

Balance transfers, what you should know

One common trap people fall into when trying to eliminate debt is the "balance transfer", transferring debt on one credit card to another credit card which has a lower annual percentage rate, or APR. This seems like a quick solution to try to dig yourself out of debt, but like most quick fixes, balance transfers have their pitfalls consumers should be wary of. Here are 6 things you should ask yourself before doing a balance transfer:

How long will I benefit from the lower rate?

As a general rule, the introductory APR that seems so appealing to consumers typically only lasts 6 months, sometimes a year. After that, the APR will jump to a higher percentage, maybe even higher than you were initially paying before you did the transfer. If you cannot pay the balance off in the time before the rate changes, then it may actually hurt you to do the transfer.

What do I have to do to keep the rate low?

Most of these lower rates have hidden clauses you must abide by to keep the low rate. This can include making new purchases on the card, paying your bills on time and so on. Some of the more unscrupulous companies write broad clauses that basically enable them to increase the rate whenever they are so inclined. Be sure to make yourself aware of these prior to signing up.

Is the interest rate for new purchases the same as the interest rate on the transfer?

Most people that do balance transfers probably intend to never use the card for new purchases, then get into trouble and are forced to buy necessities with it. Some cards that offer this low rate on balance transfers offer the same low rate for new purchases. However, many have a higher APR for new purchases. To compound this problem, when you make payments, the creditor typically applies these payments to the lower interest balances, which makes it harder to pay off the debt.

Do I have to pay a balance transfer fee?

Most cards will charge you 3% of the transfer. Be sure you calculate this when deciding if the transfer is in your best interest.

Is a balance transfer different than a cash advance?

Yes! Cash advances let you take money on credit for any purpose, while balance transfers only allow you to move a balance from one card to another. Balance transfers generally have a higher fee, but lower interest rate, and cash advances, vice versa. Make sure you investigate all options before you make your decision.

Do I even qualify for the lowest interest rate?

Most creditors entice you by dangling the lowest possible interest rate in your face without telling you that most people don't qualify for that rate. Before you go through with it, find out what your interest rate will be. You may find out that it isn't any lower than your current rate, and therefore not in your best interest.

The moral to the story is:

Many people find themselves just as bad off, if not worse, as a result of a balance transfer. It sometimes ends up being more of a stall tactic than an actual solution to debt problem. So, make sure you are choosing the best option for you. If you determine that you are not able to solve your debt problems on your own, please call Amicus Curia at (360)427-3599 regarding your financial situation.