Using a Credit Calculator (Key)

We are going to use a credit calculator to compare how much interest an individual will pay and the length of payments. You will look for a credit calculator on the Internet. You might use www.bankrate.com/creditcards or www.creditcards.com/calculators.

Scenario: You have maxed out your credit card with a $2,000.00 limit in six months’ time. You have decided you will not use this credit card again until the total is paid off. Your interest rate on the credit card is 21 percent.

If you are making minimum payments (4%), how long will it take you to pay this credit card debt off? Eight years and four months
How much will it cost you in interest? $1,386.40
How much is your monthly payment? $80.00

You decide that is a long time and a lot of interest. You are paying over 50% in interest. You need to try to pay this off faster. You are going to change the payment to 6%. How will this change things?
It will take five years seven months to pay off the debt with payments of $120.00 a month, and it will cost you $768.79 in interest. How much has this reduced the interest? $617.68

Let’s suppose you get a really good job and you say, “I can afford a larger payment, and I don’t like this credit card debt hanging over my head.” You decide you are going to pay 10% on the credit card.
How much is your monthly payment? $200.00
How long will you pay on the debt? Three years and five months
How much will you pay in interest? $408.79
How much will you save in interest compared to when you made the minimum payment of 4%? $977.68

What conclusions can you come to from doing this comparison? Making more than the minimum payment can shorten the loan term and reduce the amount you are spending in interest.

Most people do not stop charging on their credit cards. What would happen if you continued to charge on the card when you paid it below the credit limit? You would never pay off the credit card, and the amount you pay in interest would continue to increase.

What might you conclude about the use of credit cards? Credit cards should be limited for emergency use only, and the borrower should attempt to pay off the balance as quickly as possible.