



# Credit Card Smarts

Fact Sheet 10

*The disadvantage of credit use is losing financial flexibility in managing your money. Credit use today ties up money you earn in the future.*

## Get Rid of Credit Card Debt

Using a credit card is an important responsibility. A good credit history can help you get a job, make major purchases, and accomplish many short and long-term goals. A poor credit history can make it harder for you to rent an apartment, buy a car, or fulfill a dream. It is important to know how credit can change your spending power and how you can recognize the danger signs of credit and avoid serious problems.

The greatest disadvantage of credit use is losing financial flexibility in managing your own money. For example, if your credit card debts take 10 percent 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 build 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.

### Prioritize Repayments

The next step is to be sure you can make the minimum payments on your credit cards. Look at your spending and make cuts where you can to find the money to pay your credit card bills. If you have trouble doing that, the National Foundation for Credit Counseling (1-800-388-2227) or Myvesta.org (1-800-698-3782) can help.

Credit card companies require a minimum payment each month. If you pay only the required minimum payment, it can take a very long time to clear your balance. For example, if you have a \$2500 balance at 21% interest and you pay 2% of the remaining balance each month (a typical minimum payment), it will take you more than 63 years to pay off your debt. It would cost you \$14,699 in interest charges.<sup>1</sup>

Plan to do more than just pay the minimum. If you pay \$50 each month for the example above, it would take you 10 years to pay off your \$2500 balance and cost you \$3493 in interest charges.

Download other *Credit Card Smart* fact sheets at:  
<http://uiedev.extension.uiuc.edu/creditcardsmarts/>



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## Develop a Plan

To get rid of your debt, you need to plan how you want to do it. First, gather all your credit card bills together and complete the chart below.

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

<sup>1</sup> This was calculated using PowerPay and assuming a \$10 minimum payment.  
<http://powerpay.org>

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For more information on credit, see other *Credit Card Smarts* fact sheets. Related fact sheets are "Decide How Many Credit Cards You Need" and "Decide How Much Credit Is Too Much."

## Choose strategies to cut your debts as soon as possible.

**Pay High-rate Cards First** – At higher interest rates, more of your monthly payment goes toward finance charges. Quickly paying off balances on cards with high rates can free up cash to pay other bills.

**Pay Off Cards with the Smallest Balances First** – Paying off cards with small balances gives you extra money to pay on the bigger balances.

Once you pay off a bill, next month add the amount you've been paying to pay on one of your remaining creditors. For example, let's say you pay \$35 a month on your J.C. Penney's account. Once it's paid off you can start paying \$35 to your VISA account. Then when you've paid off your VISA, add that amount, including the \$35 from the Penney's account, to pay your MasterCard account, and so on until all the accounts are paid in full.

**Stop Making New Charges** – If you have to, cut up your cards, hide them, or lock them in a drawer.

**Stay Flexible** – The key to sticking to your credit card 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.

Credit Card	Account Number	Amount Owed	Minimum Payment	Interest Rate