

# [Credit card debt analysis](https://assignbuster.com/credit-card-debt-analysis/)

1. Most credit cards require that you pay a minimum monthly payment of two percent of the balance. Based upon a balance of $5, 270. 00, what would be the minimum monthly payment (assuming no other fees are being applied)? In order to find out what the minimum monthly payment would be we would have to Multiply the minimum monthly payment percentage with the balance. 2% x $5, 270. 00 = 0. 02 x $5, 270. 00 = $105. 40.

2. Considering the minimum payment you just calculated, determine the amount of interest and the amount that was applied to reduce the principal. To determine the amount of interest and the amount that will be applied to reduce the principle we must use the formula, I = Prt. I = interest, P = is the principle or the balance, r = is the annual percentage rate, and t is the time frame. So, we will let P = $5, 270, r = 15. 53%, t = 1/12 (1 represents one month out of 12 months). I = (5, 270)(. 1553)(1/12) = $68. 20 , this is what the interest would be. This means that I would be paying $68. 20 towards my interest. In order to find out the amount that is being applied to reduce my principal I subtract my interest from my minimum payment.

$105. 40 – $68. 20 = $37. 20 This means that only $37. 20 is going towards my actual balance. 3. Consider one of your credit cards. What is the balance? How is the minimum monthly payment determined? What would be the minimum payment? How much of the minimum payment goes towards interest? How much of the minimum payment goes towards the principal? The balance of my American Express Card is $1, 233. 00. My APR (annual percentage rate) is 6%. They require me to pay a minimum monthly payment of 3% of the balance. My minimum monthly payment is $36. 99. This is determined by multiplying my balance and the percentage of my minimum monthly payment. $1, 233 x . 03 = $36. 99.

To determine how much of my payment goes towards my interest I must use the formula I = Prt. I = interest, P = is the principle or the balance, r = is the annual percentage rate, and t is the time frame. So, we will let P = $1, 233, r = 6%, t = 1/12 (1 represents one month out of 12 months). I = (1, 233)(. 06)(1/12) = $6. 17 , this is what the interest would be. This means that I would be paying $6. 17 towards my interest. In order to find out the amount that is being applied to reduce my principal I subtract my interest from my minimum payment.

$36. 99 – $6. 17 = $30. 82 This means that $30. 82 is going towards my actual balance. 4. Are there other charges that the credit card company is applying to your account? Are you receiving a special rate for a limited time? Does your card charge an annual service charge or an inactivity fee? In examining my credit card bill and agreement I did not find any additional charges such as an annual service fee or anything. However, I did notice that my APR of 6% is a fixed rate which is a very good thing. If I had a variable rate it could mean that my APR could increase at any moment and I would never have a constant rate.

This would not only make my minimum payment higher, but less would go towards my actual balance and overall it would take me much longer to pay of my balance. 5. Examine a credit card bill (or other revolving debt) and see how long it will take to pay off your debt if you paid only the minimum payments. What steps could you take to pay off this credit card (or debt) sooner? Determine the percentage of the principal that you need to pay down in order to pay off the credit card in the time frame of your choosing. As I already mentioned earlier my balance for my American Express card is $1, 233. I also determined that my minimum payment is $36. 99 and that my interest was $6. 17, and that $30. 82 would be going towards my actual balance.

With that being said if I only paid the minimum payment of $36. 99 it would take me about 33 months to pay off my balance which is almost 3 years. $1, 233/$36. 99 = 33. 33 If I wanted to pay of my debt sooner the best thing for me to do is to send more the minimum payment. I want to make sure I send enough to cover what is not being put towards my balance. So, since I know that $6. 17 will not be going towards my balance I could choose to add an extra $6 or $7 to make up for that loss. So if I chose to add an extra $7 to my minimum payment it would bring my total up to $43. 99. $36. 99 + $7. 00 = $43. 99

However, if I want to be able to pay my debt off in two years or less I have to increase my minimum payment by at least $55 or more. If I were to make a minimum payment of $55 a month it would only take a little less than 2 years to pay it off. $1, 233 / $55 = 22. 49

Overall, the more I could afford to pay on my balance the better and the faster my debt would be paid off. 6. Many Americans find themselves amassing large amounts of credit card (or other revolving) debt at an early age. What advice concerning the use of credit cards and the fees they charge would you provide to a young adult planning on getting a credit card? If possible I would advise any young adult planning on getting a credit card not to. This could be the beginning of long road to being consumed by debt. However, it is necessary for the purchases of certain items and personal emergencies.

With that being said I think that one of the most important things that they should pay attention to is the APR that the credit card company is offering. The higher the APR, the longer it will take for you to pay off your balance, and the less your minimum payment will be going towards your actual balance. Another thing to pay attention to is whether one’s interest rates are fixed or variable. A fixed interest rate given on loan will remain the same throughout the entire process. For example, if my interest rate was fixed at 8. 5% it will remain 8. 5% until I am done paying off my balance. As for a variable interest rate, it will vary as market interest rates change. This is something you want to be careful with because it can cause confusion and payment issues.

Credit card companies may try to deceive you starting you out with a low interest rate of 3. 8% but as interest rates in the market change it could increase each month going up to 10% or even higher. It would not only take you even longer to see a decrease in your balance, but often we get credit cards thinking we are able to afford the minimum payment and so forth. However, as the interest rate increases so will the required minimum payment making it more financially difficult to make the payments or even miss payments. One last thing to look for would also, be any hidden annual fees or inactivity fees. Sometimes they may not mention it but it will be in the contract or paperwork stating that an annual fee will be added to your balance or that you will be charged a certain amount if your card hasn’t been used in a certain period of time. Read the fine print! You always want to make sure before you make a commitment, after all it’s your money, spend it wisely.