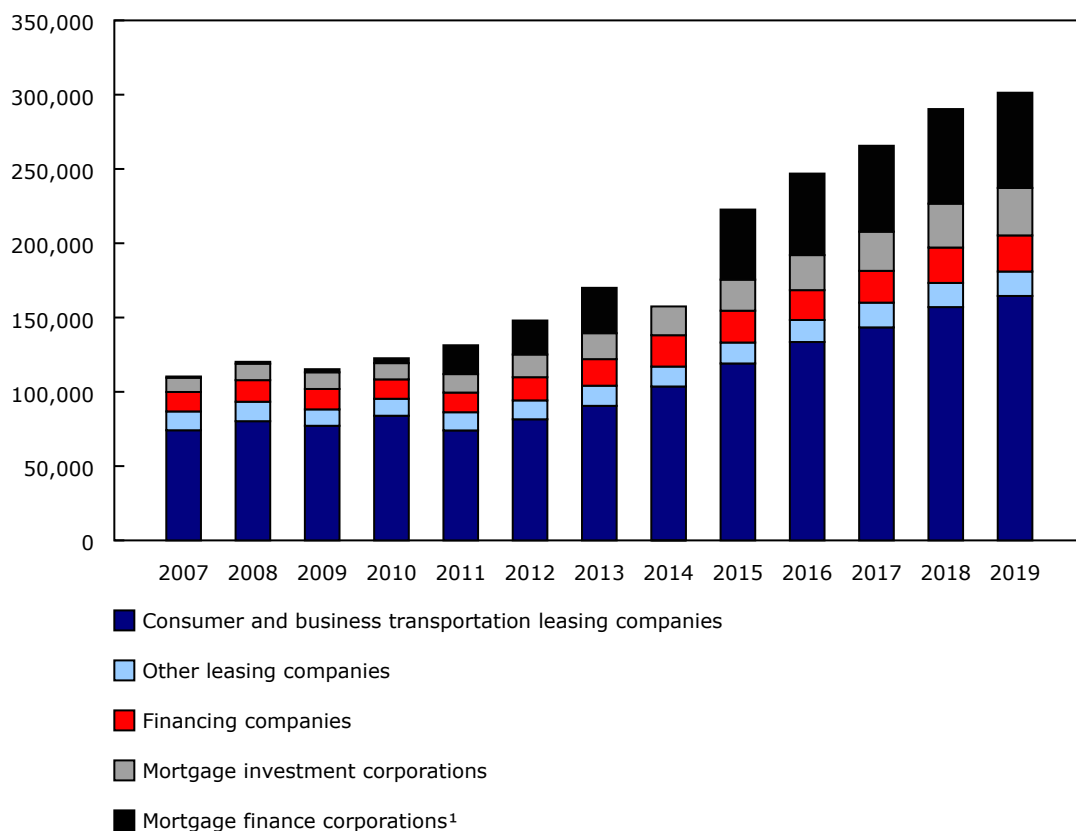
The total assets of the NBCI sectors grew 3.8% in 2019—the weakest growth since 2010 and a notable deceleration from the 8.2% growth observed in 2018.

Total financial assets, predominantly composed of mortgage and non-mortgage loans, surpassed \$300 billion, with consumer and business transportation leasing companies accounting for the largest share. Despite the weaker growth in 2019, all five sectors saw their balance sheets expand, led by MICs and consumer and business transportation leasing companies, highlighting the continued demand for funds provided by NBCI lenders.



Chart 1
Total financial assets of non-bank credit intermediaries

millions of dollars



1. Data for 2014 are suppressed to meet the confidentiality requirements of the *Statistics Act*.
 Source(s): Table 36-10-0607-01.

Pace of mortgage lending declines

Among the principal mortgage lending sectors, the mortgage assets of MICs rose 2.4% in 2019—the weakest growth since 2010. The increase was well below the previous year's pace of 10.9%.

Among MFCs, mortgage assets declined 1.0%, while debt security liabilities—the principal source of funding for MFCs—fell 2.0%.

Tighter underwriting standards, increasing rates and other measures introduced to cool housing markets in some jurisdictions had a moderating effect on mortgage borrowing throughout late 2018 and early 2019; year-over-year growth in the monthly stock of household residential mortgage debt hit its lowest level in nearly two decades in early 2019, according to a new study published today titled "[Trends in the Canadian mortgage market: Before and during COVID-19.](#)"

Notable deceleration in the leasing and financing activities of non-bank credit intermediaries

Among non-mortgage lenders, the transportation leasing sector recorded a 3.1% increase in non-mortgage loan assets, which include lease receivables, after posting double-digit—or near double-digit—growth in the preceding four years. According to the Annual Survey of Service Industries, the automotive equipment rental and leasing industry group's revenue advanced 6.2% in 2019, a deceleration from the previous year's increase (+7.9%).

Finance companies recorded a 2.6% increase in non-mortgage loans, well below the double-digit growth of the previous two years. Overall, these lenders recorded a notable deceleration in their lending activities in 2019.

Impact of COVID-19 on non-bank credit intermediaries

With the emergence of COVID-19 in early 2020 and the accompanying upheaval in many industries and sectors, the extent to which households and businesses relied on non-federally regulated lenders for credit was influenced by a variety of factors. Government support programs to replace income had a moderating impact on the expansion of household balance sheets with respect to non-mortgage borrowing. Among businesses, loans provided by the government likely reduced the immediate need to seek out other creditors.

Future trends in NBCI activity can be gleaned using information from the National Balance Sheet Accounts. Non-mortgage loans of other financial intermediaries, which include mortgage lending and financing and leasing companies, fell 14.9% in the third quarter of 2020 compared with the fourth quarter of 2019. Chartered banks and quasi-banks posted a sluggish increase of 1.1% over the same period. Mortgages rose 4.4% among these non-bank intermediaries, while chartered banks and quasi-banks recorded a larger increase of 5.2% from the end of 2019 to the third quarter of 2020.

Note to readers

This economic account is an extension of the National Balance Sheet Accounts (NBSA) and was established by reclassifying entities from existing institutional sectors in the NBSA to a set of subsectors aligned with the current classification of non-bank financial intermediaries. Additionally, it closely follows the NBSA's classification of financial instruments for assets and liabilities.

For more information on how this account is constructed, please see the article "[An economic account for non-bank financial intermediation as an extension of the National Balance Sheet Accounts](#)" (13-605-X).

Mortgage investment corporations

Mortgage investment corporations (MICs), governed by section 130.1 of the Income Tax Act, are engaged in mortgage lending. Funds are raised through the sale of shares to investors or via debt and these funds are used to provide financing. The return to investors is typically the interest earned on the MIC's portfolio of outstanding loans. Usually, a MIC has 20 or more shareholders and provides short-term loans (6 to 36 months) that are secured by real estate property. MICs offer advantages over traditional banks, as they are more flexible in their lending terms. One can have a personalized structured loan with a short turnaround time for assessing and providing funds that—when compared with other lenders—allows them to charge a higher interest rate. The structure of a MIC represents a vehicle for those with equity to generate profit from the lucrative residential mortgage loan industry.

Mortgage finance corporations

Mortgage finance corporations (MFCs) are large financial institutions that originate and service residential mortgages (usually insured). These mortgages are typically sourced from brokers, but some are sourced from clients directly. These mortgages tend to be packaged and sold to regulated financial institutions. Therefore, they must adhere to mortgage lending rules to satisfy the requirements of both their institutional buyers and the Canada Mortgage and Housing Corporation regarding the public insurance of residential mortgages. As a result of these two considerations, MFCs are often considered to be quasi-regulated. MFCs have a complex relationship with the major banks that is both cooperative and competitive. According to the Bank of Canada, some banks rely on MFCs to underwrite and service broker-originated mortgages, while MFCs also rely on banks to fund their operating capital and a significant share of their mortgage lending. At the same time, MFCs and banks compete for broker-originated mortgages (from [The Rise of Mortgage Finance Companies in Canada: Benefits and Vulnerabilities \[PDF\]](#)).

Consumer and business transportation leasing companies

A lease is a long-term contract of one or more years where the lessee pays the depreciation on a good, including an associated interest expense and is offered the option at the end of the lease to buy out the good completely or return it. This sector includes all types of transportation vehicles (planes, trains and automobiles) and fleets, but excludes rentals.

Other leasing companies

Other leasing companies adhere to the same general definition of a lease and cover all other types of leasing, such as equipment, furniture and machinery. Transportation leasing and rentals are excluded.

Finance companies

Finance companies are financial institutions that supply credit for the purchase of consumer goods and services or grant loans directly to individuals and businesses. Unlike banks, finance companies do not take deposits from the public and are not subject to strict banking regulations. Finance companies profit from interest rates charged on the loans provided to clients. These rates are generally higher than the interest rates on bank loans. Finance companies typically obtain funds from a variety of sources, such as through their own borrowing or from an affiliated corporation.

Table 1
Total financial assets of non-bank credit intermediaries by sector, 2010 to 2019

	2010		2011		2012		2013		2014	
	millions of dollars	% change	millions of dollars	% change	millions of dollars	% change	millions of dollars	% change	millions of dollars	% change
Mortgage investment corporations	10,944	-2.5	12,418	13.5	15,290	23.1	17,466	14.2	19,366	10.9
Mortgage finance corporations	3,279	57.0	19,411	492.0	22,870	17.8	30,534	33.5	x	x
Consumer and business transportation leasing companies	83,906	8.8	74,018	-11.8	81,512	10.1	90,559	11.1	103,593	14.4
Other leasing companies	11,421	3.4	12,242	7.2	12,721	3.9	13,562	6.6	13,412	-1.1
Financing companies	13,045	-5.0	13,247	1.5	15,606	17.8	17,876	14.5	21,096	18.0
	2015		2016		2017		2018		2019	
	millions of dollars	% change	millions of dollars	% change	millions of dollars	% change	millions of dollars	% change	millions of dollars	% change
Mortgage investment corporations	20,917	8.0	23,595	12.8	26,374	11.8	29,545	12.0	31,942	8.1
Mortgage finance corporations	47,163	x	54,858	16.3	57,821	5.4	63,658	10.1	64,100	0.7
Consumer and business transportation leasing companies	119,093	15.0	133,525	12.1	143,364	7.4	157,030	9.5	164,527	4.8
Other leasing companies	14,086	5.0	14,830	5.3	16,668	12.4	16,265	-2.4	16,438	1.1
Financing companies	21,420	1.5	20,080	-6.3	21,390	6.5	23,824	11.4	24,314	2.1

x suppressed to meet the confidentiality requirements of the *Statistics Act*

Source(s): Table 36-10-0607-01.

Available tables: table 36-10-0607-01.

Definitions, data sources and methods: survey number 1806.

The document "[Trends in the Canadian mortgage market: Before and during COVID-19](#)," which is part of the series *Analysis in Brief* ([11-621-M](#)), is now available.

The document "[An economic account for non-bank financial intermediation as an extension of the National Balance Sheet Accounts](#)," which is part of *Latest Developments in the Canadian Economic Accounts* ([13-605-X](#)), is available.

The [Economic accounts statistics](#) portal, accessible from the Subjects module of our website, features an up-to-date portrait of national and provincial economies and their structures.

The publication *Latest Developments in the Canadian Economic Accounts* ([13-605-X](#)) is available.

The *User Guide: Canadian System of Macroeconomic Accounts* ([13-606-G](#)) is available.

The *Methodological Guide: Canadian System of Macroeconomic Accounts* ([13-607-X](#)) is available.

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