The Dangers of Making Minimum Payments on Credit

Credit cards are a convenient method to pay for items. They can even be a valuable tool to help build your credit score if they are used correctly. But they can also become a trap if they are misused. Maxing out a credit card can actually hurt your credit since you have a smaller line of credit available to you so it is best to avoid carrying a large balance on your credit card account.

Credit card companies are extremely willing to lend people money and they only require a small minimum monthly payment in return. They are willing to do this because they are making millions of dollars in interest every year from borrowers that are paying the minimum amount on their credit card debt. If the balance on your credit card gets high enough, then the minimum payment might not actually cover the monthly interest that is charged. Paying the minimum amount due can be a costly mistake. Look at the impact of paying the minimum amount due:

<table>
<thead>
<tr>
<th>Amount Borrowed</th>
<th>Interest Rate</th>
<th>Length of time it would take to pay off while making the minimum $20 payment</th>
<th>Interest Paid</th>
<th>Total Amount Paid (principal + interest)</th>
</tr>
</thead>
<tbody>
<tr>
<td>$2000</td>
<td>16%</td>
<td>11 years, 3 months!</td>
<td>$1,722</td>
<td>$4,486</td>
</tr>
<tr>
<td>$5000</td>
<td>16%</td>
<td>17 years, 8months!</td>
<td>$5,151</td>
<td>$10,151</td>
</tr>
</tbody>
</table>

Summer Loan Disbursements Dates:
- Current M2, PA2, & M3 students: 7/3/23
- Current PA1 students: 6/5/23

Fall Disbursement Dates:
- Current PA1, M1 students: August 14

You must have filed your 2023-24 FAFSA in order to receive summer/fall loan disbursements!

Calculating daily, monthly, & yearly loan interest on your student loans

The CARES Act is scheduled to end on June 30, which means that interest will start accruing on Federal Student Loans after that date. Since there has been no interest charged on your loans for the past three years, I thought that it would be a good idea to remind students how to figure out the interest on your student loans.

1. Convert your interest rate into decimal form. Simply multiply the interest rate x 100. (example: 6.54% x 100 = .0654)
2. Multiply your interest rate (in decimal form) by the amount of loans that you borrowed
3. This will give you the amount of yearly interest
4. If you want to know your monthly interest, take the yearly interest (from step 3) and divide it by 12
5. If you want to know the daily interest, take the yearly interest (from step 3) and divide it by 365

<table>
<thead>
<tr>
<th>Amount Borrowed</th>
<th>Interest Rate in Decimal Form</th>
<th>Yearly Interest</th>
<th>Monthly Interest</th>
<th>Daily Interest</th>
</tr>
</thead>
<tbody>
<tr>
<td>$20,500</td>
<td>.0654 (6.54%)</td>
<td>$1340.70/year</td>
<td>$111.725/month</td>
<td>$3.67/day</td>
</tr>
</tbody>
</table>

Seeing this information may cause stress or anxiety, but knowledge is power. I just want you to be aware of this factor when you are borrowing loans—only borrow what you need!