



Q. How **long** does it
take a college student
to pay off a \$5,000
credit card balance?



A. Over 39 years.

Look how long it takes to pay off a credit card debt of \$5,000, if your interest rate is 18% APR and you make a minimum monthly payment of 2%.

Annual Percentage Rate	18% APR	10.9% APR
Outstanding Balance	\$5,000	\$5,000
Minimum Payment	2%	2%
Years to Pay Off	39.3	19.9
Total Paid to Credit Card	\$18,397	\$8,791
Total Paid in Interest	\$13,397	\$3,791

The above figures were calculated with a minimum payment amount not less than \$15.



Whether you're in college or headed for college, here's a quick cram course that can keep you from getting trapped by credit card debt. Even if you don't major in statistics, you've got to love these:

- 84% of all college students have at least one credit card.
- Average balance: \$3,173.
- Seniors graduate with an average of \$4,100 in credit card debt.

But let's say you're slightly above average. And you run up \$5,000 on your card. Know how long you'd have to work to pay it off? If you make the minimum monthly payment, which is usually around 2% of the balance, and you're paying 18% APR (a typical interest rate for many student cards), it could take you over 39 years. And that's 39 years too long.

Why the minimum payment causes maximum pain

Let's do the math. It's simple. And punishing. Because paying off \$5,000 can cost you as much as \$18,397—including \$13,397 in interest. (Interest is the cost of borrowing over time.)

When your monthly statement comes, you'll see a little box showing a minimum payment of about \$100. That's 2% of a \$5,000 balance. You might think paying \$100 would lower your balance by \$100. But it doesn't because you're still paying 1.5% interest each month (based on an 18% annual percentage rate). And that's \$75. So you end up paying off only \$25 of your balance.

The next month, the statement arrives and surprise—it shows you owe \$4,975. You've barely made a dent in the balance. Pay 2% of that, or \$99.50, and you're actually paying off only

\$24.37 of your balance. And so on. For 39 long years.

Even with a Tower MasterCard®, which carries just a 10.9% APR, it would take almost 20 years to pay off a \$5,000 balance—if you kept making only the minimum payment.

Avoid the minimum payment trap

The best way to escape the credit card trap is to never fall for the minimum payment temptation. Because credit card debt is the hardest student loan to pay back. Each month, pay off your balance in full. You'll discover that making the maximum payment inflicts the minimum pain in the long run. If you enter college with a zero balance, exit with a zero balance. It's a smart start on your credit rating—and your career.

For more information, go to towerfcu.org

Our Web site is a good place to learn the basics about what it costs to carry a credit card. We've done our best to give you factual information in clear, straightforward language. If you have a specific question, ask a Tower representative at any Tower branch.

Other resources that can help

federalreserve.gov/creditcard

The U.S. Federal Reserve provides very good financial help for consumers. Use their Web site for accurate information.

bankrate.com

For everything that has to do with money.

balancepro.net

Comprehensive financial education and counseling services.

ftc.gov/idtheft

Provides identity theft information and how to avoid becoming a victim of it.



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As a **college graduate**,
you're entitled to a crushing
credit card debt.



Having a college degree virtually assures that you'll be barraged by credit card companies offering you cards with hefty credit limits. Combine your diploma with a good job, and it's easy to get a \$5,000 limit. What isn't easy is paying off a \$5,000 balance.

The lower your payment, the higher your pain

The trap is making only the minimum payment. The statement comes and you see a figure identified as your minimum monthly payment. You write the check and think you're paying your bill. But what you're really doing is starting to pile up a mountain of interest, month by month.

If you're paying 18% APR, a typical rate, and make only the minimum monthly payment, usually around 2% of the balance, it could take you almost 40 years to pay off a \$5,000 balance. And along the way, you'd be paying \$13,397 in interest.

And that's if you never charge another single thing. Here's why. Your \$100 minimum payment doesn't lower your balance by \$100. In the first month, \$75 of it goes just to pay the interest. So you end up paying off only \$25 of your balance.

Even if you carry a Tower MasterCard®, with its 10.9% APR, it could still take you almost 20 years—though you'd pay “only” \$3,791 in interest. Did we say “crushing”?

Pay more than the minimum payment

The interest on your credit card balance never sleeps. Every day the interest accrues and sinks you deeper in debt. Just look at what paying only the minimum payment really means:

Annual Percentage Rate	18% APR	10.9% APR
Outstanding Balance	\$5,000	\$5,000
Minimum Payment	2%	2%
Years to Pay Off	39.3	19.9
Total Paid to Credit Card	\$18,397	\$8,791
Total Paid in Interest	\$13,397	\$3,791

The above figures were calculated with a minimum payment amount not less than \$15.

Good financial management is pain management

The best way to avoid all this is simple. Not easy, but simple.

Lesson 1: Never fall for the minimum payment temptation in the first place. Charge something one month, pay it off the next when the bill arrives. In full. Walk around with a zero balance. Pay zero interest. Feel zero pain.

It's a good life. Enjoy it.

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The cruel **trap** of student
credit cards.

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Annual Percentage Rate	18% APR	10.9% APR
Outstanding Balance	\$2,000	\$2,000
Minimum Payment	2%	2%
Years to Pay Off	24	13
Total Paid to Credit Card	\$6,397	\$3,294
Total Paid in Interest	\$4,397	\$1,294

The above figures were calculated with a minimum payment amount not less than \$15.

If you're a college student or a parent of one, here are some cold hard facts of credit card life. Most college students (84%) have a credit card. Average balance: \$3,173. But let's say you're below average. And you run up only \$2,000 on your card. Know how long you'd have to work to pay it off?

If you make the minimum monthly payment, which is usually around 2% of the balance, and you're paying 18% APR—a typical interest rate for many student cards—it could take you over 24 years. And instead of paying back \$2,000, you'll be paying back \$6,397. What's the additional \$4,397 for? Interest.

Avoid the minimum payment trap

Even with a Tower MasterCard®, which carries just a 10.9% APR, it would take over 13 years to pay off a \$2,000 balance—if you kept making only the minimum payment. The best way to escape the credit card trap? Never fall for the minimum payment temptation in the first place. Each month, pay off your balance in full. You'll discover that making the maximum payment inflicts the minimum pain in the long run. For more information, go to towerfcu.org or visit any branch.

**For more information,
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Don't make a **career**
out of paying off your
credit card.

Imagine you're a single mom with two kids, a mortgage, and a demanding career. You're constantly juggling carpool, daycare, soccer practice, and an unpredictable work schedule. Your son needs braces, your daughter wants ballet lessons, and you're desperate for a vacation.

Then one day your credit card company increases your spending limit to \$10,000. You think—just in time! Or is it? Before you know it, you've over-extended yourself and can't make ends meet. The only alternative is to take a second mortgage on your house—if you can get it. Could never happen to you?

Unfortunately, far too many U.S. families fall into this trap. Average household credit card debt was \$10,679 at the beginning of 2009. If you're not already in this deep, maybe you can avoid it.

Pay more than the minimum payment

The interest on your credit card balance never sleeps. Every day the interest accrues and sinks you deeper in debt. Most credit cards only require the minimum monthly payment, which is usually 2% of your outstanding balance. Just look at what paying only the minimum payment really means:

Annual Percentage Rate	18% APR	10.9% APR
Outstanding Balance	\$10,000	\$10,000
Minimum Payment	2%	2%
Years to Pay Off	50.75	25.2
Total Paid to Credit Card	\$38,397	\$17,951
Total Paid in Interest	\$28,397	\$7,951

The above figures were calculated with a minimum payment amount not less than \$15.

How To Avoid The Credit Card Trap

Follow these simple guidelines to avoid the pitfalls of credit card debt and create good credit at the same time.

- Know your financial limits and don't go beyond them. Only charge items that you can pay off each month.
- If you already carry a balance, bring it down by paying as much as you can afford—always more than the minimum payment. Then keep your balance as low as possible.
- Shop around before accepting a credit card offer. Compare Annual Percentage Rates (APR). They average around 13.5% and could climb to 30% or more.
- Watch out for fees and charges. Read the fine print and change notices. Again.
- If you are making payments on several credit cards, consolidate them into a single card with a low Annual Percentage Rate.

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