

Watch out when passing the buck

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Credit card holders are using an increasing number of additional credit cards to shift debt, a survey has found.

Of more than 2000 Australians surveyed by creditcard.com.au, one in five said they had credit card debt of more than \$8000, and of these 68 per cent are forced to hunt down new credit cards to transfer debt.

Balance transfer cards come with 0 per cent interest for a limited time, offering debt-strapped cardholders an escape from crushing interest rates.

But creditcard.com.au founder and chief executive Roland Bleyer says it is now common for people to constantly shift from one balance transfer credit card to another.

"That's what people are doing - bouncing around from one 0 per cent balance transfer card to another," Bleyer says.

"I received an email recently from someone who said they had avoided paying their credit card for five years thanks to these cards."

Playing credit card musical chairs is an effective way of delaying debt repayments, but what happens when the music stops?

Bleyer says many consumers are lulled into a false sense of security and don't take advantage of 0 per cent interest rates.

"Balance-transfer cards are definitely recommended and they're definitely a good deal, but the problem is people are being slack and not paying off their debt in the interest-free period," he says.

"They also have to be careful about their credit ratings. If people are moving their debt and continually applying for new credit cards, it's going to ring alarm bells."

Banks have cottoned on to the rising popularity of balance-transfer cards, with more than 30 such cards currently on offer. A year ago there were no more than nine 0 per cent interest balance-transfer cards on the market.

Bleyer says the cards are used by banks as a way of luring customers away from other financial institutions.

To do this, banks are beginning to increase the average nine-month 0 per cent interest period to 12 months.

They are also reaping a profit from those who fall for the trap of failing to close old credit cards after signing up for a new one.

Another trap is waiting for those who aren't prepared for the steep interest rates once the promotional interest-free period ends, particularly on gold or platinum cards.

"These cards have a higher annual fee, plus a higher interest rate," Bleyer says.

"Failure to either pay the balance off in time or achieve another balance transfer is a nice bonus, giving banks the opportunity to make much more money than they would from issuing a lower-rate card."

The 2013 Credit Card Landscape Survey also found 45 per cent of credit card users don't pay the minimum monthly repayments.

Bleyer advised that it's best for people to use 0 per cent interest balance-transfer cards to pay off debt quickly and avoid racking up years of repayments.

"People need to make better financial decisions to pay down their debt," he says.

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