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Don't Transfer Balances the Wrong Way!, Part 2

Know the fees and terms imposed by credit card companies. Many banks will charge you 2 or 3 percent of any balance transfer amount that you make. Some will charge you that 2 or 3 percent up to a certain amount, say a maximum of \$50. Either way, those are pretty hefty fees. You should also know when the promotional period expires on any balance transfer offer. If it's six months, then you should plan to pay off the balance before that time in order to reap the full benefits of that 0 percent offer you received.

Another problem with balance transfers has to do with the payment hierarchy tied to these offers. Although the amount of money you transfer from one card to another will qualify for the low rate that's offered, if you make other charges on the new card, those new charges typically carry a higher rate – not the promotional, teaser rate. When you make your regular monthly payments, you may think that those payments are going to pay off your new charges, the ones that have, say, a 15 percent interest rate. But in reality, the credit card company is applying your payments to the older balance first (i.e., the transferred balance). So any new charges you make continue to accrue interest at a higher interest rate, and it ultimately takes you longer and costs you more money to pay off your entire balance in full.

Needless to say if six months roll around and you haven't paid off the balance transfer amount, then that debt also jumps from the teaser rate to the standard, higher interest rate.

Avoid implementing balance transfers too frequently. Limit any balance transfers to one a year – certainly no more than two within an 18-month time period. The reason for this is that you don't want to have a whole bunch of hard inquiries and new applications for credit on your credit file. That can drag down your FICO score.