



## PAY MORE THAN THE MONTHLY MINIMUM ON YOUR CREDIT CARD

Each credit card statement you receive includes a “minimum payment” amount along with transaction, balance and interest rate information. Depending on other parts of your financial situation and your spending habits, the temptation to pay only the minimum can be great. As tempting as it may be, you should always try to pay more.

Credit card companies usually calculate the monthly minimum payment due as a percentage of your outstanding balance. The percentage is usually more than the interest rate they are charging on your balance, but low enough to make the minimum payment amount seem attractive. After all, they make money by charging interest on what you owe.

### The cost of paying only the minimum

As you consider how much to pay each month, be sure you understand how all the numbers work. To keep it relatively simple, let us assume you have an outstanding balance of \$5,000, the annual interest rate being charged is 12% (1% per month) and the minimum payment is 2% of your outstanding balance. If you just pay the minimum of 2% (\$100) and have no additional charges, \$50 of the payment goes to pay the interest and your balance is paid down to \$4,950. If you continued on that schedule, it would take you 299 months (almost 25 years) to pay off the balance. On the other hand, if you paid \$250 each month, you would have the balance paid off in about 23 months.

As a practical matter, unless you stop using a card each month you will have additional charges, interest will be charged and you can decide how much over the minimum you wish to pay. Here are some charts that show how this could work.

**Example 1.** Assume you start with a balance of \$5000, have an additional \$500 or \$400 of charges each month and have a credit card with a 12% interest rate.

With \$500 of additional charges each month		With \$400 of additional charges each month	
Payment level	# of Payments needed to pay off the balance	Payment level	# of Payments needed to pay off the balance
\$600	70	\$600	29
\$700	29	\$700	19
\$900	14	\$900	11
\$1,000	11	\$1,000	9

**Example 2.** Assume you start with a balance of \$5000, have an additional \$500 or \$400 of charges each month and have a credit card with a 16% interest rate.

With \$500 of additional charges each month		With \$400 of additional charges each month	
Payment level	# of Payments needed to pay off the balance	Payment level	# of Payments needed to pay off the balance
\$600	83	\$600	31
\$700	31	\$700	19
\$900	14	\$900	11
\$1,000	11	\$1,000	9

CONTINUED



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## PAY MORE THAN THE MONTHLY MINIMUM ON YOUR CREDIT CARD CONTINUED

Paying more than the monthly minimum will eliminate the balance much faster, save you considerable interest charges and provide some peace of mind knowing you are taking a prudent action.

### Pay more than the minimum

Here are five ideas for finding cash to make the payments and reducing your credit card balance faster:

1. **Stop using the credit card.** This simple idea will result in more of your payment being used to reduce a balance that is not growing due to usage.
2. **Use cash for more of your purchases.** Fewer monthly charges will bring your balance down faster.
3. **Consider using some of your savings to pay down the balance.** The rate you are earning on your savings is probably much less than what you are being charged on your balance. While no one likes the idea of depleting savings, if you can reduce your expense (interest charged) by more than your income (interest received), you will end up ahead.
4. **Consider some other type of loan.** The interest rates charged on home equity loans, mortgages and even auto loans would probably be less than what is charged on your credit card.
5. **Cut back on your total spending.** Conserving some cash, even for just a few months, and using it to make larger credit card payments can make a difference. It may even develop into a good habit.