

Title:

Your Credit Card Payment Is Rising: Warning & Tips

Word Count:

1101

Summary:

Summary: Did you know your minimum credit card payment is rising? A new government program working to get Americans out of credit card debt is pushing credit card issuers to raise minimum monthly payments. Will you be able to make the higher monthly payment? Here are some tips for getting by.

If you're an American, your minimum monthly credit card payment may soon be doubling. If you're only paying the minimums now, you'll have to be careful to adjust your budgeting to pay...

Keywords:

debt,credit,credit counseling,credit card,money,finance

Article Body:

Summary: Did you know your minimum credit card payment is rising? A new government program working to get Americans out of credit card debt is pushing credit card issuers to raise minimum monthly payments. Will you be able to make the higher monthly payment? Here are some tips for getting by.

If you're an American, your minimum monthly credit card payment may soon be doubling. If you're only paying the minimums now, you'll have to be careful to adjust your budgeting to pay more.

Who's Raising Your Monthly Minimum Credit Card Payment?

Whose idea was it to increase credit card minimum monthly payments? The Office of the Comptroller of the Currency, a bureau of the U.S. Treasury Department that has become more and more involved with reigning in the abuses of credit card companies. Yes, this credit card minimum payment increase was thought up by people trying to help you.

Who will be raising their monthly minimums? So far, some of the largest credit card issuers have agreed to the new standards. Bank of America has already been asking for the higher monthly minimum payment. MBNA, Citigroup

(a.k.a. Citbank), Discover, and Chase (on some of its cards) will be breaking the news to their cardholders as Fall 2005 progresses.

How Much Will Credit Card Minimums Increase?

For many credit cards, such as MBNA and Bank of America, the new rates mean that monthly minimum payments will double.

Right now, the monthly minimum payment is only 2% of the balance on most of these cards. The new rate will be around 4% (the actual number may vary from card issuer to card issuer). This means that if you have the average American credit card balance of about \$10,000, your minimum monthly payment will go from \$200/month to \$400/month.

Of course, if you have any additional fees, whether a late fee or a cash advance fee or any of the other fees that the credit card guys cook up, you will have to pay that, too.

Why the Credit Card Minimum Payment Increase?

You may be wondering why anyone would want to make you pay a higher minimum monthly payment. The basic reason for making you pay more is: for your own good.

According to Mike Peterson, co-founder of American Credit Foundation, by doubling the amount you pay per month toward credit card debt, you will cut down on what you pay toward interest by much more. Look:

Old monthly minimum payment of 2% of balance, \$2,000 credit card debt at 18% percent interest:

* Time to pay off debt in full: about 30 years.

* Interest paid: about \$5,000—two and a half times what you initially borrowed!

New monthly minimum payment of 4% of balance, same debt:

* Time to pay off debt in full: about 10 years. Time saved vs. old payment: 20 years.

* Interest paid: about \$1,100—slightly more than half what you originally borrowed. Amount saved vs. old payment: \$3,900.

Tips for Paying Double Easily

How do you pay off your new, higher credit card balance?

Stop Charging

Yes, you will have to make major sacrifices to stop using your credit card. But just look at all the money you'll have in ten or thirty years that you wouldn't have if you had to pay all that credit card interest. If you have trouble resisting the temptation to charge, here are some solutions that have actually worked:

* Give your credit cards to a friend or family member to hold in safe keeping.

* Freeze the cards in a block of ice.

* Never carry more than one credit card with you.

Economize on the Small Things

According to Michael Peterson of the American Credit Foundation, even tiny savings really add up when it comes to debt. His favorite example is the Diet Coke example:

* If you buy one Diet Coke a day at \$1/day, that's \$365/year.

* If you instead invested that one dollar a day at 10% interest (the average yearly return on major stocks over the last half century), you would be a millionaire within 56 years.

* Of course, with credit cards, this logic works in reverse: if you are lucky enough to be paying only 10% interest, fifty years of charging Diet Coke to your credit card will mean you've lost the same amount, not only in interest paid, but in the lost opportunity to save and invest.

* You don't have to put aside one dollar a day for fifty years to see a big difference. One dollar a day is \$30/month, 15% of the average \$200 increase in credit card minimum monthly payments.

* In order to get that entire \$200 increase out of your daily budget, you would only have to save \$200/30 or less than \$7 a day. OK, maybe you aren't drinking seven Diet Cokes a day. But there are very few credit-card-holding Americans who can't cut \$7 a day out of their spending.

* Saving weekly rather than daily, \$200/month works out to about \$45/week, or the cost of a restaurant meal for a small family--another luxury you might want to skip until you're debt-free.

Bigger Savings

* Taxes. Most Americans could pay hundreds of dollars less tax each year if they just took all the deductions they were eligible for upfront, rather than waiting to get a refund in April. By April, you will have spent a big chunk of money on interest on debt that you wouldn't have spent if you'd had the money at hand.

* Pleading. Call the credit card companies and ask if they can allow you to set up a payment plan, or at least provide a brief extension. Simply calling and letting them know you haven't forgotten about them can help keep you out of the worst trouble.

* Credit counseling. Credit counselors can talk with credit card issuers to help you get a repayment plan you can keep up with. They can also open your eyes to untapped sources of income you never knew you had, like kicking the \$1,000,000 Diet Coke habit.

In short, don't panic. With only a little bit of planning, you can make the higher minimum monthly payment work to your advantage, just as the policy's authors intended.