

## How to Play the New Credit Card Offers



**Free airfare. A Kindle** . Zero interest on a cash advance. To lure new consumers, credit card companies are getting more creative and more generous with their promotional offers – in some cases, tripling mileage and cash-back rewards. For credit-savvy and disciplined consumers, this marks the return of a bygone opportunity: The chance to play one card against another and come out ahead.

After a long dormant period, credit card companies are turning on the charm again. During the first quarter of 2011, 58% of credit-card mailings featured a sign-on bonus, like miles, cash back or a gift – up from 38% two years ago, according to Synovate Mail Monitor, which tracks credit-card mail. And those offers are sweeter: The largest mileage bonus for new customers is 100,000 miles – up from 30,000 miles last June, according to [CardHub.com](#)<sup>4</sup>, a credit-card comparison web site. The largest cash-back reward is \$150, up from \$50. In addition, credit-card analysts say issuers are sending out more blank checks for cash advances with 0% promotional rates. "The market is heating up," says Odysseas Papadimitriou, chief executive at CardHub.com.

Credit-card issuers are honest about their motives. If the bonuses and promotions push a customer to choose one card over another, it's worth it, says a spokeswoman for American Express. Or, as a Chase spokeswoman puts it, "Chase wants to be the first card people choose for all of their spending."

Meanwhile, as promotions become more widespread, issuers launch bigger offers or expand on existing ones to compete for borrowers, says Papadimitriou.

While the offers are better and more readily available than they've been in the past, consumers still need to be aware of the perennial pitfalls, like interest rates that spike or fees that kick in down the road. To come out ahead, cardholders usually need to pay off their balance quickly and make all payments on time, says Bill Hardekopf, chief executive at [LawCards.com](#)<sup>7</sup>, which tracks credit-card offers.

Furthermore, the nature of the offers can make them good in some circumstances, dangerous in others. Here are the new rules.

### Use blank checks

Before the recession, consumers often used 0% APR offers on blank checks from their credit-card issuer for a form of arbitrage: They'd park the money in a high-yield savings account or certificate of deposit, pay back the loan, and keep the interest. With rates so low these days, that's hardly worth the hassle. But consumers can often use these checks for balance transfers, paying down high-interest debt that they've racked up elsewhere.

Consumers who can pay off the balance transfer in full within the promotional period save the most money, paying only a balance transfer fee of typically 3% to 5%. (Some don't even pay that: USAA's World MasterCard currently offers a convenience check to some existing cardholders with 0% interest through March 2012 and it eliminates the fee of up to \$75 for those who take up the offer by May 16.)

But even consumers who don't pay off their balance in full can come out ahead. Consider the average consumer with credit card debt, who owes about \$3,340, according to the most recent data from CardHub.com. To be debt-free in two years at 16% APR (about the average on cards right now), the cardholder would have to pay \$164 per month, and would pay almost \$600 in interest. If instead the cardholder did a 0% balance transfer for 12 months, then paid the rest off at 20% interest over one more year, he could pay a little more than \$300 in interest and fees -- about half what he would have paid by sticking with the original card.

### More about credit cards:

***The New Best Credit Cards**<sup>1</sup>  
**The Slow Comeback of Easy Credit**<sup>2</sup>  
**Your Financial Health: Two New Scores**<sup>3</sup>*

### *Fact or Fiction: Debunking New Credit Card 'Deals'*<sup>5</sup>



Card issuers are rolling out new incentives - but some lead to more debt. ([Watch video](#)<sup>6</sup>)

## Make money off a purchase

Many cardholders already earn rewards when swiping their credit card, but new cardholders increasingly have more to gain from the get-go. "We've also noticed that sign-on bonuses have gotten substantially sweeter," says Lauren Guenveur, study director for the financial services practice at Synovate. That can be an extra perk for someone who's already planning to make a large purchase in the next few months – if they can pay off the balance in full. Most of these cards don't offer a 0% APR, even as a promotional rate, and the interest charges can quickly eat up the value of the rewards, and more.

The types of rewards range widely. With the Chase Freedom credit card, new cardholders who make \$500 worth of purchases in the first three months get \$150 cash-back – up from the \$100 bonus the card issuer was offering in early April. For spending the same amount in the same period, some consumers who sign up for American Express' Premier Rewards card can get a 3G-enabled Kindle – retail price \$189 – and a \$100 American Express gift card. On the travel front, consumers who sign up for the British Airways Visa Signature card through May 6 earn 50,000 miles with their first purchase and another 50,000 if they spend \$2,500 in the first three months. The possible 100,000 miles total is good for four round-trip domestic flights within the continental U.S. on American Airlines or two roundtrips from North America to London on British Airways – easily a \$1,700 value.

## Help a teen build credit

When the credit card laws changed in February 2010, making it impossible for anyone under 21 to get a card without a co-signer or proof of income, credit enthusiasts complained that it would be hard for young people to build credit. But now analysts say credit card companies are rolling out more secured cards -- a cross between a debit card and a credit card, and a perfect way for parents to help their children build credit and protect their own histories at the same time.

Anyone under 21 still usually needs a co-signer (or proof of income) to get a secured card, but the credit lines are typically smaller and the potential for unconstrained spending is more limited. To get a secured card, a borrower gives the credit card issuer what is essentially a security deposit, usually at least \$200, which establishes a line of credit. The activity on these cards is reported to credit bureaus each month like a regular credit card, says Papadimitriou, which means it can help build credit.

But interest rates are high, and carrying a balance is expensive. Capital One's Secured MasterCard and First Premier's Secured Card each require a \$200 deposit, and charge 22.9% and 19.9% interest, respectively, when monthly payments aren't made in full. And both banks recently introduced what are called "partially-secured" cards, where the credit line is higher than the deposit, though the interest rate on First Premier's card spikes to a whopping 50% for the first year. With "fully secured, there is a lower risk to us," says a spokesman for First Premier, adding that after the first year, the interest rate drops to a still hefty 40% for cardholders in good standing.

<sup>1</sup><http://www.smartmoney.com/spending/deals/the-new-best-credit-cards-1301520786753/>

<sup>2</sup><http://www.smartmoney.com/personal-finance/debt/the-slow-comeback-of-easy-credit-1292540729832/>

<sup>3</sup><http://www.smartmoney.com/personal-finance/debt/your-financial-health-two-new-scores-1301412875999/>

<sup>4</sup><http://CardHub.com>

<sup>5</sup><http://www.smartmoney.com/video/asset/fact-or-fiction-debunking-new-credit-card-deals/E97B8D17-159D-4F98-822C-EE331B536DE>

<sup>6</sup><http://www.smartmoney.com/video/asset/fact-or-fiction-debunking-new-credit-card-deals/E97B8D17-159D-4F98-822C-EE331B536DE>

<sup>7</sup><http://LowCards.com>

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