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GUEST COLUMN

Why your credit card payment is going up

By Steven B. Smith

If you haven't received your credit card bill yet this month, you may be in for a big surprise, especially if you went a little overboard with your holiday spending.

For the estimated 40-million Americans who carry a balance on their credit cards their minimum payment may be increasing anywhere from 40-100 percent.

Here's a look at why, and what to do about it.

Under pressure from federal regulators, credit card issuers are increasing the minimum monthly payment requirement on outstanding balances. The change should help consumers in the long run, but can be painful in the short-term.

Credit card minimum monthly payments have traditionally been set at an average of 2 percent of the outstanding balance. The entire 2 percent would often go toward interest, and cover little or none of the principal. According to **Bankrate.com**, a balance of \$8,000 (the approximate credit card debt carried by the average American) would take almost 54 years, and cost an additional \$22,931.52 in interest when paying only the minimum 2 percent each month.

With the new guidelines, credit card companies are now required to set a minimum monthly payment that covers interest, plus at least 1 percent of the outstanding principal. Using those guidelines, that same \$8,000 would take only 30 years to pay off and cut your interest in half to \$11,789.08.

Obviously 30 years is still a long time to pay off credit card debt. Most people will pay off their home loans in less time than that.

All too often, I see people treating their credit cards as an additional source of income. The key is to pay-off your balance each month.

According to a recent study by the **American Bankers Association**, less than half of cardholders consistently pay-off their balance each month.

The problem usually starts when we have an irregular expense, such as car maintenance, holiday spending, or a vacation. We turn to the credit card to cover the difference, planning to pay it off next month. But when next month rolls

around our budget is tight again, and even if we don't add to the balance, we're unable to pay it off in full.

The trick is to manage your daily, weekly and monthly spending. Set up a spending plan based on your income and include regular expenses like mortgage, groceries and car payments, but also irregular expenses such as holidays, birthdays, car maintenance and medical expenses. By planning ahead and setting aside a little each month for these irregular expenses, you'll have enough to cover them when they arise and won't have to turn to the credit card to cover the difference.

Most people can easily squeeze an additional 10 percent out of their paycheck by simply creating a spending plan and tracking their expenses. Use an online budgeting tool to make setting up your spending plan simple.

Credit card spending can throw an extra wrench in a budget. When you make a purchase on a credit card, the money isn't immediately taken out of your account, as it is with a debit card. By the time the bill comes, you may have already spent the money elsewhere.

Even if all you can do is pay the minimum, make sure that you at least do that. Ignoring the problem won't make it go away. It's expensive and will take a long time, but by paying at least the minimum each month, you'll keep the credit scoring folks happy, which can save you thousands of dollars later on.

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