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A Bit Of Things To Help Consumers With Credit Card Debt

How many charge cards do you have in your wallet? What are they costing you? The average American has five or six. That includes bank cards like Visa or MasterCard, department-store cards, gasoline cards and general-purpose cards such as American Express. If each credit card has a \$2,000 line of credit, that means we have \$10,000 - \$12,000 in credit available to us, on average.

Consumer debt in the United States is at an all-time high. Household spending is rising faster than household income. That means Americans are borrowing more and more money to finance their spending habits, a lot of it by using charge card accounts. Even though annual percentage rates are at a 40-year low, credit card account interest is still comparatively high. Those low interest introductory offers you hear about are usually only for six months or a year. Then the annual percentage rate increases to the market rate.

Unfortunately, we have gotten utilized to whipping that piece of plastic out of our pockets for any little purchase we want to make without much thought to the consequences. Good cash managers try to use credit card accounts just to pay for emergencies or large expenses, like a big auto repair bill, for which they do not have enough savings. If we have maxed out our charge card account limits by making lots of little, nonessential purchases, we may not have the credit capacity to take care of those emergencies or big, but necessary, expenses.

On top of that, most of us have two other charge card problems. First, we only have enough disposable income to make the minimum payments. Second, charge card annual percentage rates do not necessarily change much when market APRs change.

How much is all this credit costing you? For the sake of simplicity, let's just look at one card. Let's say you have a balance of \$3,000 on one of your bank charge cards and the annual percentage rate is 19%. You have to make a minimum payment of 2.5% of the balance every month. A pretty typical scenario. If you do not make another charge on your card, that payment is \$75 per month. Of course, that minimum payment will drop every month as you pay down your debt, as long as you never make another charge on that card. What if you just pay the minimum month by month as it goes down from \$75 to \$69 in 10 months and to \$62 in 20 months and so on? If you just make that minimum payment month after month, it will take you a shocking 283 months to pay off that one debt--more than 23 years. Making just that minimum payment each month will have cost you \$4,729.44 in interest.

Multiply that by four or five more charge cards and most of us would have a credit problem. If you decide you can set aside \$100 every month to pay off that \$3,000 debt, you will have your charge card paid off in 42 months and the interest expense to you will be \$1,101.73. That is shaving more than 20 years off your debt repayment and over \$3,000 in interest expense.

Look at your credit card account balances, APRs, and minimum payments. Pick one, preferably the one with the highest APR, and start paying off that debt with as much as you can reasonably afford per month. Then move on to the next one. In the meantime, try to use your credit cards only for necessities and emergencies. You will pat yourself on the back someday for your good cash management.

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