**Day 24 Paying Off Credit Cards**

*Read directions carefully.*

**Use the following information for all the Scenarios below:**

You owe $4050 on a credit card and decide to not make any more purchases and just pay down the balance. You have no annual fees on the card or monthly charges. ***Round*** all monthly payment amounts to the nearest dollar.

**Scenario 1 – Low interest rate – Your credit card has an annual interest rate of 10%.**

Use the calculator at <http://www.bankrate.com/calculators/credit-cards/credit-card-payoff-calculator.aspx>  to calculate how long it would take to pay off your credit card. Fill in the missing information in the table.

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **Monthly payment**  | **Months to pay off** | **Years to pay off** | **Total amount paid****(show calculations)** | **Total interest paid (show calculations)** |
|  | 24 |  |  |  |
|  | 72 |  |  |  |
| $120 |  |  |  |  |

1. How much more per month do you have to pay if you want to pay off the balance in 2 years instead of 6 years? *Show your work.*
2. How much money do you save by paying off the balance in 2 years instead of 6 years? *Show your work.*

You decide to only make the minimum payment on your credit card. Use the **Minimum Payment Calculator** at: <http://www.creditcards.com/calculators/> to calculate how many months it would take to pay off the balance by paying only the minimum payment. Use 2% for the percentage of balance and $15 for the minimum dollar amount. Complete the table below:

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **Monthly payment**  | **Months to pay off** | **Years to pay off** | **Total amount paid****(show calculations)** | **Total interest paid**  |
| minimum |  |  |  |  |

1. How much more in interest do you pay when you pay only the minimum payment compared to paying $120/month? *Show your work.*

**Scenario 2 – Average Interest Rate – Your credit card has an annual interest rate of 17%.**

Use the calculator at <http://www.bankrate.com/calculators/credit-cards/credit-card-payoff-calculator.aspx>  to calculate how long it would take to pay off your credit card. Fill in the missing information in the table.

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **Monthly payment**  | **Months to pay off** | **Years to pay off** | **Total amount paid****(show calculations)** | **Total interest paid (show calculations)** |
|  | 24 |  |  |  |
|  | 72 |  |  |  |
| $120 |  |  |  |  |

1. If you want to pay off your balance in 6 years, how much more do you pay in interest with a 17% interest rate compared to a 10% interest rate? *Show your work.*

As before, you decide to only make the minimum payment on your credit card. Use the **Minimum Payment Calculator** at: <http://www.creditcards.com/calculators/> to calculate how many months it would take to pay off the balance by paying only the minimum payment. Use 2% for the percentage of balance and $15 for the minimum dollar amount. Complete the table below:

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **Monthly payment**  | **Months to pay off** | **Years to pay off** | **Total amount paid****(show calculations)** | **Total interest paid**  |
| minimum |  |  |  |  |

1. Approximately how many more years will it take you to pay off your credit card bill at 17% compared to 10% if you make only the minimum payments? *Show your work.*
2. Comparing the credit card with a 17% interest rate to the credit card with a 10% interest rate, how much more interest will you pay if you are only making the minimum payments? *Show your work.*

What is the percentage increase of interest paid? *Show your work.*