Non-bank financial intermediation, 2007 to 2021

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

This release focuses on non-bank credit intermediaries (NBCIs), a subset of NBFIs which encompass mortgage investment corporations (MICs), mortgage finance corporations (MFCs), consumer and business transportation leasing companies, other leasing companies, and finance companies.

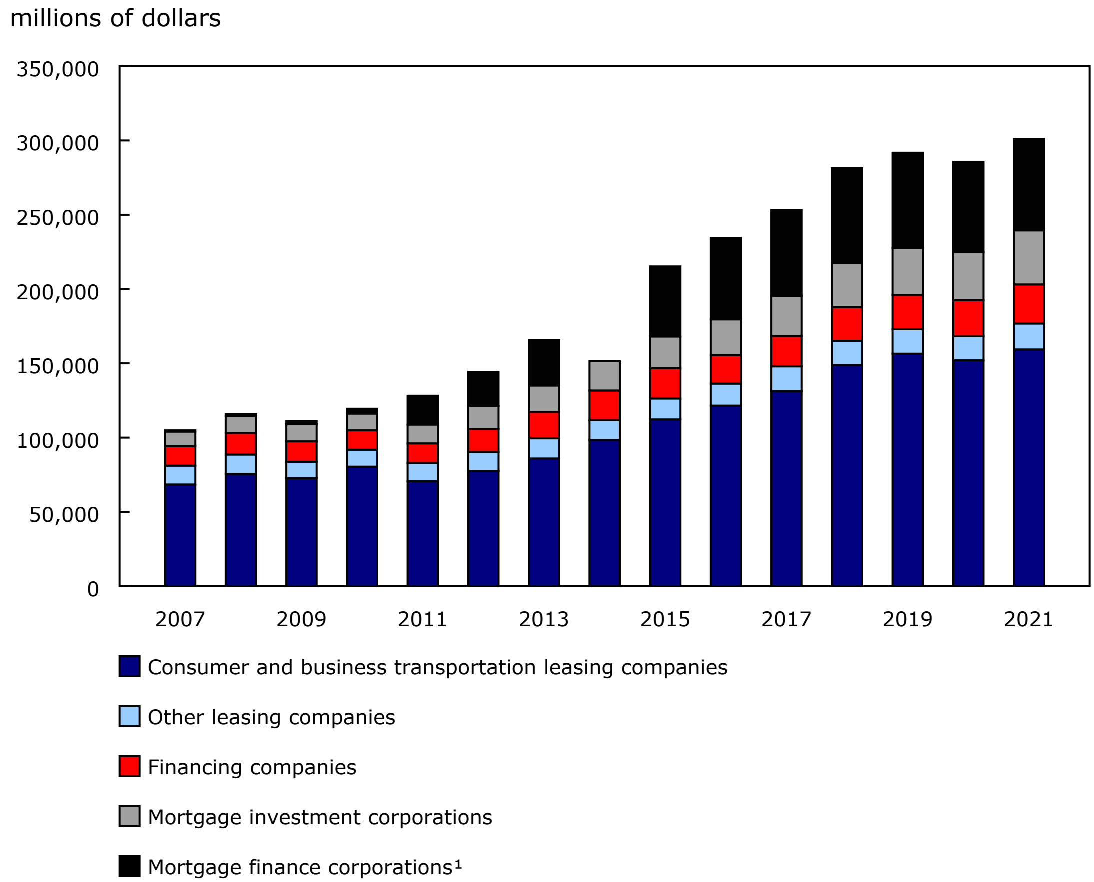
Non-bank credit intermediaries recover from impact of COVID-19

As the second year since the arrival of COVID-19 came to a close, the economic and financial situation can be viewed through the lens of Statistics Canada's complement of monthly and quarterly releases including gross domestic product by industry, the quarterly Income and Expenditure Accounts, and the National Balance Sheet.

With respect to gross domestic product (GDP), GDP in nominal terms climbed 13.6% in 2021 following a decline of 4.5% in 2020, while real GDP rose 5.0% in 2021 following a 5.1% drop in the year prior, as the economy posted a rebound after the initial impact of COVID-19 in 2020. Similarly, the total assets of non-bank credit intermediaries also showed a rebound, rising 3.1% in 2021 after a decline of 3.7% in 2020.

Total financial assets, composed predominantly of mortgage and non-mortgage loans, increased $15.4 billion to $301.1 billion by the end of 2021, following a $6.1 billion decline in 2020. While the total financial assets of all five sectors grew in 2021, consumer and business transportation leasing companies (+$7.3 billion) and MICs (+$4.1 billion) contributed the most to this increase. Overall, the proportion of NBCI loan assets to the loan assets of all domestic lenders edged down to 2.7% in 2021, the third consecutive decline.

Chart 1
Total financial assets of non-bank credit intermediaries



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

Mortgage investment corporations boost lending

Low interest rates and strong housing demand pushed mortgage borrowing to near-record levels in 2020 compared with the pre-pandemic era. However, in 2021, that trajectory had accelerated with households' mortgage debt increasing by $185.9 billion over the course of the year. Chartered banks and credit unions, two groups that are either federally or provincially regulated and thus outside of the scope of NBFIs, were the primary providers of these funds.

The policy interest rate dropped to 0.25% in March 2020 and remained there throughout 2020 and 2021. The volume of existing home sales rose 20.5% in 2021 compared with 2020, while the average sale price was roughly $685,000 in 2021 compared with $557,000 in 2020. According to the New Housing Price Index, new home prices in Canada increased 11.6% in 2021.

Among the principal NBCI mortgage lending sectors, the mortgage assets of MICs rose 13.8% in 2021 to reach $32.7 billion, following two years of weaker growth (+2.6% in 2019 and +1.2% in 2020). Strong overall demand for residential mortgages in 2021 and the continued ability of mortgage borrowers to service their debt supported growth in this sector. This increase was financed mainly by equity and investment fund shares, which grew 8.5% in 2021.

The mortgages assets of MFCs declined 2.2% in 2021 to reach $55.7 billion, the third consecutive yearly decrease, while debt security liabilities, a prominent source of funding for MFCs, decreased 3.7%. MFCs, whose business model includes originating mortgages and selling these to financial institutions such as chartered banks, continued to be active in 2021 given the strong housing market and the growth in administration of third-party mortgages and the related servicing fees. However, insured mortgages as a proportion of overall residential mortgages, and in absolute terms, have been declining for several years. For example, the outstanding balance of insured mortgages with predominantly chartered banks dropped nearly $30 billion in 2021, while uninsured mortgages expanded by roughly $166 billion over the same period. This was likely a contributing factor to the continuing reduction in MFC's mortgage assets held on balance sheet given the decline in insured mortgages available to be packaged as National Housing Act mortgage-backed securities.

Transportation leasing continues to decline, higher growth in financing activities among non-bank credit intermediaries

Growth in non-mortgage debt of households was sizeably outpaced by the accumulation of mortgage debt (+$185.9 billion) in 2021, advancing by a much smaller $6.1 billion over the year.

Among non-mortgage NBCI lenders, the transportation leasing sector recorded an 8.3% (-$6.3 billion) decline in non-mortgage loan assets, which include lease receivables, to $69.9 billion. This second consecutive yearly decrease brought the level to its lowest since 2016. Household vehicle leasing, measured as part of the National Balance Sheet Accounts, fell 11.6% in 2021. While household final demand for new and used motor vehicles increased 13.9% from 2020 to 2021, it remained 3.6% below the level of expenditures recorded in 2019, as sharply curtailed demand in 2020 as well as supply chain issues likely dampened leasing-related assets in 2021. The other leasing sector, which is much smaller in size than the transportation leasing sector, posted an increase of 14.3% (+$1.5 billion) in non-mortgage loan assets in 2021, following a 3.9% decrease in 2020.

Finance companies recorded a 6.8% (+$1.0 billion) increase in non-mortgage loans in 2021, with increases seen in point-of-sale financing, consumer lending and corporate lending, reversing course after three consecutive years of decelerating growth. Household final consumption also increased in 2021, up 8.1% as consumers expenditures rebounded.

Looking ahead to the activity of non-bank credit intermediaries in 2022

As inflationary pressures and the effects of policy interest rate increases were felt in 2022, the reliance of households and businesses on NBCI lenders in the year 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, rose 8.1% in the third quarter of 2022 compared with the fourth quarter of 2021, nearly offsetting the 8.5% decline recorded in 2021. Mortgages increased 4.7% over the same three-quarter period, after rising 2.0% over the course of 2021.

By comparison, chartered banks and quasi-banks, which include credit unions and trust and mortgage loan companies, recorded an increase in their non-mortgage loans of 18.1% from the fourth quarter of 2021 to the third quarter of 2022, surpassing the 10.2% rise in 2021. Mortgage loans grew 6.3% over the same three-quarter period.

Note to readers

Non-bank financial intermediation (NBFI) is defined as financial intermediation activities, such as lending, that are outside the traditional, regulated financial system. The current iteration of the economic account of non-bank financial intermediation contains revised estimates for the 2007 to 2020 reference years and preliminary estimates for 2021 covering non-bank credit intermediaries (NBCIs), a subset of non-bank financial intermediaries.

This economic account, developed in partnership with the Bank of Canada, 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**).*

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.

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

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).

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

	2021	2020	2019	2018	2017	2016	2015
	millions of dollars						
Mortgage investment corporations	36,375	32,324	31,598	29,804	26,950	24,092	21,286
Mortgage finance corporations	61,581	60,901	64,099	63,658	57,821	54,858	47,163
Consumer and business transportation leasing companies	159,358	152,039	156,498	148,900	131,284	121,538	112,258
Other leasing companies	17,451	16,211	16,454	16,272	16,668	14,832	14,086
Financing companies	26,295	24,188	23,108	22,637	20,436	19,118	20,446

	2014	2013	2012	2011	2010	2009
	millions of dollars					
Mortgage investment corporations	19,703	17,748	15,499	12,675	11,288	11,521
Mortgage finance corporations	x	30,534	22,870	19,411	3,279	2,089
Consumer and business transportation leasing companies	98,386	85,963	77,612	70,688	80,463	72,729
Other leasing companies	13,411	13,559	12,717	12,239	11,412	11,044
Financing companies	19,922	17,803	15,545	13,192	13,021	13,712

x suppressed to meet the confidentiality requirements of the *Statistics Act*
Source(s): Table **36-10-0607-01**.

Table 2
Total financial assets of non-bank credit intermediaries by sector, year-over-year growth

	2021	2020	2019	2018	2017	2016	2015
	year-over-year % change						
Mortgage investment corporations	12.5	2.3	6.0	10.6	11.9	13.2	8.0
Mortgage finance corporations	1.1	-5.0	0.7	10.1	5.4	16.3	x
Consumer and business transportation leasing companies	4.8	-2.8	5.1	13.4	8.0	8.3	14.1
Other leasing companies	7.6	-1.5	1.1	-2.4	12.4	5.3	5.0
Financing companies	8.7	4.7	2.1	10.8	6.9	-6.5	2.6

	2014	2013	2012	2011	2010	2009
	year-over-year % change					
Mortgage investment corporations	11.0	14.5	22.3	12.3	-2.0	1.1
Mortgage finance corporations	x	33.5	17.8	492.0	57.0	66.8
Consumer and business transportation leasing companies	14.5	10.8	9.8	-12.1	10.6	-3.7
Other leasing companies	-1.1	6.6	3.9	7.3	3.3	-15.6
Financing companies	11.9	14.5	17.8	1.3	-5.0	-5.6

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 household non-mortgage loans: The evolution of Canadian household debt before and during COVID-19," which is part of the series *Analysis in Brief* (**11-621-M**), is available.

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 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.

For more information, or to enquire about the concepts, methods or data quality of this release, contact us (toll-free 1-800-263-1136; 514-283-8300; **infostats@statcan.gc.ca**) or Media Relations (**statcan.mediahotline-ligneinfomedias.statcan@statcan.gc.ca**).