

You've Got This

Five Ways to Get Out of Credit Card Debt Faster

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Almost half of Americans who have credit cards (47%) don't pay off their balance in full each month, according to a new NerdWallet survey. And over the past five years, carrying a balance has gotten significantly more expensive, with the average credit card interest rate rising 35% since 2014, from 12.74% to 17.14%. Even with the recent rate cut by the Federal Reserve, credit card interest rates remain near post-recession highs. Paying your balance in full avoids interest entirely, but not everyone is in a position to do that.

For Americans with credit cards, 77% surveyed said they have paid interest at some point. The next best thing is minimizing the interest you pay, leaving you more money to pay down your debt more quickly. Here are five easy things you can do to cut your interest costs and get out of debt faster.

1. Learn your interest rates and pay off highest-rate cards first

Almost 2 in 5 Americans with credit cards (38%) say they don't know all the interest rates on their cards, which can cost them when they're deciding how to pay off their balances. To save the most money and eliminate your debt in the shortest amount of time, pay off your cards in order of annual percentage rate. Make the minimum payment on each card, then put all your leftover money toward the card with the highest rate.

Let's say you have three credit cards and can afford to allocate \$150 a month to pay them off:

- Card A: \$3,000 balance, 20% APR, \$60 minimum payment
- Card B: \$2,000 balance, 18% APR, \$40 minimum payment
- Card C: \$1,000 balance, 15% APR, \$20 minimum payment

The minimum payments on these cards add up to \$120, leaving you an extra \$30 to start. If you used that extra money to pay off the cards in order of interest rate, highest to lowest, you would end up paying a total of \$3,316 in interest. By contrast, if you decided to pay off according to balance — lowest to highest — you would pay \$3,588 in interest. This means a savings of \$272 in interest costs, just by paying the cards off in order of interest rate. The more you owe, the bigger the impact with this debt payoff method.

2. Double your minimum payment

More than 1 in 10 Americans who have credit cards (11%) make only the minimum required payment. Minimum payments are enough to cover the interest on your account, so they can keep you from falling behind, but they don't get you much closer to eliminating your debt. One simple way to make a huge impact is to pay double the minimum. Say you owe \$2,000 on a credit card with a 20% APR and a \$40 monthly minimum payment. If you could find an extra \$40 in your budget and you paid \$80 each month, you would save \$1,727 in interest and get out of debt more than six years faster.

3. Apply any extra money in your budget to your payment

Credit card interest rates are likely to drop following the Fed's action. Close to half of American cardholders who ever pay interest on a credit card (44%) say they would put any money they saved on credit card interest toward reducing their actual credit card debt. This is a wise use of that money because even small additions to your credit card payment can add up to big savings.

Say you owe \$5,000 on a credit card with an 18% APR and a minimum payment of \$100. It would cost you \$4,311 in interest if you just paid the minimum. But what if you cut your monthly expenses by \$25 and made a \$125 payment each month instead? You would save \$1,618 in interest charges and almost three years of payments. If you could find an extra \$50 in your monthly budget, you would save \$2,328 in interest and pay your debt off four years faster.

4. Split your payment in half and pay twice

Credit card interest isn't calculated based on how much you owe on the due date or at the end of a billing period. Instead, if you carry a balance from one month to the next, your interest is based on your average daily balance. Because of this, making smaller payments more frequently can reduce the amount of interest you owe.

Let's say you owe \$4,000 on your card and you can afford to pay \$500 a month. If you make that \$500 payment on the 25th day of a 30-day billing cycle, your average daily balance would be \$3,900. But if you make two payments of \$250, one on the 10th day and another on the 25th day of the billing cycle, your average daily balance would be \$3,775. Therefore, you would be accruing interest on \$125 less than you would be if you made only one payment. The more months you do this, the more savings you'll enjoy.

5. Transfer your balance to a 0% credit card

If you have good credit — generally a credit score of 690 or higher — you may be able to transfer your balance to a credit card with a 0% introductory rate that lasts 12 to 18 months. With no interest to worry about, you can focus on whittling down the core debt as fast as possible. In general, you can't transfer debt among cards from the same issuer — for example, you can't transfer a Chase balance to another Chase card. Most cards charge a fee of 3% to 5% of the amount transferred, although a few cards don't charge a fee for balances moved within a certain time frame. If you choose this route, make a plan to pay off your full balance before the introductory period ends to avoid accruing interest charges.