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STUDENT LIFE

Credit card crash lesson for students bound for university, college

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As thousands of Canadian students head off to college and university this fall, many will find themselves bombarded with credit card offers.

Signing up for a credit card has become a sort of rite of passage for young adults, alongside frosh week parties, late-night study sessions and diets comprised primarily of ramen and mac-and-cheese.

But experts caution that it’s important to be prudent or risk harming your credit score, which could affect your ability to land a mortgage, purchase a car or secure a loan years down the road.

Jackie Rosen from rate comparison website RateSupermarket.ca says it’s common for credit card companies to offer incentives, such as free T-shirts and other goodies, to lure students into signing up.

When Rosen signed up for her first credit during college 13 years ago, she received a free wine cooler, she recalls.

“It sounds really tempting when you’re a student – like, ‘Oh boy, a free T-shirt, a free cooler,’ – but you need to be really careful and read all the fine print before you sign up for any credit card,” says Rosen.

“Number one is always, always read the fine print before you sign up for anything, because you don’t know until you read the fine print if you’re going to get an extra service you don’t need.”

Those additional services – like balance protection, for instance – can end up costing more in fees, says Rosen.

When choosing a card, Laurie Campbell, the CEO of Credit Canada Debt Solutions, recommends going for one with no annual fee.

“Students are going to find they don’t have many options when it comes to credit cards,” says Campbell.

“They’re going to find that because they’ve never had credit in the past, they’re not going to get that platinum card with all those bells and whistles. They’re not going to get a card with a lot of different types of points on it.”

The interest rate shouldn’t matter too much, Campbell adds, because the key is to pay off the card every month rather than carrying a balance.

If people are not sure whether they’ll be able to pay off their debts in full every month, they should reconsider whether they should get that card in the first place, says Campbell.

“Don’t get a credit card at all unless you’re working and have a plan for repayment in full, ideally, each month,” she says.

Lastly, Rosen suggests starting off with a prepaid card or a secured card.

With a prepaid card, customers load money onto it upfront and can only spend the amount that they’ve deposited – similar to a gift card, for example.

“You don’t incur interest charges, but that also means you can’t build your credit score,” says Rosen.

A secured card is similar in that it requires people to pay a deposit upfront, but it also allows them to build their credit standing and incur interest charges, says Rosen.

Unsecured cards are the most common type of credit card and they don’t require any sort of collateral. The financial institution is simply trusting one’s ability to repay debt.

“Once you’ve proven yourself with all of these, you can switch over to an unsecured card,” says Rosen. “That’s once you’ve proven to the institution that you’re a responsible card holder.”