How to Choose the Right Credit Card

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Balance transfer cards. Low APR cards. Rewards cards. When you're in the market for the right credit card, the choices can seem overwhelming, not to mention downright confusing: when should you choose a low APR card over a low-interest one? And how do you know which rewards program is right for you?

If the Canadian credit card market is making you feel indecisive, don't worry: these five steps will help you choose the right card for you.

Step 1: Check Your Credit Score

Step 2: Decide the Type of Card That Fits Your Needs

Step 3: Compare Credit Card "Hidden" Perks

Step 4: Look Closely at the Credit Card's Details

Step 5: Apply for the Credit Card You Want

Step 1: Check Your Credit Score

Before you start shopping for a credit card, take a step back and look at your credit score. Your credit score is a 3-digit number that helps lenders assess your "creditworthiness," or your ability to repay debt.

In Canada, credit scores range from 300 to 900, with a score of 700 or higher being considered optimal. Many lenders place credit scores in five categories. Best of all, you can check your credit score for free. Note that if have no credit history, you won't yet have a credit score.

Excellent (741 – 900)

If your credit score is excellent, you're in the top echelon of credit holders. An excellent score means you pay debt time, never miss payments, and probably have a low debt-to-income ratio. In the eyes of lenders, your risk is really low, meaning you shouldn't have problems securing premium and platinum credit cards.

Good (690 – 740)

Canadians with good credit scores are still a low risk to lenders: you rarely miss payments, and you almost always pay the minimums on time. You shouldn't have any problems getting a credit card, though some premium cards may require you to raise your score to "excellent."

Fair/Average (660 – 689)

With a fair or average score, most premium cards and rewards programs start to get out of reach. Because you present a moderately high risk to lenders, you may face higher interest rates than good or excellent credit holders.

Below Average (575 – 659)

Canadians with below average credit scores don't have as many card choices as others, but there's still hope: you can apply for a credit card designed to help you improve your credit score (more on that below). Though these cards will have high interest rates in the beginning, over time—if you don't miss payments—you can "graduate" to cards with lower interest rates and possibly more perks.

Poor (0 – 574)

Canadians in this category will have a hard time securing a standard credit card, though you may have luck getting a card designed for bad or low credit. Like the "below average" cardholders, you'll have to build your credit score over time to graduate to higher level credit cards.

Step 2: Decide The Type of Card That Fits Your Needs

Once you know your credit score, you can start narrowing your choices by picking the type of card that fits your needs and lifestyle. At this point, look at your financial goals and pick a card that not only aligns with them but also helps you accomplish them quicker. To help you choose the right type, see which of these questions resonates with you most.

1. Do you want to earn rewards?

For Canadians with good to excellent credit, rewards credit cards can offer lucrative bonuses and attractive rewards for cardholders who spend frequently and pay back balances consistently.

These cards reward you at a predetermined rate, such as 2x miles or 3% cash back for each dollar that you spend, and you might get additional bonus scattered throughout the year (for example, 5% cash back instead of 3% for flower purchases made around Valentine's Day).

Two of the most common rewards cards are points-based rewards cards and cash back cards. Points-based cards turn your spending into points, which you can redeem for a wide variety of travel services like flights or hotels, merchandise, gift cards, or even a credit to your account. Cash back cards, on the other hand, reward you cash or cash-like rewards that you can spend however you like.

2. Do you want to improve your credit score?

Canadians with below average or poor credit may not enjoy reward cards now, but with a credit card designed for bad credit, you can take an important step toward improving your score.

Cards that help you build your credit are typically secured credit cards, meaning you have to pay an initial security deposit in order to use the card. The amount of your deposit is largely based on the credit limits you request, and if you miss a payment, your credit card company may use your deposit toward the money you owe.

On the flip side, if you're a student, you can build a credit score with a student credit card. Unlike cards for bad credit, student cards are usually unsecured, meaning you don't have to put a deposit down to use it. Since they're designed for students, these cards are typically low maintenance, with low or no annual fees.

3. Do you want to carry a balance with low interest?

Credit cards with a low APR can help you make big purchases without paying a large amount in interest.

Keep in mind most of these cards sometimes come with an introductory period of low APR (often anywhere from 12 to 18 months), then adjust to a higher rate for the remainder of the card's life. This can be useful if you make a big purchase that you plan to pay off within the next year.

On the other hand, if you want to carry a high balance for a year or more, you're better off applying for an ongoing low interest rate, regardless of the low APR introductory period.

4. Do you want to save money on debt?

One credit card's nightmare can be another card's recovery. The potential to rack up debt is a key disadvantage of using a credit card. On the other hand, therein lies the promise of balance transfer cards, which can transfer debt from one card (usually one with a high APR) to another card with an introductory period of 0% or near-0% APR.

These cards can help you pay down debt faster, but before you take one out, make a payment plan: you want to pay as much debt as you can within the 0% APR introductory period, ideally all of it. Once the introductory period is over, your APR will go up, and you'll start paying interest again.

Step 3: Compare Credit Card "Hidden" Perks

Credit cards often come with several "unadvertised" perks, from extra insurance to no-charge replacements on certain purchases. If you're debating between two or three cards that you love, dig deeper into the cards' features and see if one has more perks than the others. Common credit card perks in Canada include:

- **Trip cancellation/trip interruption insurance:** reimbursement for certain pre-paid, nonrefundable trips that are cancelled ahead of time or cut short.
- **Price protection:** refunds on items that go on sale after you bought them at the full price.
- **Extended warranty:** free warranty coverage that goes beyond the manufacturer's warranty.
- **Purchase protection:** repair or replacement warranty for items purchased within a certain period of time (usually 90 days).
- **Rental car insurance:** free coverage for certain incidents if you use the card to pay for a car rental.
- **Additional travel insurance:** coverage for lost, stolen, and damaged baggage, along with medical insurance for travel emergencies, such as evacuations and unexpected illnesses.
- **Sign-up bonuses:** a bonus applied to your card after you meet certain criteria (for example, $250 credited to your account after you spend $1,000).

Step 4: Look Closely at the Credit Card's Details

At this point, you found the type of card that's right for you, as well as a card with some outstanding perks. Before you apply, however, let's make sure you know exactly what you're signing up for. As you're reviewing your card's details, here are some important questions to ask.

1. What are the annual fees?

Annual fees are yearly charges that you pay in order to use certain credit cards. Many rewards cards come with annual fees, which you'll want to weigh against the miles or cash-back rewards to decide if the card is worth the price (no-fee rewards cards are available, though with less lucrative benefits).

For student cards and cards for bad credit, look for cards that have no fees: you want your hard-earned cash going toward paying down debt, not paying credit card fees.

2. What's the card's APR?

Your APR is essentially your credit card's interest rate (though APR and interest rate aren't exactly the same). You'll pay APR if you have an outstanding balance, miss a payment, or even get a cash advance. In general, the lower your APR, the less you'll pay in interest.

3. How much does the card charge for foreign transactions?

Making purchases in foreign currency could result in a flat free or APR charge to your card. For Canadian globetrotters who travel frequently abroad, look for a card with low or zero foreign transaction fees. There are some cards on the market that don't charge foreign transaction fees, so if you travel often, it could be great to have one of these cards in your wallet.

4. Which credit bureaus does the card report to?

For those improving their credit scores, this is a crucial question to ask. You want to be sure your credit card company will send credit reports to Canada's two main crediting bureaus: Transunion and Equifax. If your credit card doesn't report to both, then your good crediting activity won't be properly monitored.

5. What other fees does the card have?

There are a variety of other places where a credit card issuer might charge you a fee. For instance, if you go over your credit limit, if you are late on a payment, supplementary card fee, cash advance fees, balance transfer fee, dishonoured payment fee, replacement statement fee, and the list goes on. Now most of these fees you should be avoiding like the plague, but it's worth knowing what fees are there and how much they are, just in case.

Step 5: Apply For the Credit Card You Want

Now that you've done the hard research, it's time to apply for the card that you've chosen. The application process should be fairly straightforward: go to the credit card's website, apply for the right card, and submit your information.

After you apply, you'll get one of three answers: you got approved, the credit card company needs more time to review your application, or you got denied (hey, it happens).

If the credit card company needs more time, you'll just have to wait. A denial, on the other hand, could sting, but you have options. You could call the company's reconsideration line to see what you could do, if anything, to reverse their decision. Or, you could just forget about that card and apply for another one — and trust us, you've got plenty of credit card choices.

Just keep in mind applying for credit cards usually requires the card's company to run a hard inquiry on your credit, which might temporarily knock some points off your credit score. Limit how many companies you apply to and space out your applications to avoid reducing your score by more than a few digits.

Get a credit card that's right for you

Although the Canadian market is saturated with different credit card options, you don't have to draw straws to make a final choice. With the right strategy in mind, along with some essential questions, you can pick a great card that helps you further your financial goals.

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