

Ask the Budget Guy

Submitted by Allen Gunter

SWAPPING INTEREST RATES -- A NEW REALITY SHOW??

*You open your mailbox. Just the usual junk mail and bills. Ahhh.. there's the latest issue of your favorite magazine! Ooops. Something drops. The writing on the outside of the envelope catches your eye -- **You're pre-approved for 0% interest!!** Just what you've been hoping for -- a credit card offer promising you 0% interest on balances you transfer from other cards.*

The timing couldn't be better. You've been really struggling to make the minimums on your credit cards. And to make it worse, one of your cards just raised its interest rate. With this new card, you could transfer that balance and kiss that other card goodbye!

You immediately apply for the new card and within seconds it arrives. Minutes later you're not only totally out of debt, you've got the best lawn on the block and abs of steel!!

Okay, okay. We both know a credit card won't give you abs of steel. Or get you out of debt in just a few minutes. But swapping a high interest rate for a low one *can* get you out of debt faster and cheaper...*IF* you are smart about it and very disciplined. If not, you will end up in **more debt than before**...just like most people who swap interest rates.

Low interest rate offers are not intended to help you get out of debt. They're filled with traps to make your rate go up, and they're filled with fees. Here are two rules for successful interest rate swapping:

Rule No. 1: "Own" the fine print. Not all low rates are equal, so don't just skim the fine print, *know* it inside and out. Make sure you know how to avoid the traps and minimize the fees.

Rule No. 2: Stick to your plan for paying down your debt. DO NOT ease off just because you feel good about what you've accomplished so far, or have ended up with lower required payments.

Here's a quick rundown on some of the ways to swap interest rates, and a few of the bigger "gotchas".

Low Rates for Balance Transfers

DON'T put new charges on the new card. Payments usually go first to transferred debt, so new charges don't get paid off. They accumulate high rate interest instead, putting you right back where you started. BIG "gotcha"

-- cards that *require* new charges in order to keep the low rate on transferred balances!

And watch the payment details -- miss one and up goes your rate. Example: Payment must be received by 2:00pm on the due date. Your check hits their mailbox on the due date, but they don't pick up mail until 2:30pm. Your interest rate just went to 20%. BIG "gotcha": Rate goes up because you were late with payment on *another* card!

Home Equity Loan

This changes unsecured debt into debt secured by your house. Start missing payments and you could lose it. Can you be 100% sure that you won't lose your job or have major medical bills before the loan is paid off?

BIG "gotcha": You can borrow up to 125% of the value of your home. You'd better not want/need to sell your house while you're still upside down in the loan.

Home Equity Line of Credit

Same "gotchas" as home equity loan, PLUS can kill your credit score AND rate is not locked in and can easily increase.

Debt Consolidation Loans

Ads for debt consolidation loans usually promote a lower monthly payment. BIG "gotcha" -- your rate may actually be higher -- they've simply increased the time over which you pay everything off. And don't *ever* go for a "cram down" intended to get creditors to "forgive" part of your debt. You will owe taxes on the amount "forgiven" and your credit rating will take a major hit for seven years.

Borrowing From 401(k)

At best it puts the screws to your long term savings. If you fail the repayment rules, you'll have taxes and penalties to pay. And don't think about leaving your job unless you have enough to repay the loan immediately.

Want more information on interest rate swaps? Maybe some help in finding something that works for you? It's free, and it's confidential. Just call the church and ask for the Budget Guy, Allen Gunter (892-3580, ext. 122) or send an email to BudgetGuy@SHPC.org. And check out the Crown Financial Ministries classes. Call Margaret Fetty at 288-9034 for more information on those.