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credit card balance transfers

Credit card debt is what I like to classify as 'bad' debt. Unlike a home loan, which funds the purchase of an asset that will grow in value over time, card debt generally leaves us with little to show for our spending. That's why it's important to get rid of credit card debt as fast as possible. There are plenty of balance transfer deals that can help here, and while they can save you money there are also pitfalls to avoid.

Australians collectively have around \$33 billion in outstanding credit card debt, money that is attracting interest at rates of up to 20%. Debt on that scale highlights the fact that plenty of people are facing an uphill battle getting their card balance under control.

If you have a low rate card, the best way to get rid of the ongoing debt is often to knuckle down and make extra repayments.

If your card charges interest of 15% or more, you may be better off opting for a 'balance transfer', using a new lower rate card to pay off your existing card.

According to research group Canstar Cannex, around 254 of

Australia's 288 personal credit cards offer balance transfers, and the deals differ significantly.

Fourteen cards offer 0% interest on a balance transfer, however the period that zero interest applies to can vary from four months to six months.

If used properly, these can provide a useful window of opportunity to make a big dent into, or ideally, pay off your card debt without the burden of interest charges.

The catch is that the revert rate, which applies once the balance transfer period expires, can be very high, ranging from 9.55% to 19.99%. Cardholders who don't use the interest free period to reduce their card debt could easily find themselves back where they first started, facing insurmountable, high interest debt.

Just to confuse matters further, 'lifetime' balance transfer offers are available that charge a low rate, generally between 4.99% and 9.99%, for the life of the transfer, until you've paid that transferred amount off. What you need to know is that new purchases normally attract interest at the standard rate of the card, which is likely to be

significantly higher, and that any repayments you make are applied to the lower interest rate, transferred debt first, until it's paid off. Only after that's been repaid will further repayments be applied to the new purchases sitting there racking up high interest debt.

There is no single option that is 'best' for all cardholders. It's simply a question of working out what you can afford in extra repayments to take advantage of a balance transfer deal, and deciding whether or not you're likely to continue using your new card for additional purchases.

Whichever way you look at it, the best approach to credit card debt is to make it a priority to pay it off first, and to pull your credit card out of your wallet or purse as little as possible.

Paul Clitheroe's 'Making Money' for the week beginning 8 June 2009



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