Credit Card Minimums, Bankruptcy Articles, Increased Credit Card Minimums And What They Mean To Consumers And Lenders

The typical American carries a credit card balance each month. In fact, 7% of credit card holders only pay the minimum payment each month. By paying only the minimum payment, it also ensures that the money spend on these debts will eventually reach two to three times the initial purchase.

Credit card minimums to double

Credit card holders who only make the minimum payments will soon be in for a rude awakening. Credit card companies have typically set the minimum payment for credit card balances at 2% of the outstanding balance. However, new guidelines set fourth by bank regulators are going to lead to an increase in these payments. Under pressure from the National Reserve, the minimum credit card payments will soon double. Many banks, including MBNA, Citibank and Bank of America have already announced that they will be doubling their minimum payments. Minimum payments will soon range from 3% to 4% of the credit card balance. The rationale for this increase is that the minimum payments will never satisfy the debt that most people have. By forcing an increase in the minimum payment, it will force the card holder to pay on their principle each month. Under the current structure, the 2% balance barely covers the monthly interest and leaves very little to be applied to principle. This means that most people are just paying their interest each month and making no head way on the principle balance.

What this means for consumers

This is good news and bad news for everyone. The good news is that this new structure will force many people to get out a debt sooner than they traditionally would have. It will force them to make payments on the principle each month that will lead to the elimination of their debt much sooner. However, the down side is that it will double the amount of money that most people will have to come up with each month. If a person has $10,000 in debt, their minimum payment each month would have been $200 under the 2% system. However, under the new system, the borrower will have to come up with $400 a month, or an additional $200 a month. The reality of the situation is that people who can make the increased minimum payments will benefit in the long run from this structure. However, many people live paycheck to paycheck and will not be able to meet the minimum payments and still afford their living expenses. These people will be forced to file bankruptcy or begin to default on their credit card debts or other current monthly obligations, such as utilities, car payments, or housing expenses.

What this means for banks

Banks fear both the short term bankruptcy problem and the long term problem. The long term problem from the banks perspective is reduced profits. The fact that these guidelines were actually passed in 2003, but are only now being implemented illustrates the banking industries fears. Banks realize that they were making more money when people were making only the 2% minimum because the principle was never being reduced. Banks are also aware that when their clients are forced to double their payments, it will force a lot of them into defaulting on their bills. Banks also fear that this new structure will actually force more people into filing bankruptcy. For these reasons, the banks tried to delay this new structure as long as they could.