

## Hidden Costs of Credit Cards

There has been a lot in the news recently about the increasing amount of credit card debt in this country. It is said that the average person carries over \$7,000.00 in credit card debt. What most people don't realize is that credit card debt is the most expensive form of borrowing.

I recently picked up an application for a credit card just to read the disclosures. This card was offering 0% on balance transfers. Sounds good huh? Let's read the fine print. The 0% only lasts for 10 months, so you won't pay most of the balance off before the rate expires. After that the rate jumps to 15.99%. There are some other catches as well. If you make purchases with the card, they accrue interest at the 15.99% rate. When you make a payment, the full amount of the payment is applied against the 0% balances, not the new purchases. On a \$1,000.00 balance that amounts to \$13.32 per month interest that has accrued. Over the 10 months that is over \$130.00 in interest that will accrue and you will not be able to pay.

So the 0% interest can cost you \$130.00 or more. And that is if all goes well. If you are even one day late with a single payment, you will lose the 0% and the interest and the entire balance will accrue interest at 15.99%. Miss a second due date, the rate goes to 19.99%, a third, 24.99%. Suddenly you could have a very large interest rate and you might actually lose ground as the interest accrues.

Let's look at another way people use credit cards. Most credit cards have a required monthly payment of 2.0% of the outstanding balance. Usually the lowest payment is around \$20.00. If we take the average credit card debt of \$7,000.00 and apply the 15.99% interest from above, then make just the minimum monthly payment each month without any new purchases, it would take (are you sitting down?) 376 payments or 31 years and four months to pay the balance off. Then how much interest would you pay? Over \$12,600.00! Paying \$12,600.00 in interest on \$7,000.00? Not a good way to spend your money

If you were to borrow from us \$7,000.00 and pay off the credit card, in just four years the debt would be gone. How much would you pay in interest? Around \$1,600.00; a savings of \$11,000.00 and 26 years. This is a much better use of your money

There are ways to manage your credit card debt and save your self money in the long run.

First, consolidate as much of the debt into one card or loan. If it is on a credit card, DO NOT USE THE CARD! Put it away. By using the card, you will make no progress in getting out of debt. Use a second credit card and only charge what you can pay each month

Second, always pay more than the required monthly payment. As the required payment will drop as your balance drops, less goes against principal and this is what stretches your payment term out longer

Third, always make payments on time. Late payments can not only raise your interest rate as in the example above but there are late charges of up to \$35.00 depending on your balance

Fourth, get the lowest interest rate you can. The examples above are based upon the

card rate of 15.99%. The highest rate we have at the credit union right now is 10.9%, considerably less than the credit card rate.

Proper money management is not difficult; all it takes is discipline and common sense. It is easy to get into difficulty if you don't pay attention. And it can happen to anyone. For many years I carried credit card debt of up to \$12,000.00 and was getting nowhere. By using the above methods I paid off my credit card debt in about five years. That was six years ago and I have been credit card debt free ever since. It wasn't easy, but I did it and so can any one. If you are not sure how to start, call us. We will set up a time to go over your finances with you to see how we can help. Take it from someone who has been there, I am much better off now than 10 years ago and it is a great feeling.