# The Transfer Trap: Why Debt Transfers and Consolidation Increase Indebtedness and Stress

## Study Explores the Impact of Debt Refinancing

The two most common options for credit card debt refinancing are balance-transfer cards and consolidation loans. Conventional wisdom says that if you have credit card debt, taking advantage of the teaser-rate balance-transfer cards and/or consolidation loans will help you pay off debt faster. According to new research, however, this typically is not true.

Tally conducted a survey of more than 1,700 respondents who have credit card debt to explore their opinions and experiences with debt refinancing. For reference, a balance transfer is defined as moving debt from one credit card to another credit card. Debt consolidation is taking out a new loan to combine credit card debt into a single larger loan. Both of these options are known as credit card debt refinancing.

Despite being the most common options for credit card debt refinancing, most individuals with credit card debt avoid balance transfers and debt consolidation. While consumers with debt desire a better way to pay off their balances, most consumers avoid refinancing because they believe that it actually makes it easier to accumulate more credit card debt and causes more stress. According to our study, they are correct. Average debt among consumers who have completed debt refinancing actually increases significantly over a 3-year course.

This data highlights an opportunity for the financial industry to better serve consumers who want to better manage and pay down their credit card debt.

## Key Findings

### Debt refinancers sink further in debt or tread water.

- 70% of individuals who refinanced are the same or worse off as they were 3 years ago.
- The average credit card debt among these individuals has nearly doubled over the past 3 years from $5,606 to $8,117.
- Only 38% of individuals who balance transferred say they are able to pay off the entire amount before promotional rate expires.
- Individuals who refinanced were 10% less likely to pay down their debt than someone who did not.

### So what's going on? It's all about behavior and awareness.

- 61% of those who balance transferred or consolidated pay a little more than the monthly minimum payment, compared to 58% of those who have not taken the measures.
- Those who transferred or consolidated are 5% less likely to pay much more than the minimum monthly payment.
- When asked what the two most important factors are for considering debt consolidation, the clear winner was interest rate at 71% and the size of the monthly payment at 60%.
- Lower minimum monthly payments lead to significantly longer payback timeframes due to compounding interest.
- Surprisingly, only 12% of respondents listed fees as one of the two most important factors, which is concerning considering many debt consolidation options charge hundreds of dollars up front.

### It's not surprising, most consumers avoid debt refinancing.

- Only 31% of respondents have completed one or more balance transfers in the past three years.
- Even fewer, 18%, have consolidated in that same period.
- Interestingly, 78% of consolidators were also individuals who had balance transferred in that same period as well.
- Both those who transfer and those who consolidate complete about one transaction per year, with the extremely active who have done both completing 1.5 transactions per year.

### Why are people avoiding it?

- 81% said they felt that debt refinancing actually makes it easier to accumulate more credit card debt.
- 71% of consumers said debt refinancing made them more stressed.

## About the Research

The May 2017 study collected responses via an online survey from 1,776 individuals who have had card debt at some point the last 3 years and are located in the U.S. This research was generated by Tally using the Pollfish survey platform.

## About Tally

Tally is a smarter way to manage your credit cards and a faster way to pay your balances, replacing credit card-induced stress with confidence. Balance or no balance, the credit card industry is notoriously confusing. Tally's app applies an advanced algorithm to make the right payment, to the right card, at the right time, enabling you to make the most financially optimal decision and paying down your balances as efficiently as possible. Credit cards should be empowering —a passport, not a burden. Tally wants to automate your financial life, starting with managing your credit cards.

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