

Credit Cards: The Cost Is Not Only the Balance

In a perfect world, most of us would pay off our entire credit card balances within the allotted grace period (usually 20 to 25 days from the end of the monthly billing period). However, it's easy to get caught in the midst of the credit card trap and paying the balance off every month is just not going to happen.

This is where credit cards can get you. That's when the interest costs set in.

While the convenience and free credit feature of credit cards make them potentially useful to everyone, many consumers run up large unpaid balances on their card accounts and continually make sizeable interest payments. The card issuers make this easy by asking that the cardholder make only a minimum monthly payment, which is usually far less than the unpaid balance.

This minimum payment can be little more than enough to cover the finance charge of the previous month and 1 or 2 percent of the principal.

Making only the minimum payment ensures that it will take a long time to repay the debt and guarantees the card companies a hefty return in interest payments. Occasionally, often right after Christmas, credit card companies encourage consumers to "take a payment holiday" and skip a month's payment. The interest charges, of course, often accrue on the unpaid balance, making it a very expensive holiday for consumers when they eventually have to pay the bill, with additional interest.

In summary, avoid carrying a balance on credit cards, but if you do end up carrying a balance, make it a priority to pay it down. If you have more than one credit card carrying a balance, pay the minimum on the cards with the lowest APR and concentrate on eliminating each credit card, one at a time, starting with the card with the highest APR.