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1-1-2001

Reducing Credit Card Debt

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Recommended Citation
Rowe, Barbara R., "Reducing Credit Card Debt" (2001). *All Archived Publications.* Paper 442.
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Utah State University Extension

FINANCIAL FITNESS

Fact Sheet

November 2001 FL/FF-13

REDUCING CREDIT CARD DEBT

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Using a credit card changes your spending power. The greatest disadvantage of credit use is losing financial flexibility in managing today's money. For example, if your credit debt takes 10 percent or more of your after-tax income, you can't spend those dollars for something else. Credit cards can reduce your future buying power if you carry a balance and let finance charges built up.

How can you get rid of your credit card debt? The first thing to do is get all your credit card bills together. For each account, write down the total balance and the minimum monthly payment required. You can use the table below.

Credit Card	Account Number	Amount Owed	Minimum Payment	Interest Rate

[1]Adapted from *Get Rid of Credit Card Debt,* written by Pat Hildebrand, University of Illinois Cooperative Extension Service, Urbana-Champaign, IL.

Prioritize Repayments

Credit card companies require a minimum payment each month. The next step in reducing credit debt is to be sure you can make the minimum payments on your credit cards. Look at your spending and see if you need to make cuts to find the money to pay your credit card bills.

If you pay only the minimum payment required each month, it can take a very long time to clear your balance. For example, if you have a $3,000 balance at 18.9% interest and you pay $50.00 toward the balance each month (a typical minimum payment), it will take you 15 years and 6 months to pay off your debt. And it would cost you $6,279.85 in interest charges.

Plan to do more than just pay the minimum. In the example above, if you paid $60.00 each month instead of $50, it would take you 8 years and 4 months to pay off your $3000 and cost you $2,947 in interest charges.[1]

Develop a plan

To reduce your credit card debt you need to plan how you want to do it. First, gather all your credit card bills together and complete the table on page one.

Then look at your different debts and set priorities for your repayments. Which debt will you pay first? Choose strategies from those discussed. Once you have a plan, you are on your way to reducing your debt.

[1]This was calculated using PowerPay and assuming a minimum payment.

Choose strategies to cut your debts as soon as possible

- ***Pay high-rate cards first***
  At higher interest rates, more of your monthly payments go toward finance charges. Quickly paying off balances on your credit cards with high rates can free up cash to pay other bills.

  OR

- ***Pay off cards with the smallest balances first***
  Paying off cards with small balances gives you extra money to pay on the bigger balances.

- ***Make PowerPayments***
  Once you pay off a bill, next month add the amount you've been paying to the check you write to your remaining creditors. For example, let's say you pay $30 a month to Sears. Once it is paid off, you add $30 more to the check you write for your VISA account. Then when you've paid off VISA, add that amount, including the $30 from the Sears account, to the check you write to pay your MasterCard amount, and so on until all the accounts are paid in full.

  The PowerPay computer program calculates the savings made when you make PowerPayments in three scenarios 1) paying off creditors with the highest interest rates first, 2) paying off creditors with the lowest balances first, and 3) paying off creditors with the shortest terms first. PowerPay can also customize repayment schedules or add an additional amount should extra money become available. The PowerPay software is available at all USU Extension offices or you may buy it from the Extension Bulletin Room at Utah State University for $20 (including shipping). Order from the

Extension Bulletin Room, 8960 Old Main Hill, Logan, UT 84322-8960.

- ***Stop making new charges***
  If you have to, have a "plastic surgery party" and cut up all your cards, hide them, or lock them in a drawer.

- ***Stay flexible***
  The key to sticking to your debt repayment plan is to stay flexible. If you find that you set unrealistic spending limits in the beginning, revise your spending plan the next month.

- ***Get a cheaper credit card***
  Find one or two low-rate cards and cancel all the others. Switching from a high-rate credit card to a low-rate card can easily save you $200 or more a year.

It isn't easy to reduce credit debt and meet all your other obligations at the same time. Just remember, you eat an elephant one bite at a time.

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Issued in furtherance of Cooperative Extension work, Acts of May 8 and June 30, 1914, in cooperation with the U.S. Department of Agriculture, Jack M. Payne, Vice President and Director, Cooperative Extension Service, Utah State University, Logan, Utah. (EP/DF/11-01)