Everyday Cheapskate: Credit card debt getting trickier by the day

by Mary_Hunt

Dear Mary: I received an invitation from Capital One to transfer balances to a new credit card at zero percent interest until March 2010. Would I be shooting myself in the foot if I accepted this offer and transferred two high-interest balances, currently $4,000 total? I'm worried this is a trap. -- Monica, Tennessee

Dear Monica: There are many things you need to consider carefully before making your decision.

--Bait and switch. If you read the fine print on that invitation, you will see that Capital One retains the right to substitute a different credit card once you've accepted the offer and they check your credit history. You may or may not get zero percent interest.

--Credit score. If you get this deal, more than likely the credit limit will be the same or very close to the total amount you transfer, or $4,000. That means, for at least the first few months, you will be using 100 percent of your credit limit. That is bad for your credit score. Really, really bad. Ideally, you never should use more than 30 percent of your limit.

--Not set in stone. Keep in mind that Capital One will include a clause in your agreement that says they can change the terms at any time for any reason. (This will change, but not until July 2010.) Here's the scary thing: They could use your newly lowered credit score as the reason to do that! It's a real Catch-22.

--Real interest rate. Think July 2010. That's when new credit card rules go into effect that will prevent credit card issuers from increasing your interest rates retroactively. If something happens that prevents you from reaching zero balances before then, expect whatever rates you're paying after March 2010 to shoot up on, oh, say, June 15, 2010. They'll have one last opportunity under the old rules.

You may determine it's worth the risk to accept this offer to get rid of double-digit interest you may be carrying on these two accounts at this time.

The best option here is to do everything in your power to pay these debts as quickly as possible. If you have a rock-solid plan to do that within 12 months, it just might be worth the prospect of a low credit score for a while to accomplish that worthy goal. Once you are at a zero balance, your credit score will begin to improve, provided you do not close that account.

All that to say that if I were you, I believe I would take the risk. That's because I hate credit card debt so much that I'd be willing to accept the lesser punishment of a low credit score, along with the possibility of an increased interest rate, for a while. That would be like a kick in the rear end to force me into greater sacrifice in other areas to pay the debt faster than I ever dreamed possible.

Do you have a question for Mary? E-mail her at mary@everydaycheapskate.com, or write to Everyday Cheapskate, P.O. Box 2135, Paramount, CA 90723.

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