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Personal Finance

## Surf's Up for Cardholders

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For most of us, it's easiest to just toss out those flashy solicitations that fill our mailboxes with promises to transfer our balances to new low-interest-rate credit card accounts.

An enterprising few, however, have found a benefit from these colorful mailings by using the offers as investment tools.

These consumers accept the low-interest-rate debt that credit card companies offer to entice new customers, but they avoid getting smacked with the more onerous rates that come once the lower promotional rates expire.

The industry calls them "rate surfers," but as credit companies grow wiser to their craft, there's a growing chance that the wave of low-rate balance transfers that they and less-skilled consumers have been riding will crash.

### Balance-Transferring Acts

To rate surf, one has to be prepared to think outside the box in terms of credit card use, says Ira Stoller, who posts regularly on CardRatings.com, a consumer Web site that tracks and compares credit card offers. "Credit cards are part of your financial arsenal -- use them," he says. Arsenal sounds awfully aggressive, but so is Stoller's approach to credit.

Stoller has 15 cards in his wallet that he uses for balance transfers. He bought his new car with a 3.99% offer and earned \$2,200 in the past two years, he says, by using balance transfers to invest in money market accounts or certificates of deposit.

Is Stoller's approach likely to become a popular tactic? "We've got 10 or 15 members who do what Ira's been doing for years," says Curtis Arnold, who founded CardRatings.com in 1998. Arnold, who includes himself in that number, says he paid for his wedding, two condos and a minivan with balance transfer offers.

Another proponent is Lawrence Goldberg, who self-published a book titled Balance Transfer Magic. Why "magic" in the title? Because credit card strategies are tricks, says Goldberg. "I started learning all the tricks -- three months, six months, nine months, upfront fees, maximum caps, default rate." After two years, Goldberg, a rare-coin dealer who uses balance transfers to buy and sell collections, says he cut his debt from \$82,000 to \$60,000, "and in another four years, I'm done, instead of paying for 15 years if I had only paid the minimum."

### Credit Card Wipeout

Stoller, Arnold and Goldberg are making the most of what credit card companies are offering, but how long can they, and others like them, keep riding the wave of low-interest-rate offers before lenders get craftier?

Rate surfers, along with other consumers, are paying back more of the minimum payment, says Cynthia Ullrich, a director in Fitch Ratings' asset-backed-securities department. For the first time since 1998, the credit card industry lost money last year, mostly because of higher minimum-payment rates, or MPRs, and higher interest rates. As of March 2006, the MPR was 21.74%, a jump from 2005's average of 18.6%.

But card issuers are particularly angry about rate surfers. "This consumer is very savvy and very mobile, and they move according to the next best offer," says Ullrich. "But there's a danger in this strategy, and that is, issuers have the ability to identify them."

Experienced rate surfers who know how to manage their accounts aren't concerned, says Arnold, but he worries about the amateurs who might get trapped in the backwash. In March, Arnold began noticing a few offers from Chase and MBNA that had fees for a balance transfer but didn't include a cap on the move. A cap of \$50 or \$75 is a great deal for transferring \$10,000, but a fee of 3% -- \$300 -- is something to think twice about, he notes.

Chase spokeswoman Jessica Iben said the company's move away from a cap "is competitive with the industry." MBNA didn't return calls, but an operator reached through the company's 800 number said, "If the card is worth more, there's usually no cap."

"The ground is definitely shifting," says Arnold. "You can definitely expect to see more of these offers in the future."

### Surfing Tips

If you want to take advantage of lower rates, what do you look for? Locate the terms. They've been moved from the cardholder agreement to a box in the offer letter. "If you see, 'a 3% fee applies,' or a \$5 minimum or \$75 maximum, you're OK," says Arnold. "But if you see '3% balance-transfer fee applies,' or a '\$5 minimum,' and no mention of a cap, you're not OK. You've got to kick the tires and look under the hood."

"Balance transfers are legitimate ways of keeping your interest rates down," adds Gerri Detweiler, author of *The Ultimate Credit Handbook*, "but your credit score can decline and your interest rate go way up if you don't keep track." Before saying yes to that next offer, "Do the math, and watch the pitfalls. Ask: 'What is the balance transfer rate?' I've seen rates as high as 4%. 'What is the maximum I can pay? The default rate if I'm late?'"

Conclusion? Consider a balance transfer to finance a small purchase -- but only if you have the money to pay back the transfer when the bill comes due, and if there's a really good reason for financing the purchase. But going into overdrive managing 10 and 15 offers is probably not a good idea. "I was contacted by a consumer who asked if it was OK to pay off a huge home-equity loan with a balance transfer," says Detweiler. You can guess her answer.

Arnold says card users looking to take advantage of balance transfers shouldn't run up to the limit with credit. "If you use 90% of the limit of a card, that could hurt your credit score -- keep it to under 30%, and don't apply for new cards more than twice a year. So, if you accept a \$5,000 offer, use no more than \$1,500."

Arnold's other rules:

- Look for zero-balance offers, and go for offers with 12 months. Then put that card away, unless you can use it for new purchases.
- Set up automatic minimum payments.
- Don't count on these offers; they may not be around next year.
- Always have a plan B on how you're going to pay off a loan you financed.

Stoller says to withdraw the principal on the car, pay back the balance transfer and keep only the interest. His other tips:

- Open the account and leave the money there. Don't touch it, period.
- Pay the minimum on time every month. He automates his payments.
- These offers never, ever, indicate the expiration date -- you may have to ask.

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*Doranne Perrucci has been helping consumers dig into personal finance since 1998, when she reported for Jane Bryant Quinn's columns in *The Washington Post* and *Good Housekeeping*. Since 2001, she has written for *Newsweek*, *The New York Times* and *Consumer Reports*, among others.*

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