Stoozing

Subjects: Others
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Stoozing is the act of borrowing money at an interest rate of 0%, a rate typically offered by credit card companies as an incentive for new customers. The money is then placed in a high interest bank account to make a profit from the interest earned. The borrower (or "stoozer") then pays the money back before the 0% period ends. The borrower does not typically have a real debt to service, but instead uses the money loaned to them to earn interest. Stoozing can also be viewed as a form of arbitrage.

Keywords: credit card ; interest rate ; stoozing

1. Etymology

The word "stoozing" came into existence from posts on the Motley Fool UK discussion boards in early 2004.[1] Many people were earning money on 0% deals before 2004, but one discussion board contributor, Stooz, was apparently prolific in this. This person's technique therefore came to be referred to as "doing a Stooz". In the United States, the term has gained a similar usage.[2]

The term "rate tart" is sometimes incorrectly applied to this practice. A rate tart frequently moves a debt (or cash balance) around in order to get the best interest rate, rather than taking advantage of the difference between two interest rates.[3]

2. Method

Credit cards in the *United Kingdom* will typically offer 0% interest on a balance transfer for 6–12 months for newly opened credit card accounts. Credit cards in the *United States* have similar offers. In both countries, credit cards may also offer a similar period in which purchases made with the card do not incur interest.

A "stoozer" will take advantage of the time in which there are no interest payments due on the loan by transferring their new credit card limit into a savings account rather than paying off an existing debt. This is done by making a "balance transfer", which is usually taken to mean a payment made by the credit card issuer to a third-party on behalf of a borrower in settlement of a debt (the balance to be transferred) that the borrower has with that third party. However, a stoozer typically has no indebtedness, so any payment made on their behalf can be used to preserve their savings account balances elsewhere at no (or low) interest cost to them. Several devices exist to maintain (and indirectly build) saving account balances in this manner:

- *Credit card cheques (checks) issued to the borrower* allow them to directly credit themselves rather than pay down an existing debt immediately (which may have some time itself remaining of any introductory period).
- *A balance transfer from a credit card with no (or smaller) debit balance* to create an intentional credit balance on the account which the borrower can seek to recover either gradually (e.g. day to day purchases) or instantly (e.g. cheques issued by the secondary card to the borrower). Although some card issuers may balk at issuing a check for a $50,000 credit balance, in the *United States* , they legally have no more than 7 business days to issue the check from the date the request is received.[4]
- *A direct credit made* to the personal bank (checking) account of the borrower, with the knowledge of the issuer, at their request. (This has become colloquially known as making a *Super Balance Transfer* - or sometimes 'SBT')

It is also possible to use cards which offer 0% on purchases. Whereas normally the user must pay their credit card debts by the end of the month or face interest charges on any balance left on the card, here the 0% debt is built up by spending on the card with only the minimum repayments repaid. The user can then pay the money they would have paid to their credit card account into their own interest-bearing account instead. At the end of the 0% period the debts can either be paid off or the balance transferred to another card.[5]

3. Offsetting and Stoozing

An alternative to the pure form of stoozing is debt-offsetting itself — typically on large secured debts such as mortgages.[6] Here the stoozer carries real debt and their objective is not to generate profits but interest savings in whatever form their loan agreement will allow. Many mortgages now permit overpayments by giving the borrower the opportunity to draw at the same rate of interest later within the (declining) limits set out. Other mortgages are genuine offset loans that charge interest only on the net balance once savings have been deducted from the debt. In either case, the effect is the same.

4. Stoozing in Practice

While the simplest form of stoozing will involve one account directly repaying another, successful stoozing relies on being able to have several transferred balances at the same time in order to generate usefully large profits from the money in the "stooz pot" (usually a high-interest savings account). Stoozed balances are constantly running down, as every card requires monthly servicing payments of typically 2% of the reducing balance throughout the introductory period, as well as needing to be repaid at the end of the period. But, as the availability of introductory card offers varies significantly (that is, offers change), effective stoozers must research opportunities and apply for new credit cards speculatively as they arise - without guarantee of success - rather than simply when one introductory period ends.

Effective stoozing also relies on making successful applications for further credit. Each application made gives rise to a "credit search" in which the lender will examine the credit history (or "credit file") of the borrower. Credit histories are shared between individual card issuers and the commercial credit reference agencies (*CRA*s) maintaining such files. In the UK the main CRAs used are Experian, Equifax and Callcredit; in the US they are Experian, Equifax, and TransUnion. In addition, regardless of whether an application for credit is successful, the fact that a search will have been made on a person's file is itself recorded and made known to future lenders. To maximize the chances of success, applications should ideally not be made too frequently.

A less complex approach to stoozing is to apply for one credit card at a time, and to do so at least six weeks before any introductory period ends - giving sufficient time if accepted for the issue of a new card to transfer a balance off the original card - even if that is a few weeks *before* the original card's introductory period would have ended. However, expiration dates from differing introductory periods on different cards will inevitably become staggered and overlap with time. In addition, the amount of credit available from individual cards can vary greatly which complicates the practice of matching debts. The stoozer may therefore concentrate on one method for building their balances (for example by use of "super balance transfers") and quite separate methods for repaying them. In this case, the stoozer will only rarely employ an actual balance transfer in its precise sense of swapping debts. However, the objective always remains the same: to preserve or (re)build stoozed balances.

Due to the different features available on different cards, only the commonalities of stoozing with credit cards have been described. Secondary strategies that take advantage of specific features arguably justify the term 'stoozing' also. These can include:

- *Using one credit card* (if it allows) to make repeated balance transfers during the introductory period to meet the minimum payments on another card requiring them - thus maintaining a slightly higher balance average throughout the period on the former card.
- *Using a credit card* which offers 0% for a period on purchases (but not necessarily on balance transfers) to build up debt over the introductory period that can be transferred subsequently (sometimes referred to as 'slow' stoozing)
- *Using a (rarer type of) credit card* that gives interest free periods on balance transfers, in addition to normal purchases, to repay debt on an expiring card - then repaying this debt in full as a credit card account settled in full each month attracts no interest. For a brief period, the original debt is effectively carried beyond the end of its 0% rate.
- *Using a 'mule' card.* Here a card which allows no fee balance transfers from a bank account can be used to route 0% debt from other cards directly into a bank account.[5]

References

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