



Safe landing not guaranteed

Promotional credit card rates often have a catch

By Lesley Parker

It's far from alone in using promotional rates to entice cardholders but Virgin's return to the credit card market is a reminder people should look past special rates to the one they'll be paying afterwards.

Virgin's new "no annual fee" credit card offers a rate of just 2.9 per cent a year for six months on debt you transfer from another card. However, at the end of that period the rate reverts to 20.99 per cent, the rate you normally pay on cash advances.

"It's a fairly sneaky trick for the balance transfer to revert to a rate higher than even the standard purchase rate," says the managing director of financial comparison site mozo.com.au, Rohan Gamble, although Virgin isn't alone in doing this. "Seven months from now, customers will be paying 20-plus per cent on their debt – that's a sure-fire way of getting into trouble very quickly."

A spokesman for consumer group Choice, Christopher Zinn, says: "A credit card is something you're going to have for some time, so it's the true cost you pay over time and the convenience to you that counts – not some introductory offer.

"But we know they're a very effective form of marketing."

Gamble says offers such as low balance-transfer rates and bonus points can have value "if you're the type of person prepared to jump from promotion to promotion".

"But the reality is most of us don't bother, so it's very important to look beyond the marketing," he says.

And if you don't pay your card off in full every month, thus incurring interest charges, forget about cards with special offers and rewards altogether – they're not for you, he says.

Take the example of Virgin's other new card, the Virgin Flyer. First, there's the one-off promotional offer of a free flight if you sign up and make your first purchase by October 15. (Note, however, that the flight is one way and on the GO! fare, under which you have to pay extra for baggage. You have to book 21 days in advance and you can't go to Western Australia or the Northern Territory.)

Then, four times a year, Virgin Flyer cardholders will be eligible for a "second seat free" flight, which Gamble says is a great deal in tandem with the card's high earnings rate on Velocity flyer points. However, if you tend to carry over card debt, the Virgin Flyer card



charges a steep 20.99 per cent a year for both purchases and cash advances.

Zinn says it's important to look at the way interest is calculated and what penalty fees apply when choosing a card, along with any caps on rewards points. "It's very hard to compare credit cards because it's not just a question of the interest rate, it's the penalty fees, it's what it actually delivers," he says.

Choice would like to see an industry charter setting out standard ways of calculating the cost of a card. "Simplicity should be a value which is embedded in financial products but in fact it's quite

choice if you use the four discounted flights a year. If you don't, it's the third-best card for earning domestic flyer points. If you spend \$50,000 a year, many other cards would be better.

"The value is less clear for the big spenders, where there are several competitive offers already on the market," Mozo says.

As for the no-annual-fees card, Mozo says 47 products have lower interest; 24 a lower balance-transfer rate. It's not a product aimed at people with a debt on their credit card, Gamble says. For them, "there are cheaper alternatives".

the opposite," Zinn says. "Part of that, you'd have to think, is to create fog for those who do want to do their best to find the product that's right for them."

Mozo recently introduced on its website a "Rewards Revealer" tool that suggests suitable cards based on an individual's annual card spending and preferred rewards. It works out the net value of the card, including rewards but after annual fees, and it counts short-term offers. According to Mozo, if you're an "average" customer, spending \$14,000 on a card a year, the Virgin Flyer is top

Bite ... rewards such as free flights need to be assessed for value. Illustration Greg Bakes