Credit Cards
Avoid the Minimum Payments Trap!
3% examples

Marsha A. Goetting
Ph.D., CFP®, CFCS
• Professor & Extension Family Economics Specialist
• Department of Agricultural Economics & Economics

Credit Cards

“But Roger, everyone spends more than he earns. That’s what America is for.”

Question
• What percent of undergraduate students have at least one credit card in 2015?

Percent of students with one credit card

56%
Question

• What’s the average credit card balance among college students in 2015?

Credit Card Balance for Undergraduates

$906

True/False

• The Credit Card Act bans credit card approvals for anyone under 21 years old unless they have an adult co-signer or prove they have sufficient income to pay the bills.

True/False

TRUE

Question

• What is the average credit card debt for college seniors (nationally) in 2015?

Average credit card debt for seniors

$1,109
Credit Cards: Avoid The Minimum Payments Trap

Credit Card Smarts Calculator

Credit Card Debt
• $1,000

Orange Side--Side 1
• Paying Just 3% on Your Credit Card Debt
  ▪ Check the REAL cost

Orange Side--Side 1
• Pay Back: $1,684
• Interest Charges: $684
• Years to pay off: 8

Blue Side: Side 2
• Pay MORE than 3% and Save a LOT
Blue Side: Side 2
• $1,000 debt
• First payment: $30
• Years in debt: 8
• Interest paid: $684

Boost to 4%
• First payment: $40
• Years in debt: 6
• Interest paid: $465
• Interest saved: $219

Double Minimum
• First payment: $60
• Years in debt: 4
• Interest paid: $285
• Interest saved: $399

Credit Cards: Avoid The Minimum Payments Trap
• How it can happen?

How Happens???
• Bill arrives in June

Balance = $1,000
• 3% Payment $30
  • Interest $15
  • Principal $15
• New Balance $985
How Happens???

• Bill arrives in July

Balance=$980
• 3% Payment $29.55
  ▪ Interest $14.78
  ▪ Principal $14.77
• New Balance $970.23

How Happens???

• Bill arrives in August

Balance= $970.23
• 3% Payment $29.11
  ▪ Interest $14.55
  ▪ Principal $14.56
• New Balance $955.67

How Happens???

• Bill arrives in September

Balance = $955.67
• 3% Payment $28.67
  ▪ Interest $14.34
  ▪ Principal $14.33
• New Balance $941.34
## Payment Schedule

<table>
<thead>
<tr>
<th>3% Payment</th>
<th>Interest</th>
<th>Principal</th>
<th>Balance</th>
</tr>
</thead>
<tbody>
<tr>
<td>$30.00</td>
<td>$15.00</td>
<td>$15.00</td>
<td>$1000.00</td>
</tr>
<tr>
<td>$29.55</td>
<td>$14.78</td>
<td>$14.77</td>
<td>$970.00</td>
</tr>
<tr>
<td>$29.11</td>
<td>$14.55</td>
<td>$14.56</td>
<td>$955.67</td>
</tr>
<tr>
<td>$28.67</td>
<td>$14.34</td>
<td>$14.33</td>
<td>$941.34</td>
</tr>
</tbody>
</table>

96 monthly payments

## Decision

### Three Situations
- Matt
- Mary
- Chris & Bethany

### Mary-Answers
- $1,000

### Orange Side--Side 1
- $1,684 pay back
- $684 interest charges
- 8 years to pay off

### Credit card annual interest rate assumed by Credit Smarts Calculator
- 18.0%
Credit card *monthly* interest rate assumed by Credit Smarts Calculator

**1.5%**

---

**Blue Side: Side 2**

- $1,000 debt
- $30 first payment
- 8 years in debt
- $684 interest paid

---

**Boost to 4%**

- $40 first payment
- 6 years in debt
- $465 interest paid
- $219 interest saved

---

**Double Minimum**

- $60 first payment
- 4 years in debt
- $285 interest paid
- $399 interest saved

---

**Recommendation**

- What suggestions do you have for Mary?

---

**Chris & Bethany**

- **Answers**
- $5,000
**Orange Side--Side 1**
- $9,567 pay back
- $4,567 interest charges
- 16 years to pay off

**Blue Side: Side 2**
- $5,000 debt
- $150 first payment
- 16 years in debt
- $4,567 interest paid

**Boost to 4%**
- $200 first payment
- 11 years in debt
- $2,808 interest paid
- $1,759 interest saved

**Double Minimum**
- $300 first payment
- 7 years in debt
- $1,592 interest paid
- $2,975 interest saved

**Recommendation**
- What suggestions do you have for Chris & Bethany?

**Matt--Answers**
- $9,000
Orange Side--Side 1
• $17,451 pay back
• $8,451 interest charges
• 19 years to pay off

Blue Side: Side 2
• $9,000 debt
• $270 first payment
• 19 years in debt
• $8,451 interest paid

Boost to 4%
• $360 first payment
• 13 years in debt
• $5,152 interest paid
• $3,299 interest saved

Double Minimum
• $540 first payment
• 8 years in debt
• $2,899 interest paid
• $5,552 interest saved

Recommendation
• What suggestions do you have for Matt?

Question
• What if Mary makes payments of $30 every month, how long will it take to pay her $1,000 debt?
Mary

- Jan. $30 $30.00
- Feb. $30 $29.55
- Mar. $30 $29.11
- April $30 $28.67

Mary pays $30 every month: $1,000 Debt—Years to Pay Off

- Minimum Payments
- 3.88 yrs
- 8 yrs – if making minimum payments

Mary paying $30 every month: $1,000 Debt-Interest

- Minimum Payments
- $397
- $684 if making minimum payments

Question

- What if Chris & Bethany make payments of $150 every month, how long will it take to pay their $5,000 debt?

Chris & Bethany

- Minimum Payments
- Jan. $150 $150.00
- Feb. $150 $147.75
- Mar. $150 $145.53
- April $150 $143.35

Chris & Bethany pay $150 each month—Years???

- Minimum Payments
- 3.88 yrs
- 16 yrs if making minimum payment
Chris & Bethany pay $150 each month: Interest??

$1,984

$4,567 if making minimum payments

Question

- What if Matt makes payments of $270 every month, how long will it take to pay his $9,000 debt?

Matt pays $270 every month

3.88 yrs

19 years if making minimum payments

Matt paying $270 every month: Interest Comparison

$3,570

$8,451 if making minimum payments

Marsha’s Discovery

- If you make continued payments of the initial 3%, any debt can be paid off in 3.88 years!!!!!!!

Steady Payments

<table>
<thead>
<tr>
<th>DEBT</th>
<th>PAYMENT</th>
<th>YRS</th>
</tr>
</thead>
<tbody>
<tr>
<td>$10,000</td>
<td>$300</td>
<td>3.88</td>
</tr>
<tr>
<td>$25,000</td>
<td>$750</td>
<td>3.88</td>
</tr>
<tr>
<td>$30,000</td>
<td>$900</td>
<td>3.88</td>
</tr>
</tbody>
</table>
Parting Wisdom
• Pay MORE than 3% minimum & save a LOT

Credit Cards
Avoid the Minimum Payments Trap!
3% examples
Questions?