

# DCC DOLLARS & SENSE

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## Good News and Bad News

*Special points of interest:*

The bad news for consumers is that monthly credit card minimum payments are increasing, and for tight budgets, this can be difficult. The good news; (and yes it can be both good news and bad news) consumers will be forced to

make headway in their debt repayment.

Due to the low minimum payment requirements now in place, cash is freed up and many consumers carry their balances from month to month. Unfortunately by paying off a big debt each month with small payments, a person can turn a \$1,000.00 debt into a 22-year commitment, costing them thousands in interest.

Consumers will no longer be able to maintain balances on credit cards, for an indefinite amount of time. Monthly credit card minimum payment requirements are about to increase, and in many cases double.

It has long since been the philosophy of credit grantors that the less a consumer needed to pay, the more they would spend. Many Americans incur credit card debt based on whether or not they can afford the minimum monthly payments, rather than basing their purchases on their income and expenses. The philosophy of low minimum payback rates, typically 2-2.5% of the outstanding balance, has caused consumer debt to increase to approximately \$10,000 per household.

In an attempt to reduce the increasing consumer debt load, the Office of the Comptroller of Currency (OCC) is putting pressure on banks to raise the minimum payment requirements. The OCC has recommended to lenders that all finance charges, fees and a portion of the principle balance be paid each month. These changes are expected to take place over the next 12 months.

MBNA, Citibank and Bank of America have announced they are doubling minimum monthly payments on credit card balances from 2% to 4%, and

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many other banks are expected to follow suit. Some lenders are using the guideline of all finance charges and fees and then simply adding 1% of the outstanding balance to equal the monthly payment requirement.

Also among the changes, consumers will be able to see their amortization schedule on every statement detailing the length of time it will take to repay the full outstanding balance at the current minimum payments. The amortization schedule would show amounts paid towards interest and principle with each payment, as well as in total.

If making larger minimum payments, does not severely impact your current monthly budget than it's a good thing. Keep in mind that if you pay only 2% minimum each month, your debt could last a long time. For example, consider an account with a \$2,000.00 balance, and a 15% Annual Percentage Rate. At 2% of the outstanding balance paid each month, will take 13 years and 11 months to pay off with a total of \$2,126.99 paid in finance charges. The same account, at 4% will take 6 years and 7 months to pay off with a total of \$737.11 in interest paid. In this scenario, the change would have cut the payoff time by 7 years and 4 months, and saved over \$1,000.00 in finance charges.

Once this payment increase goes into effect, the goal for the consumer will be how to come up with the extra cash to

meet the new minimums. Here are few tips that could help you find the necessary funds;

1) Pay less to Uncle Sam. In 2004, 80% of taxpayers received a tax refund -- on average of \$2,400. By adjusting your withholdings (exemptions), you can keep that money in your own pocket and put an extra \$200 a month toward your debt.

2) Curb your spending. Even small changes, taking your lunch every day or cutting down on DVD rentals can free up to 10 to 15% of your income. To find expenses that you can save, track your spending for seven days. You might be surprised how small expenses can add up.

3) Control your credit spending by taking every credit card out of your wallet except for one only for use in an emergency. Lock the credit cards away or give to a trusted friend.

The most important thing that you can do is to begin to live more in line with your actual household income each month. Before you make a purchase with your credit cards in the future, make sure you have a plan to pay the balances in full, in a reasonable amount of time.