

Student finances
Credit crunch on campus?
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Banks say it's business as usual, but some experts say students may face more challenges getting a credit card

At first, Topaz London didn't even want a credit card. Once you get one, you're locked into an endless cycle of debt, she always thought. But after some convincing from her friends, who said it was a chance to build a good credit rating, she signed up for a Bank of Montreal student MasterCard in March.

"I got into the routine of using it and paying it off, using it and paying it off. That went on very well up until the past two weeks," she says. "I lowered my limit to \$500. I didn't think I could control myself, actually."

Now, with a \$492 balance, and her first year of social sciences at the University of Toronto on the brain, she's thinking about getting another card.

But as economic forecasts remain dreary, students these days could encounter more challenges ahead.

While banks say it's business as usual, some students hoping to land a credit card this year can expect to face extra scrutiny, finance experts say.

"It's going to be a little more difficult," says Lawrence Kryzanowski, research chair in finance at Concordia University's John Molson School of Business. "They'd probably do more of a credit check and they would probably start you off with a lower limit."

Co-signing parents whose credit ratings have suffered during the crisis may also limit a student's access.

New credit-card reforms in the United States will make it harder for American college kids to land that piece of plastic. When the reform bill, signed by President Barack Obama in May, takes effect next

January, any applicant under the age of 21 must have a co-signer unless they can prove they're able to pay off the credit themselves. Credit-card companies will also be barred from sending prescreened offers to people under 21 regardless of whether they're able to pay the card debts.

The Canadian government is not making such strict changes, but the banks are tightening up their own credit requirements in response to the general market meltdown, Prof. Kryzanowski says.

Major financial institutions, on the other hand, say they're doling out credit cards at the same rate. "Our same stringent credit-granting criteria still applies," Bank of Montreal spokesman Ralph Marranca wrote in an e-mail.

Banks consider credit for people on a case-by-case basis and students are no special story, says Maura Drew Lytle, a spokeswoman for the Canadian Bankers Association.

"They'll look at their position – what kind of income do they have? What sort of debts do they have? If they have debt already, what available credit do they have?" she says. "If you're credit-worthy, the banks are open for business and they're willing to lend money."

But if a student is credit-challenged and the financial experts are right, the added strain on student loan programs, such as those run by the provinces, could make paying for school a double-barrelled dilemma.

The economic crunch will spur many more students to try to sign up for plastic come September, since other financial avenues are limited, says Arati Sharma, national director of the Canadian Alliance of Student Associations.

"Because of the economic downturn, a lot of parents' investments have gone down, or any RESP [registered education savings plan] investment may have gone down," she says. "And the new student financial-aid numbers of student unemployment from Statscan show that students actually don't have the funding they may have been calculating for from the government," she says.

Universities have lost thousands in endowments that funnel cash into student bursaries, says Murray Baker, the Vancouver-based author of *The Debt-Free Graduate*.

But he believes that lessons from the financial crisis are more likely to lead students such as Ms. London to put extra pressure on themselves to watch their debt. "I think it's a case where students are going to be more cautious of their spending and I think there will be a kind of hesitancy to take out credit cards," he says. "Or if a student does take out a credit card, they're probably going to adhere to limiting it to one rather than get a lot of credit cards."

A 2001-02 survey of student finances using data from Statistics Canada found that one in three students, or 29 per cent under the age of 20, have and use a credit card. Twenty three per cent of students aged 20-21 have and use at least two credit cards.

Ms. Sharma feels that schools can do more to wise up students to the perils of debt. "It's an issue when it comes to just explaining to students that they shouldn't put everything on their credit card," she says. "And that's what we're seeing right now with the economic recession. It might be a necessity."

Banks are also taking extra care to advise students about financial responsibility, such as emphasizing the importance of making payments in time, says Kavita Joshi, director of student markets for the Royal Bank of Canada. "It's something we're much more aware of in terms of being overt," she says.

Regardless of the poor credit-attaining prospects predicted by finance experts, Megan Higgins, 19, who starts a sociology degree at Ryerson University this fall, had little trouble getting her hands on a piece of plastic. After receiving a government grant to start a summer lawn-care business in Gravenhurst, Ont., she landed a credit card at the Bank of Nova Scotia. Now, she's hoping to snag a second and worries just a little about having to manage both.

"It's a little scary," she says. "It's a bigger responsibility."

Student credit cards

CIBC Classic VISA Card for Students

Minimum credit limit: \$500

Minimum household income: \$1,200

Annual fee: none

Interest rate: 18.5 per cent

RBC Royal Bank Visa Classic II Student card

Interest Rate: 19.5 per cent

Annual fee: \$15

Scotiabank L'earn VISA card for students

Interest rate: 18.59 per cent

Annual fee: none

Minimum credit limit: \$500

Bank of Montreal SPC CashBack MasterCard

Annual fee: none

Interest rate: 19.5 per cent or 11.9 per cent (students can pay an extra \$35 a year for the low-rate option)

Reward: 0.5 per cent cash back on every purchase

TD Classic Travel Visa Card

Annual Interest Rate: 19.75 per cent

Annual fee: \$19

Reward: 2,000 TD Points upon approval, points accumulated from purchases toward free travel.