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Is a balance transfer the right choice for you?

By Vanessa Santilli

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With the start of a new year, many people are looking for a fresh financial beginning. One option can be a balance transfer, if you plan accordingly.

A balance transfer allows you to open a new, lower interest credit card and use it to pay the balance on your higher interest account. It could allow you to pay off your year-end spending without heavy interest. But it could also be a gateway to more debt, if you aren't careful.

The benefits

"A balance transfer can be useful to customers, as it can provide them with a lower interest rate for a period of time -- or no interest for a period of time -- which translates directly into cash savings," says Scott Plaskett, senior financial planner and CEO at Ironshield Financial Planning.

This type of transfer can be a useful money-saving tool for consumers if they

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take advantage of the lower interest charge and pay off the debt before the promotional rate expires, says Chris Mazur, trustee in bankruptcy and senior vice-president at BDO Canada Limited.

An astute customer may even be able to hop from one balance transfer card to the next multiple times, thereby always having either no interest to pay or a very low interest rate, adds Plaskett. However, the wording of some contracts may prohibit you from doing multiple balance transfers within a specified period of time, he says. If you break that rule, the special offer will be void and you'll be back where you started.

The drawbacks

Balance transfers have a number of shortcomings you should be aware of, especially if you don't clear the balance before the promotional period ends. You'll not only have to pay the higher rate once that period ends, the interest will often be back-dated. "Balance transfers are usually treated like a cash advance on a credit card, which means that interest charges begin immediately -- there is no grace period," says Patricia White, executive director of Credit Counselling Canada.

There will also likely be transfer fees, so make sure you weigh those against any interest savings.

As in all matters of personal finance, be sure to read the fine print to understand the rules that apply to the balance transfer, advises White.

Mazur adds that acquiring another credit card is dangerous when you are having difficulty managing your current payments.

"Once there is no longer a balance on the old card, it may be tempting to use it again."

See related: Consolidated loan can make debt easier to manage, 8 ways to pay off your card balances faster

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