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# Warning: Credit Card

## How to Handle Special Offers

By Kevin Bourke

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Dear Kevin,

**I recently received an offer for a zero percent interest credit card. There must be a catch somewhere. How do these things work?**

**Mary in Summerland**

Dear Mary,

Credit card companies send out billions of invitations every year promising incentives like teaser rates, waivers of first year fees, travel and rewards programs, and many other gimmicks.

There are several common mistakes consumers make, any one of which could void the zero percentage interest rate and other programs you signed up for.

If used improperly, these teaser offers can backfire, causing you to be charged even higher rates than if you signed up for a no-frills credit card.

When you get down to it, many “special offers” turn out to be less than special.

### **Watch your limit**

Going over your credit limit will often void the zero percent interest perks you were banking on. And going over the limit is easy to do.

For example, say you received a card with a \$5,000 limit. The first thing you are inclined to do? Transfer a balance of \$5,000 to take advantage of your zero percent offer. But, do you know if a transfer fee applies? If so, you could be subject to a 3% or 4% fee. On a \$5,000 transfer, a 3% transfer fee would amount to \$150. That \$5,000 balance transfer actually creates a \$5,150 debit on your account. This allows the credit card issuer to levy an “over limit” fee, perhaps also voiding the zero percent offer, and resulting in a much higher rate.

### **Don't miss your expiration date**

If you don't pay off your balance before your zero percent interest rate expires, the rate can reset to a much higher level, sometimes as high as 20% or higher. All the benefits of your zero rate deal evaporate quickly at that point. Be prepared to pay off your balance completely when your teaser rate expires.

### **No new purchases**

If you transfer a balance to take advantage of a teaser rate, don't expect the same advantages to apply to new purchases charged to the card.

These new transactions do not enjoy the same terms, such as zero percent interest rate. Usually, they are charged the "normal" interest rates, which, again, may run in the 20-23% range.

When you make payments, the card issuer typically will apply them to the zero-percent-interest portion of the balance first. This means that any new purchases you have made will be paid off last, meanwhile accruing interest at the "normal" higher rate.

The best thing to do is to use your zero percent interest rate card for balance transfers only. No new purchases!

### **Travel and rewards aren't free**

While many cards advertise no annual fees, they will frequently charge to participate in travel and rewards programs. Expect to pay in the \$50 range.

If a fee-free card can still cost you \$50 per year to carry, consider how long it will take you to accrue enough points to actually enjoy something in the travel and rewards program. You might be better off saving the annual \$50 charge and using it towards a restriction-free vacation of your choosing.

### **Avoid annual fees**

Unless you enjoy some status in carrying a particular card, or need some of the concierge services offered by certain travel and rewards programs, there is no reason to pay an annual fee, ever.

There are just too many legit credit cards out there that offer no annual fees.

### **Break out the magnifying glass**

Your credit card offer may seem too good to be true – so always read the fine print. Among other things, many card issuers run periodic credit checks on their cardholders. If you are late paying any other creditor, the issuer may reserve the right to revoke your zero percent interest rate and charge some other, considerably higher, rate.

To sum up, if you decide to go ahead and accept a credit card with a zero percent interest rate, just make sure you don't use that card for anything else. Don't go over the limit, and by all means pay it off before the teaser rate expires.

*Kevin Bourke is a registered principal with and offers securities through LPL Financial, Member FINRA/SIPC.*