Balance Transfer Credit Cards

The credit card balance transfer is popular with credit card users.

The balance transfer can offer interest-rate savings on credit card debt. A balance transfer simply means moving debt from one or several credit card accounts, to a low or no-interest credit card account. These super-low teaser rates will last for about six months to a year, on average, with most card issuers. A cardholder may be offered a low-interest balance transfer rate by one of their current credit card issuers, or they may choose to apply for a new credit card to get this tempting rate.

Before you consider any credit card for any reason, know what you're getting into. Start by reading and understanding all the terms and conditions of the credit card, not just the ones pertaining to the transfer in big, bold letters. Find out the annual fee, default and other rates, and know what the card's APR will be when the introductory period is over. I can't count how many times I've received an offer that looked interesting until I got half way through the fine print on the back page.

Credit card issuers still plan on making money from this deal.

Before you decide if a balance transfer credit card offer is right for you, you should consider the other side of the coin. Why would the card issuer offer such a low rate to begin with, and what's in it for them? Understand that when a credit card issuer offers a low-interest balance transfer, they are making an investment. Why else would they loan you money for free? Credit card issuers are in the business to make money, and this is a creative way for them to potentially increase their profits in the long run.

To begin with, many card issuers charge a balance transfer fee; 3% of the balance is pretty standard, now. So, add that 3% to whatever rate they're offering you, to get a realistic idea of the balance transfer savings. There may be a dollar-amount cap on the fee, which may range from fifty dollars to three-hundred, or no cap. These fees are usually charged immediately when you start the balance transfer process. It's important to know what up-front fees you'll be paying for the interest savings; read all the fine print carefully.

Know that their best rates are reserved for consumers with excellent credit. The credit solicitation may have "0% balance transfer" in big bold letters on the front of the credit offer, but that will be the best terms possible to those with perfect credit. Receiving a pre-screened credit offer does not guarantee that you will get the best terms that are advertised. If you respond to the credit offer with less than perfect credit, the credit card issuer may adjust the introductory rate to one that they deem appropriate for your credit standing. Those with credit blemishes or new credit histories may not realize that they are transferring a balance to a new card that doesn't offer much benefit in the way of interest savings. Be sure to check out the actual rate you've been given once you receive your new credit card.

Also, see if the interest rate applies only to the transfer amount, or if new purchases will also get the low rate. If different rates apply to new purchases and balance transfers, many card issuers will apply your payments to the lowest

interest debts before they apply it to your higher rate debts. So if you transfer a balance of $5000 at 0%, and your new purchases get the standard 18%, you'll be paying that higher rate on everything you buy, without a grace period, while you're trying to pay off the original $5000. If you choose a credit card that works this way, the best thing to do is to not use the card at all, until you knock down the amount transferred.

Be sure you are able to keep up with the payments if you choose to move all your debt to one credit card. Many cards that offer super-low introductory balance transfer rates are often the ones that charge extremely high default rates. If you don't keep your end of the bargain, they will more than make up for what they gave you. Some card's default rates are as high as 28%, which is enough to bury someone in the debt they were trying to get out of. One day late, one returned payment, or one dollar over your credit limit is enough for many card issuers to apply the default rate.

In addition, card issuers are banking on the chance that you will not pay the debt off in time. Not only do many consumers fail to pay off the debt, but oftentimes the debt is higher than they started with, due to new purchases. This leaves the cardholder with a substantial debt to pay interest on. In order to make up for their 0% interest offers, credit card issuers must recoup their lost profits when the introductory period ends. The APR that the card will revert to may possibly be anything but competitive.

You can benefit from a balance transfer if you are diligent in paying off the debt and controlling new purchases. If you are considering a balance transfer, you're probably hoping to save interest fees and to get ahead of your debts. Develop a realistic plan to pay down your debt before the teaser rate period ends. It will do no good to transfer thousands of dollars in debt to another card, only to pay the minimum payments until the rate skyrockets. Paying the minimum payments on credit cards can literally keep you in debt for decades; take advantage of the low-interest period to make a serious dent in your credit card debt.

Be cautious about whether to keep the other credit card accounts open once the balances have been transferred to your new account. Nobody likes to admit they are irresponsible with credit, but if overspending is what brought you to consider a balance transfer to begin with, then closing the old accounts may be your smarter choice. Someone who really loves to shop or splurge is likely to see the zero balances on all their other credit cards as an invitation to spend money. If old accounts are run back up after a balance transfer, you can easily end up with twice the credit card debt than you were trying to pay off to begin with!

Closing the old credit card accounts may be the wiser choice, but be aware that it can your hurt credit score by reducing the average age of your credit accounts. You may be better off keeping a credit card that you've had for a long time, and especially if that card's APR is better than what the new card's normal rate will become after the intro period. There's no reason to give up a card with otherwise excellent terms unless you know you'll run the card back up if you keep it open.

Some credit card users have perfected the balance transferring act, and move

from card to card to chase those teaser rates, in an attempt to delay interest payments on their credit card debts. This system can work if you are determined to pay off your debts as soon as possible. This system can backfire if you run up new debt or show a habit of jumping from card to card. Card issuers will recognize someone who overuses the balance transfer, and may stop offering low-introductory rates to those they suspect will flee before they can make any real money from them. Also, as said before, continually closing accounts can hurt your credit score if you don't have other accounts for some time, as it prevents you from establishing long term credit history.

The credit card industry is fiercely competitive; they continually come out with some new ploy to earn new customers, but if it doesn't work out for them, they may discontinue certain offers. It may become difficult for them to make money on the deal, due to increased competition and lack of consumer loyalty. It's better to use a balance transfer as a temporary measure to finally get ahead of your credit card debt, as opposed to being a permanent debt management trick. You never know when you'll get your last offer for a low-interest balance transfer.

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Balance Transfer Calculator

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