

FAMILY FOCUS COLUMN

Credit Card Payments Increase

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For years financial educators have encouraged consumers with credit card debt to pay more than the suggested minimum monthly payment. Why? Because it takes years to pay off the debt if you only make the minimum payment---typically 2% of the balance.

Now consumers are required to make higher payments as most credit cards have raised minimum payments from approximately 2% to 4%. New guidelines suggest payments should cover fees and finances charges, plus 1% of the principal. The change comes after pressure from the Office of the Comptroller of Currency (OCC) which advocates for consumer protection from abusive and deceptive credit card practices. Credit card companies make money off consumers through fees and interest rates on high balances. The OCC's call to credit card companies to raise the minimum payment is one step towards helping consumers get out of layers of debt.

The increase in the minimum monthly payment could be good news for some consumers and bad for others. On the positive side, a consumer can get out of debt sooner and pay less in interest. For example, the consumer with a \$5000 credit card balance at 12% interest rate, making a 2% minimum monthly payment or \$100 will be paying off the balance for 25 years and pay \$4697 in interest. Raise the minimum payment to 4% or \$200 and it takes about 10 years to pay off the balance with \$1622 paid in interest. On the other hand, for the consumer who is financially strapped, coming up with another \$100 a month could be a problem.

To help understand the changes in minimum payments and manage credit card debt follow these tips.....

* Calculate your minimum payment percentage on each credit card. Find the minimum monthly payment amount on your most recent statement and divide it by the statement balance. For example if your minimum payment is \$45 on a \$1200 balance then your percentage is 3.75%.

* Use the on-line minimum payment calculator at bankrate.com to figure how long it will take to pay off a credit card and how much interest you'll pay at various minimum monthly payment amounts. Always consider paying more than the suggested minimum monthly amount.

* Think twice before adding purchases to a credit card. Ask yourself if you really need the item or think of ways to save money to buy the item in the future. Use a debit card for convenience without going into debt.

* If you have more than one credit card, pay off those with high balances and high interest rates.

* Keep only one credit card. If you carry a balance, select a card with a low interest rate. If you're tempted to spend beyond your means, find a card with a low spending limit.

* If you have problems managing debt get help. Visit the Iowa State University Financial Counseling Clinic at www.hdfs.hs.iastate.edu/financial/ or call them at 1-866-282-5813.