Using a Credit Calculator

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? ________________
How much will it cost you in interest? ______________________
How much is your monthly payment? ______________________

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 ________________ to pay off the debt with payments of ________________ a month, and it will cost you ________________ in interest.
How much has this reduced the interest? ________________

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? ________________
How long will you pay on the debt? ________________
How much will you pay in interest? ________________
How much will you save in interest compared to when you made the minimum payment of 4%? ________________

What conclusions can you come to from doing this comparison?
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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?
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What might you conclude about the use of credit cards?
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Interest: What Does it Mean?
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