

The Price of Making Minimum Payments



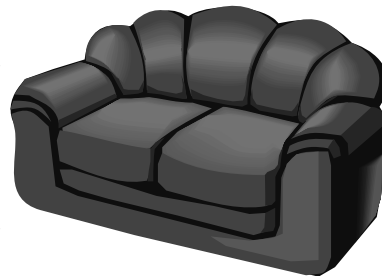
The Skinny on Minimum Payments

- A minimum payment is the lowest payment a lender will allow each month
 - Usually, figured as a certain percentage of the total amount owed
 - Designed to keep you in debt as long as possible, paying the maximum amount of interest
- If the minimum payment is not paid, the lender will normally impose a penalty
 - Late fees, which lead to overlimit fees
 - Defaulting on the account
- **Universal Default** is a penalty imposed by some lenders if a minimum payment is missed
 - A company will raise a cardholder's interest for late payments on their card due to late payments on *any* credit card the customer owns, even if it isn't the company's card
 - This practice has been questioned by the government, as of now is still in use by some companies
- In 2005, the government passed legislature saying that consumers must be able to pay their debts in 15 years
 - In order to accomplish this lenders had to raise their minimum payments
 - In the long run it will help, but in the short term many consumers are feeling the pinch

A Minimum Payment Experiment

If you only pay the minimum payment you will be paying your loans and credit cards for many years to come.

- Let's figure the **real** price of making minimum payments
 - You buy a couch for **\$2,000** paying with a credit card
 - You never use this card again (not realistic, but it makes the example simple)
 - The interest rate is **20%**
 - The minimum is **3%** of the total amount owed
 - If only the minimum payment is met
 - You pay \$2240.71 in interest
 - That is **\$4, 240.71** for the \$2,000 couch
 - You will be paying for about **15** years
 - By this time, the couch is old, out of style, and sitting in your basement
 - Increasing the minimum to 5%
 - \$945.37 in interest
 - **\$2,945.37** for the \$2,000 couch
 - Paid in **7.75** years
 - Paying a fixed \$80 a month
 - \$608.86 in interest
 - **\$2,608.86** for the \$2,000 couch
 - Completely paid in **2.75** years



Can't make minimum?

- *Don't panic*
- *Don't ignore the problem*
- Call the creditor and let them know you can't pay
 - sometimes they will work with you
- Look through your budget to see what you can eliminate
 - Don't have a budget? Call Credit Advisors **(800) 942-9027**; we'll help you create one
- If you repeatedly cannot make your minimum payment
 - You need to rethink your spending
 - Get extra help from a certified credit counselor, call Credit Advisors at **(800) 942-9027**

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