
SMART MONEY

A balancing act

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"Most people don't make these offers work for them and end up paying more"

— Rohan Gamble

The new zero-interest credit card balance transfer offers sound great, but they can come with a big sting in the tail for the unwary, writes **Jason Bryce**

YOU loaded up the credit cards at Christmas and now you are trying to work out how to pay them off, right?

Maybe you have got one or two enticing offers in the mail from credit card issuers offering a zero rate or a very low interest rate if you transfer your debt to their card.

They sound great, and potentially could save you thousands of dollars in interest repayments.

Data from the Reserve Bank, analysed by banking research company Infochoice, indicates consumers with a card debt of $10,000 can save up to $4300 by using the balance transfer offers now available.

But beware – most people who use these kind of offers end up paying more in the long run because they get caught out by the terms and conditions that are not highlighted in the glossy marketing material.

"It is true, most people don't make these offers work for them and do end up paying more," says Rohan Gamble, managing director of financial comparison service Mozo.

"And the banks and card issuers depend on those people to make a profit from these deals."

For example, what is not so prominently revealed by the zero-interest balance transfer offers is what you will be charged once that promotional period runs out.

If the transferred balance is not fully paid off within the promotional "honeymoon" period, the new credit card will often bump the rate charged up to the cash advance rate, not the headline purchase rate. That means you could be paying about 20 per cent on your debt.

"This is a fairly new development from the banks that a lot of people are not aware of," says Gamble. "And really there is no basis for them to do that. It is really just profiteering from unwary consumers."

Three of the four big banks are doing this to credit card customers they have lured from competitors with their "zero rate" offers.

There are other tricks and traps that can make the zero rate offers very expensive.

If you miss a monthly minimum repayment on some cards, the zero interest deal is off and the whole balance begins to be charged at a higher interest rate.

What is also not highlighted is that there is often no interest-free period on new purchases while part of the transferred balance remains unpaid.

"To make these offers work you really can't spend on the card while there is a balance outstanding," says Gamble. "The spending adds to the debt and attracts a high interest rate."

Like all credit cards, the oldest debts are repaid first, so interest on those new purchases could keep accruing for months or years because you can't pay them off until the transferred balance is paid off in full.

A lot of credit card marketing is "psychologically manipulative", according to research by Dr Paul Harrison from Deakin University.

To counter that requires careful research to ensure you are signing up to the card best suited to your needs.

Gamble says there are three basic types of cardholders, who need to choose the card that best suits their financial situation or it will be the bank that gets all the benefit from the deal.

First, many people simply pay the monthly minimum repayment on their credit card.

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Gamble says these people are best off choosing a balance transfer card with a low rate for the life of the balance transfer, such as the CUA Rewards, IMB Rewards and Community CPS Rewards Cards.

The second group of people are those who plan to pay off their credit card balance over a year or two.

"If you fall into this category, a low-rate card such as the BankWest Zero card is the best bet, with a low 1.99 per cent rate for 12 months and no annual fee," says Gamble.

"The next best offers are from ANZ and Suncorp, which both have offers of 2.9 per cent for 12 months.

"If you switched from a standard bank credit card to one of these offers you could save almost $600 in fees and interest."

The third group, people who can afford to pay off their debt fast, are the only people who can benefit from the zero rate for six months offers now in the market.

"The Coles Group Source Card offers zero per cent for six months and no annual fee in the first year," says Gamble. "The next best are the BankWest Zero card and ANZ First card. If you pay off your debt in the introductory period you'll pay next to nothing in interest or fees."

There are good, simple, easy-to-understand cards and card offers out there, they just have to be found – and matched to the right consumer.

Gamble says these cards feature higher interest rates than other balance transfer offers, but they don't have the nasty sting of reverting to a regular credit card rate after the introductory term is up.

"With an interest rate of 4.9 per cent, these cards would save consumers well over $3000 in interest and repay their debt four years faster compared to the standard bank credit card," he says.