



Our Top Picks for Secured Credit Cards in Canada

Description

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- [Cash back credit cards](#)
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The Motley Fool Canada’s top secured credit card picks at a glance:

Credit card	Fee
Plastk Secured Credit Card	\$48 + \$6 monthly maintenance fee (\$120 total annually)
KOHO Prepaid Visa	\$7 / month for credit building option
Home Trust No Fee Secured Visa	\$0.00
Home Trust Secured Visa	\$59.00
Capital One Guaranteed Secured Mastercard	\$59.00

More information about our featured secured cards:

Plastk Secured Credit Card

Good for: Rebuilding credit while earning rewards

Plastk Secured Credit Card Logo

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Our Rating:

StarStarStarStarStar

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5.0 stars

[Open Account](#)

On Plastk Financial’s secure website.

Top Perks

- Can help you build or rebuild your credit rating
- Cash back rewards (250 points = \$1)
- Sign up bonus: 0% APR for 3 months and 5,000 bonus reward points

Credit limit

Between \$300 and \$10,000

Annual fee:

\$48 + \$6 monthly maintenance fee (\$120 total annually)

Eligibility:

Must pay a minimum security deposit of \$300

KOHO Prepaid Visa

Good for: Earning cash back rewards with no fees



Our Rating:

Star Star Star Star Star

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5.0 stars

Top Perks

- Earn 0.5% cashback on all purchases and up to 5% cashback at select stores
- Use the KOHO app to get budget insights & automate savings
- Increase savings with a RoundUp feature

Credit limit

N/A

Annual fee:

\$7 / month for credit building option

Eligibility:

No eligibility requirements

Home Trust No Fee Secured Visa

Good for: Rebuilding credit with annual no fee

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Home Trust No Fee Secured Visa Logo

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Our Rating:
Star Star Star Star Empty Star

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4.5 stars

Top Perks

- Can help you build or rebuild your credit rating
- Insures eligible items against theft or damage for 90 days
- Use online and in stores like any other credit card

Credit limit

Between \$500 and \$10,000

Annual fee:

\$0

Eligibility:

Must pay a security deposit from a Canadian account in your name

Home Trust Secured Visa

Good for: Rebuilding credit with lower interest rate

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4.0 stars

Top Perks

- Lower interest rate than no-fee card
- Can help you build or rebuild your credit rating
- Insures eligible items against theft or damage for 90 days

Credit limit

Between \$500 and \$10,000

Annual fee:

\$59

Eligibility:

Must pay a security deposit from a Canadian account in your name

Capital One Guaranteed Secured Mastercard

Good for: Rebuilding credit

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Top Perks

- Can help you build or rebuild your credit rating
- Price protection and purchase assurance protections
- Valuable insurance including baggage delay, car rental, and travel accident insurance

Credit limit

Set by the issuer

Annual fee:

\$59

Eligibility:

Must pay a security deposit of \$75 or \$300

What is a secured credit card?

A secured credit card is any card that requires an initial deposit to open an account. The deposit, which is usually one to two times more than your requested [credit limit](#), acts as collateral. If you miss or fail to make a payment, your credit card company will use the deposit to cover the unpaid balance.

Why get a secured credit card?

Because secured credit cards require an initial deposit, they're usually very easy to get. But why pay a deposit to use a credit card? Well, you may need one for these main reasons.

1. You don't have a credit score

For those Canadians who don't have [credit scores](#) — and thus can't take out the majority of unsecured credit cards — secured cards can help you build one. Making payments on time, as well as keeping your balances low, can help you establish a solid track record of success, helping you establish a good score.

2. You have bad credit

Bad credit scores can make applying for an unsecured credit card much more complicated, if not downright impossible. Fortunately, because of the security deposit, you can take out a secured credit

card fairly easily. Additionally, a secured credit card can help you rebuild your poor credit score, and after months or years of responsible use, you might be able to graduate to a more favourable card.

3. You don't want to go into debt

If you're worried about overspending, a secured card can help you stay within your limits. Not only does the initial deposit ensure you'll always have enough to cover your maximum credit limit, but also most secured cards come with *low* credit limits, preventing you from making purchases outside your league.

Can secured credit cards help your credit score?

Yes. In fact, one of the main reasons for taking out a secured card is to build new credit or rebuild bad scores. Credit card companies will report activities to the major credit bureaus, such as Equifax and Transunion. Like any credit card, however, you want to pay at least the minimum balance before the end of each billing cycle, as missing the minimum can still hurt your credit score.

Some secured credit cards will help you keep track of your credit-building progress by providing you ready access to your credit score. However, it's also possible to [check your credit score for free](#).

How do secured credit cards work?

While getting a secured card is fairly simple, application approval isn't always guaranteed. Every credit card company assesses applications differently, and it's not uncommon to have your application denied. But, given the number of secured credit cards available in Canada, you're bound to find one that matches your credit situation.

Once your application is approved, you'll pay the security deposit as a lump sum. Your security deposit is usually one to two times your credit limit, so the higher your requested limit, the more you'll have to pay upfront. In addition to your security deposit, you may have to pay set-up fees, which cover the cost of setting up your account and sending you your card.

After you get your secured credit card, you can use it on everyday purchases, just like you would an unsecured card. You'll have credit limits you have to stay within, and a [minimum payment](#) that you must pay in order to avoid damaging your credit score. For carried-over balances, you'll also pay interest, which your credit card company calculates by your card's APR (annual percentage rate).

Can you use your security deposit to pay off your balance?

No. At least not like you would with reward points. Your security deposit will only be used toward your balance if you miss a payment. It cannot be charged to your statement balance before your billing cycle ends.

Will you ever get your security deposit back?

Most credit card companies will give your security deposit back after you close your account, or after you pay your balances on time for a long period of time.

Are secured credit cards the same as prepaid cards?

[Prepaid cards](#) are very different from secured credit cards. For one, prepaid cards don't have credit limits. Instead, you load your card with cash. Because it doesn't operate with credit, prepaid cards will not help your score.

Secured credit cards, on the other hand, have credit limits and revolving lines of credit. As you repay what you borrow, you slowly improve your credit score, so long as you don't miss a payment.

What should you look for in a secured credit card?

1. No annual fee

The ideal situation is to pay no more than you have to for a credit card while attempting to rebuild your credit. And there are some secured credit cards that won't charge you monthly or [annual fees](#).

However, many do. That doesn't make these bad choices, but consider whether your budget can handle the fees and whether the extras that you're getting in exchange for the fees are worth it. These extras include lower interest rates, rewards points, or other valuable perks.

Of course, if none of the no-annual-fee secured cards will accept your application, then paying a fee *may* be worth it. But, again, make sure that fee fits your budget.

2. Free credit scores

If your goal is to improve your credit score, look for secured credit cards that offer free credit scores.

3. Ability to graduate

Many credit card companies will give you the option of graduating to an unsecured credit card once you have a track record of paying your debts on time. Check to be sure there is a path to a higher level, as you don't want to be stuck with a secured credit card forever.

Of course, if you've sufficiently improved your credit score, you may now qualify for some of [the top credit cards](#) on the market.

How can you use your secured credit card responsibly?

When it comes to secured credit cards, you want to be extra careful you're using it reasonably. Making mistakes on a secured card can be costly, as you not only lose your initial deposit, but also damage your credit score. Here are some tips on how to use yours responsibly.

Always pay at least the minimum

Even though you hand over a lump sum in the beginning, you can still hurt your credit score by failing to pay at least the [minimum payment](#) before the end of your billing cycle. Failing to pay at least the minimum can also lead to late fees, along with additional interest charges.

But ... aim to pay off the entire balance

While paying off the minimum ensures you don't damage your credit score any further, paying the entire balance helps you avoid incurring hefty interest charges, which can really hurt you in the long-run. Additionally, by paying your balance in full, you show lenders you're not overextending yourself, which can also help indirectly improve your credit score.

Use the card actively without overspending

With secured cards, your goal is to show lenders you can be trusted with money. If you're not borrowing frequently, however, you're not demonstrating you can repay your debts responsibly. To build your credit score, use your secured card for small purchases or certain recurring expenses, such as gym memberships or subscriptions.

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