

Make Money Like Banks Do

The “How to make money with credit cards” report

(Please make sure to read the Frequently Asked Questions at the bottom for further clarification after reading the report.)

Banks pay low interest rates on deposits, and lend the deposits out at higher interest rates. The difference between the two interest rates is the bank's profit.

Copying the bank's system

To copy this system, find a low interest rate lender and a higher interest rate borrower. The following steps walk through using a credit card company as your low interest rate lender and an internet bank as your higher interest rate borrower:

- 1) Open a high-yield internet bank account.
- 2) Apply for a 0% balance transfer credit card.
- 3) “Balance transfer” from the credit card to your bank account.
- 4) Setup autopay on the credit card.
- 5) Repeat.

Step 1 - Open a high-yield internet bank account

A few of the internet banks offering high-yield accounts are:

- INGDirect
- EmigrantDirect
- HSBCDirect

HSBCDirect is the best for this application for the following reasons:

- Currently paying highest interest rate at 4.8%
- Website is easy to use
- Good customer service

To sign up for an account go to www.hsbcdirect.com, and click on “OPEN AN ACCOUNT”. The new account will link directly to your existing checking account, and you will be able to transfer funds between the two accounts.

Step 2 - Apply for a 0% balance transfer credit card

To find a 0% balance transfer credit card offer, go to:

<http://www.creditcards.com/balance-transfer.php>

Pick cards that have the following features:

- Intro Apr of 0%
- Intro Apr Period of 12 months or more
- Annual Fee of None
- Balance Transfer Fee of None or capped at a maximum of \$35

The first three features are listed on the [creditcards.com](https://www.creditcards.com) balance transfer page. To find the Balance Transfer Fee information, read the disclosures for each of the credit cards. Currently, Citi does not charge a balance transfer fee during the Intro Apr Period.

Step 3 - Balance transfer the money to your high-yield savings account

Request a balance transfer of all but \$100 of the available credit to your high-yield savings account. The \$100 is a cushion to prevent going over the credit limit.

Citi offers an option to have a check sent directly to you in the amount of the balance transfer. You then deposit the check and transfer it to the high-yield savings account. But some other credit cards will only let you balance transfer to another credit card. This restriction can be circumvented with the following steps:

- 1) Request a balance transfer to one of your other credit cards that has a zero balance, meaning you don't owe any money on it. This will leave a credit on that card.
- 2) Call the credit card company with which you have a credit and request that the credit be sent to you in the form of a check.
- 3) Deposit the check in your checking account.
- 4) Transfer the funds to your high-yield account.

An alternative, more efficient method is to:

- 1) Request all balance transfers to your Citi card.
- 2) Use the Citi balance transfers to have a check sent directly to you.
- 3) Deposit the funds to your checking account.
- 4) Transfer the funds to your high-yield account.

Step 4 – Setup autopay

Autopay is a feature that pays the minimum monthly payment on your credit card balance. When the payment is due, the credit card company will pull the payment out of your checking account.

This feature will help keep the credit card bills paid on time and avoid late payments. This is necessary for a few reasons:

- Missing a payment looks bad on your credit report.
- Late payment fees will cut into your profits for the month.
- Credit card companies will cancel your 0% interest period if you miss a payment.

This feature can be setup by calling the credit card company and requesting that you be enrolled in their autopay program. Usually they will send you a contract to sign and return to them by mail with a voided check.

After autopay is setup, make sure you have enough in your checking account to cover the minimum monthly payment each month. Generally keeping two months worth of minimum payments in your checking account will be a good cushion to keep from getting caught without enough funds.

The autopay feature is only available with some card companies, and Discover specifically does not offer it.

Step 5 - Repeat

A nice amount of interest income to shoot for is \$100 per month. To get \$100 per month at 4.8% interest, you'll need at least \$25k in your high-yield account.

Generally a single credit card company doesn't want to give you a \$25k credit limit, but they are often willing to offer \$6k, \$8k, or even \$10k credit limits. So you may need to open three or four credit cards to get \$100 per month.

The more you can transfer to your high-yield bank account, the more interest per month you can earn.

At this point all you need to do is spend the interest income you get each month. Remember not to spend the amounts that you have balance transferred and only to spend the interest they earn.

All the balance-transferred money is eventually going to be paid back to the credit cards, so you don't want to have spent it when the time comes to pay it back. You'll need to pay it all back before the 0% interest period is up. Usually this is 12 months from getting the credit card.

Things to watch out for

All of the credit cards these days have fine print that says they can revoke the 0% interest period if your credit changes significantly or if you miss a payment. This means two important things:

- 1) Don't miss payments.
- 2) Don't tie up the borrowed money in a long-term investment.

Opening multiple credit cards can look bad to a bank that wants to extend you credit. So if you have near future plans that rely on a good credit report, such as getting a mortgage or a car loan, it might be best to wait before putting this system to work.

Note that your credit score will go down temporarily because of the large amount of debt you are carrying, but when you pay it off at the end of the 0% interest period, your score will pop right back up. This happens because a percentage of your credit score is figured on the amount of debt you have compared to the amount of credit you have available.

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Frequently Asked Questions (FAQ)

These are questions from our user's followed by our replies.

Question:

Thank you. I have looked through the report. My initial question is: what happens when the 0% introductory offer expires and you pay off the balance. Do you then have to cancel the card and find another credit card? Seems like a fair bit of hassle: every 10-12 months you have to open and close 3-4 accounts.

Answer:

That is what has worked for us.

We open the card. Setup Autopay. Pull the money off the card and deposit most of it into the high yield savings account. The rest of it we keep in the checking account that the autopay pulls from.

Then we do not use the card. So each month the bill comes in an email, and there is one line on it, the payment from the last month. Then 10 months

later we cancel the card and start again.

Another option rather than canceling the card that we recently discovered is opening another card with the same company (we specifically did this with Citibank). Then moving the credit limit to the new card. So if you started with a \$5k card. And then 12 months later opened another \$5k card. You could move the \$5k limit from the old card to the new card, and now be able to balance transfer up to \$10k. And Citi would close the old card for you and consolidate the two accounts.

So your total "work" is opening and closing a credit card, and 10 instances of looking at one line in a bill to make sure the bill is correct. If you take out \$10k on one card, then at the current 5% rate, that's \$500 every 12 months. If I passed a \$500 bill every year, I definitely wouldn't leave it on the street. Note that it's not going to be exactly \$500, but less since not all of the money will be deposited in the high yield account the whole time since some of it goes to pay back the minimum payments each month.

We think its a great deal, especially because of the ability to leverage the "free" money and buy options (or lottery tickets I guess). But I can see how some people might find it to be too much work for too little gain.

Thanks,
Dividendium Team

Question:

Thank you for the report.

Credit card companies like MBNA now Bank of America have minimum payments each month. Suppose you get 25K at 0% which you deposited in your high yield money market account paying 5.21% . The minimum payment on 25K would be at least \$125 to the credit card company or more at 5% per month. If you get \$ 108 from your high yield account and that leaves you nothing in terms of cash flow. How will this ever work?

Please correct me if I didn't understand something here.

Answer:

My apologies, the report is not as clear as it could be.

The minimum monthly payment on credit cards is generally at most 2% of the balance.

So for your \$25k example, it would actually be about \$500 per month. Over 12 months, that would be \$6000 that you would need for payments. So you take \$6000 and put it in your checking account from which you have the

autopay pulling.

That leaves you fully \$19k remaining to put in your high yield account and earn interest on. After 12 months with your 5.21% interest rate you're sitting on about \$990 in interest, and \$19k in principal. The balance on your credit card is now also \$19k (since you've paid off \$6000 of the initial \$25k). So you pay back the \$19k and keep the \$990 in interest.

Actually, the minimum monthly payment will drop as you payoff the balance, and if you work it out on a spread sheet, you'll find you only need about \$5000 in the checking account to pay the minimum payments for the full 12 months. So you can actually squeeze out another \$50 or so dollars, and end up with more than \$1000 at the end.

I hope that clears up any confusion that the report caused. Please let us know if we can help further.

Thanks,
Dividendium Team
