Credit Card Balance Transfer Fees

Contributed by Michael Strauss
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Credit card balance transfer offers were so popular that they ended up costing the credit card industry serious amounts of money. Something had to be done, so the balance transfer 'handling fee' was born.
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The idea of a balance transfer deal was introduced to the UK in the year 2000 by innovative online bank Egg plc, who offered customers a bait of 0% interest for six months on balances they transferred from another credit card.

{bot_wrgoogle}The feature was an instant hit, and more and more card issuers began to offer similar deals as competition for customers grew more intense. Before long, it seemed that every card available had 0% deals of ever-increasing lengths.

It didn't take long for savvy cardholders to spot a pretty major flaw in the credit industry's thinking though. With so many cards offering 0% deals, what's to stop people from becoming serial balance transferors, moving their debt to a new card as the 0% period expires? And so the game of credit card surfing began.

People began to systematically switch their balances to card after card, and if they were organised enough to make sure their balance was moved off a card before the interest charges kicked in, then they could avoid paying interest on their debt for as long as there were new cards available to apply for. In effect, the credit card industry was collectively extending millions of pounds of interest free credit over an indefinite period - not a situation they either intended or appreciated.

People could take advantages of balance transfers in other ways, too. Some cards allowed a transfer to a bank account rather than another credit card. It was therefore possible to transfer the entire credit limit of a new card to a high interest savings account, leave it there for the length of the 0% deal period, and then clear the card balance and pocket the interest earnings.

All this added up to a major headache for credit card issuers - the tables had been turned, and their customers were now costing millions of pounds every month to support. This had to change, and so it fell to Egg plc to again introduce a new card feature : the balance transfer fee.

In May 2005, Egg announced that all balance transfers would now attract a 'handling fee' of 2% of the amount transferred. The charge would be capped at £50. Other card issuers quickly followed suit, and now most balance transfer deals have such a charge.

So what does this mean for credit card users?

Firstly, before applying for a new balance transfer card, check in the small print whether or not a fee will be imposed. This should be made clear in all advertisements and on the application form, but the credit card industry has a history of subtly hiding unattractive features while accentuating the eye-catching ones, so pay careful attention.

If there is a fee, make sure that there's an upper limit mentioned. While the maximum £50 fee may still, depending on the size of your balance, make it worthwhile to take advantage of the offer, cards with no maximum charge are much less attractive.

To sum up, the balance transfer game isn't as straightforward as it once was. There are still ways to save money by taking the maximum advantage of the offers available, but cardholders need to be more wary than before.

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