

### That Credit Card(s) is Going to Cost You More



Although new federal legislation affects almost every American household, it has not been widely publicized. Credit card companies are quietly raising your minimum payment from 2% to 4%.

Under the Bankruptcy Abuse Prevention and Consumer Protection Act of 2005, the minimum monthly payment on credit cards must include all of the interest and a portion of the principal each month. Although these guidelines were approved in 2003 by the US Treasury Department, many of the credit card companies are just now beginning to implement them.

The new federal legislation also will require credit card companies to include a warning on monthly credit card statements that informs consumers about the length of time they will be in debt if they make only the minimum payment.

According to an example by one financial publication, if you have a \$5000 credit card balance at an interest rate of 13.5% and a minimum payment of 1.67%, it will cost you \$9538 in interest and take 41 years to pay off. A higher interest rate of 19.8%, but a minimum payment of 3%, will cost \$5858 in interest and take only 21 years to pay off. New payments are required to cover all fees and interest and pay down at least some of the outstanding credit card principal.

The average credit card debt per American household is \$10,000. While lower credit card payments have encouraged us to spend, it has also increased our consumer debt. Increased minimum payments will probably force consumers to take a

second look at what they can afford and they will probably start carrying less debt.

If you're one of the many people who live paycheck to paycheck and will find it difficult to afford the increased payment, make every effort not to default on your credit card payment. This will lead to more problems, including calls from debt collectors. Call the credit card company to see if you can negotiate a lower repayment arrangement.

Here are a few other suggestions to help you make those payments:

- Look at how much you are withholding from each paycheck. Many people withhold more from each paycheck so they can receive a nice refund at tax time. It may be that you could withhold less and have more money each month instead of at the end of the year.
- Find ways to curb your spending. Take your lunch to work instead of eating out or perhaps delay buying that new pair of shoes.
- Before filing for bankruptcy, talk to a credit counselor—a requirement for bankruptcy filers under the new law.
- Take all credit cards, except one, out of your wallet and lock them away but be sure to keep payments current on ALL cards.

While this may present an initial hardship, this move will enable you to pay off your credit card debt faster.

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