

# Credit card debt balance transfer

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From time to time banks offer deals that encourage people to transfer the debt on their credit card from their existing bank to another one at a low interest rate. We often get complaints from people who do not understand how credit card balance transfers work or who do not understand the conditions banks may attach to their offers. Balance transfers usually involve two banks – the bank you have the original debt with and the bank you are transferring the debt to.

## Applying for a balance transfer

If you want to apply to a bank for a balance transfer, you have to have a credit card account there. If you do not already have an account, you will need to apply for one and be assessed against the bank's credit criteria before the transfer can proceed. You will also be told the credit limit the bank is prepared to give you.

Before you apply, check your current debt on the account you are transferring from. You may also need to check the value of purchases or payments made since your last statement was issued. Note that although recent transactions will show up on internet banking, interest accrued during the current month may not. This is all part of your debt.

## What happens when a balance is transferred?

If the bank approves the card balance transfer, it will credit the specified amount to the account it originated from and transfer the debt. Essentially, you are paying off the original card debt with credit – you will still owe the money but to a different credit card provider.

The total of all transferred balances must not exceed your credit limit.

## What balances can I transfer?

You can usually transfer any bank credit card debt balances. You may also be able to transfer store card or personal loan balances. It is a good idea to ask the bank you want to transfer to about any exclusions to its balance transfer offer.

### How to contact us

## **Do I have to close my old credit card account?**

You may be required to close one account if your lending profile determines two credit cards may exceed your ability to service the debt. As the customer, you are responsible for closing accounts and will probably need to contact your card provider to instruct it to do so.

## **How do interest rates work on accounts offering balance transfers?**

Transferred balances may have special low-interest rates, but new purchases and cash advances are usually subject to the bank's normal rates. Check the card's terms and conditions to see how interest rates apply.

Deals on debt balance transfer interest rates may also only be for a set time. Make sure you know when the low-interest rate period ends and what the subsequent interest rate will be.

## **How are payments allocated on credit cards with balance transfers?**

It is standard for credit card payments to be allocated to the balance with the lowest interest rate. If you have a transferred balance at a special low-interest rate and also put purchases on that card, payments are likely to be allocated to the transferred balance rather than the purchases. This means any purchases or cash advances you make after the transfer may not be paid off until you have repaid the transferred balance.

Payment allocations will usually be described in the credit card terms and conditions. If you are unclear how payments will be applied, you should discuss this with your bank.

### **Case note 1**

Mr C saw a bank advertisement for a special low interest rate for credit card balance transfers, took up the offer but subsequently complained that the interest charged was much higher than the advertised transfer rate.

This was a new credit card with a new bank. Mr C applied for it online and asked about any applicable terms and conditions at the same time. He was provided with a web page link but didn't read it. His application was approved and the new credit card was sent in the mail with a copy of the card's terms and conditions. On the same day, Mr C's old credit card balance was transferred to his new card.

Mr C made a number of purchases on his new card and was surprised when he saw the interest charged was much higher than the low balance transfer rate. He thought any purchases on the credit card would incur the same interest rate and complained that the advertising was misleading.

We found the bank's advertising was not misleading because it stated the special interest rate was available for balance transfers and full details were in its terms and conditions. These clearly set out that interest rates applicable to cash advances and purchases were different to the rate used for the balance transfer. This information was also in the bank website link and in hard copy with his new card's terms and conditions.

### **How to contact us**

Mr C thought the bank should have explained the terms and conditions to ensure he fully understood them, but we did not agree. Generally, the bank is obliged to give customers a copy of the terms and conditions and it is the customer's responsibility to ensure they read and understand these. We advised Mr C it seemed unlikely we could uphold his complaint. He did not respond.

## Case note 2

Ms K saw an advertisement on a bank's website offering a special low interest rate on credit card balance transfers and complained that the advertising was misleading.

The advertisement offered the ability to discuss the offer with the bank, which she took up. In the discussion, the bank told her she would need to open a transactional account and have her income deposited into it to get the deal. A couple of days later the bank advised Ms K she had to go into a branch to do this.

Mrs K was unhappy because this later condition wasn't mentioned in her first conversation and she thought she could open the new account and do everything by phone. She also thought the bank's advertising was misleading because it didn't specify a balance transfer would only occur once the transactional account was open.

We looked at the bank's advertising and were satisfied it was not misleading. The advertisement said if somebody was interested in the offer but didn't have a transactional account, they could give their contact details and the bank would then call them.

We didn't think this gave the impression that everything could be set up by phone.

Ms K told us she didn't agree with our findings but she did not provide any further response.

## How to contact us