Pros and Cons of Credit Card Balance Transfers

National nonprofit credit counseling agency Take Charge America helps consumers understand when a balance transfer can help or hurt their financial situations

PHOENIX – (Mar. 5, 2019) – Balance transfers offer consumers the opportunity to reduce the amount of interest owed and pay down their credit card debt faster. This can be a nifty tactic when done right — but the numbers don't make sense in all cases, which can lead to costly challenges down the road.

A balance transfer entails moving the balance from one credit card to another card with a lower interest rate. Seems great on the surface, but extra fees and conditions could potentially negate the benefits if borrowers aren't careful.

"For many, a balance transfer is a straight-forward solution," said Michael Sullivan, a personal financial consultant with Take Charge America, a national nonprofit credit counseling and debt management agency. "However, I always recommend doing some research before committing to transferring any balances. You need to make sure you can realistically pay off the balance before steeper rates kick in. Failure to do so could set you back further in your journey to become debt-free."

Sullivan offers consumers guidance on whether or not a balance transfer makes sense for their situations:

Pros of a Balance Transfer

- **Take advantage of lower interest rates –** Some balance transfer offers come with a low introductory or zero-percent interest rate. With this low rate, you'll have the opportunity to make a noticeable dent in your balance and pay it off quicker, rather than just paying down the interest. Yet keep in mind, this strategy only makes senses if you can pay off the balance before that introductory rate expires.

- **Consolidate debt** – Do you have multiple balances on different cards to keep track of? Make your job easier by consolidating debt onto one credit card with the lowest interest rate — and have just one balance to pay off.

Cons of a Balance Transfer

- **The costs may outweigh benefits –** Some balance transfer cards are associated with hefty fees. Also, note that not everyone qualifies for a promotional interest rate and, even so, these low rates often come with a time limit before interest spikes — you could be left with a higher interest rate than what you started with. If the associated fee or the resulting interest rate is more than your overall balance, then it's not worth it.

- **Your credit score might take a hit –** If you open a new card for the balance transfer, your credit score will likely dip, but you can recover if you focus on paying off the balance quickly. Alternatively, if you close a card following a transfer, the increase in credit utilization will likely cause your score to decrease as well. In that case, you may be better off cutting the card and ceasing use rather than closing the account.

"No matter the route you chose, it's important to stop spending on both credit cards. If you continue to rack up debt, you'll offset all balance transfer advantages," added Sullivan.

If you have questions about overcoming credit card debt, contact (888) 822-9193 or visit www.takechargeamerica.org.

About Take Charge America, Inc.

Founded in 1987, Take Charge America, Inc. is a nonprofit agency offering financial education and counseling services including credit counseling, debt management, student loan counseling, housing counseling and bankruptcy counseling. It has helped more than 1.6 million consumers nationwide manage their personal finances and debts. To learn more, visit www.takechargeamerica.org or call (888) 822-9193.

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