

## Paying off Your Credit Cards

Credit cards are a part of everyday life in the United States. Everything from toll booth fees to library charges are put on credit cards. Instead of paying with a check or cash, credit cards are used. Credit cards are a convenient alternative to carrying cash. Some consumers, however, frequently use credit cards to purchase things for which they do not have the money. Not too long ago, if a consumer wished to buy an expensive item, he would save in advance of that purchase or use a lay away plan. Now that credit cards are so prevalent and easy to obtain, many consumers do not wait until they have the money to pay for big ticket items. They will then only make the minimum payment when the billing cycle ends. By continually paying off only the minimum balance, the majority of the payments are just pay the interest on the balance. Consumers are then paying off less of the balance on the card and give more money to the bank in the form of interest payments. Of the families that have credit cards, it is estimated that one in six pay just the minimum monthly payments.

The lure of overspending with a credit card is quite bewitching. If you wish to not spend beyond your means, however, it is best to look at credit cards as if they were checks or debit cards. You would not write a check unless you knew you had the funds in your bank account to cover it. For everyday purchases on credit cards, the philosophy should be the same. If you cannot pay off what you wish to buy, think twice before putting it on your card. There are some cases in which credit cards are used for emergencies, like an unexpected car repair or a medical expense. But if you keep your regular everyday spending in check, you will have more wiggle room for emergency expenditures that you may have to pay off over time.

If you carry a balance on your credit cards that is beyond your financial means and you wish pay off the debt, it is best to not make any additional purchases on that card. Next, examine your budget and reallocate any discretionary funds to make larger payments (rather than the minimum payment) to decrease that debt quickly. Again, when you only pay the minimum payment, the majority of that payment is interest to the bank. The more money you pay them in interest, the less money you have available to pay off that balance. And the sooner you pay off that balance, the less interest you pay in the long run. If you have several credit cards, look into consolidating the balances onto the card with the lowest interest rate. You should look into "snowballing" your debt, if you have hit the maximum on the lowest interest card. You focus on the credit card that has the lowest balance and pay it off first (while making sure you pay the minimum payments on your other cards), regardless of which one has the highest interest rate. Do not reduce the amount of your payment each month, even as that balance becomes smaller and smaller. Move on to the next smallest balance, once the debt on the first card has been paid off. Again, do not reduce the amount of each payment as the balance becomes lower. The new amount for the payments on the next card should be the same as what you were paying down on the last card, plus the minimum payment from the last card. This snowballing action will let you pay more of your debt as you reduce your balances more drastically. When you free up a card with a low interest rate during your snowball, consider moving your balances to that card. Doing so will free up even more money to pay down your debt, that you might have otherwise been paying in interest.

Snowballing offers a simple and routine way to make regular payments on your overall credit card debt, which will slowly become less and less as you make more payments. Psychologically, it helps you focus on something tangible that will let you see results faster than if you try to tackle the balance on all your credit cards at once. It is best not to make any additional purchases on your credit cards, while you are snowballing. It might melt part of your snowball and you will have to start it rolling all over again.

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