

CREDIT CARD MINIMUM PAYMENTS AND PAYOFFS

The minimum payment is the smallest amount you can pay on your outstanding credit card balance without incurring a late fee or missed payment fee.

Your card issuer calculates your minimum payment each month. Your minimum payment may be as little as 2 to 3% of your outstanding balance, while a 21% annual interest rate costs you 1.75% per month. Do the math: You'll see that a 2% minimum payment barely reduces your outstanding balance and that a 3% minimum payment is only slightly better. At this rate, it can take years to pay off even a small balance. If you continue to make purchases with the card, you'll find yourself with a steadily increasing balance, even though you're making your minimum payment faithfully. If you really want to make a dent in your balance, you must make payments larger than the required minimum.

Credit card companies are required to notify consumers in writing on each billing statement the number of months and the total cost (including principal and interest) involved in repaying the current balance if only the required minimum monthly payments are made. In addition, this information must also indicate how much the monthly payment must be to pay off the current balance in 36 months.

If you have a credit card that is charging you varying interest rates on different portions (e.g., cash advances or balance transfers) of the total balance, credit card companies are required to allocate payments exceeding the minimum payment to the portion of the balance with the highest interest rate first.

How do you pay off your credit balance?

As mentioned above, you might never get your balance paid off by making only the required minimum payment each month. Even though the amount you owe may seem impossible to pay, there are strategies to help you reduce the balance. These strategies include simply paying more than the required minimum each month, using a lump-sum windfall to pay off your debt, prioritizing repayment, doing a balance transfer and using an interest reduction strategy.

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