

Credit Card Minimum Payments Doubling? IndexCreditCards.com Says It Ain't So

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Cleveland, OH (PRWEB) December 15, 2005 -- While “Credit Card Payments to Double” makes an attention-grabbing headline, the truth about upcoming changes in credit card payments is much less ominous, according to financial information site IndexCreditCards.com.

Many media outlets have reported that come January 1, 2006, credit card customers who are currently required to pay 2% of their credit card balances monthly will have to pay 4%. According to these reports, this could mean a serious financial hit for those suddenly required to pay double.

“Fortunately, that’s rarely going to be the case,” says Justin McHenry, Research Director for IndexCreditCards.com. “While the government is requiring credit card companies to increase monthly minimum payments, the goal is to help credit card customers pay off balances without undue hardship.”

Specifically, where most credit card issuers previously required customers to pay off 2% of their outstanding balances each month, most will now require customers to pay all monthly interest and fees, plus 1% of the outstanding balance.

What does that mean for monthly payments? Significant monthly increases will occur in only the most extreme cases, those in which very large credit card debt is combined with very high interest rates. Even then, the result is not as scary as you may think.

For example, imagine a person with a \$10,000 credit card debt and a 19% annual interest rate, both higher than the average consumer is carrying. Using the 2% minimum balance calculation, this person would have a required monthly payment of approximately \$203.16. Under new requirements, the monthly payment would be \$258.33 (\$158.33 in interest, plus \$100 of the outstanding balance). This is a difference of roughly \$55 – on a balance and interest rate that exceeds what the average consumer is carrying. Most credit card customers will have much smaller minimum payment increases, if any.

“Unless a credit card company has specifically announced raising their minimum payment from two to four percent, it’s almost impossible to think of a realistic scenario in which payments will double,” says McHenry.

The upcoming change in minimum payments is a result of guidance from the government’s Office of the Comptroller of the Currency, which told banks they must require minimum payments that allow customers to pay off their debts in a reasonable amount of time. Under the current industry standard two percent minimum payment, customers with high balances can conceivably “meet the minimum” without even paying off a full month’s interest, much less taking a chunk out of the principal balance.

“While ‘this is for your own good’ generally should be met with skepticism,” says McHenry, “in this case it’s true.”



About IndexCreditCards.com

IndexCreditCards.com offers credit card news, research, and perhaps the most comprehensive index of credit cards available on the Internet today, with a master listing of over 600 credit cards as well as categorized lists based on interest rates, reward programs, business credit cards, student credit cards and credit cards for those with poor credit histories.

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