**[Credit Card Minimums: Perfectly Calibrated To Keep You In Debt](http://www.forbes.com/sites/clairetsosie/2016/11/04/credit-card-minimums-perfectly-calibrated-to-keep-you-in-debt/2/" \l "302b23c844e4)**

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The siren’s song of the minimum payment is hard to resist, and credit card issuers know it.

Over the past few decades, major issuers have decreased their minimum payment requirements so much that the minimums hardly make a dent in outstanding balances anymore. That shift means cardholders as a whole are paying more in interest, making accounts more profitable for issuers while landing consumers in a cycle of debt that can be hard to escape.

About 15% of accounts regularly pay exactly the minimum in any given month, according to [data from the Consumer Financial Protection B](http://files.consumerfinance.gov/f/201512_cfpb_report-the-consumer-credit-card-market.pdf)ureau. Paying just the minimum used to be enough to keep you somewhat ahead of your debt, but that’s no longer the case.

**The curious case of shrinking minimum payments**

In the 1970s, most card issuers required a minimum payment equal to 5% of the outstanding balance. Because your minimum shrank along with your balance, and because interest was also accruing, large debts could sometimes take 10 years to pay down if you went as slowly as possible, but usually not more than 30. By the turn of the century, the typical minimum payment was much smaller. The shift started with an idea from a financial services consultant at the time, Andrew Kahr.

“[The minimum payments] had been 5%,” Kahr explained to [PBS Frontline](http://www.pbs.org/wgbh/pages/frontline/shows/credit/interviews/kahr.html) in a 2004 interview. “I was able to convince one of the major issuers to reduce it to 2%.” The lower payments gave customers more flexibility, but “of course the bank has a potentially much more profitable account,” he said.

When issuers saw just how profitable the change could be, Kahr’s innovation quickly became mainstream. By the early 2000s, 2% minimums were the new normal.

In 2006,  new federal rules took effect requiring minimum payments to cover accrued interest, fees and a portion of the principal balance. This caused many issuers to bump up their requirements, but it still didn’t drive minimums back up to 1970 levels.

Most major issuers today charge just 1% of the balance, plus new interest charges and fees. Generally, these charges come with a fixed floor on the amount of minimum payments — often $25, for major issuers. Credit unions, along with a few major issuers, still charge a flat 2% minimum, along with a fixed floor value. So the federal rule changes helped consumers, but only slightly.

**How today’s minimums can cost you**

Paying just the minimum on your credit card debt month after month is a terrible idea. Here’s why:

**It increases your repayment period.** Under today’s conventions, it can take about 30 years to repay  $10,000 at the slowest pace. That’s much too long.

“We think a ‘safe’ credit card would have a formula that results in repayment in five years,” says Chi Chi Wu, a staff attorney for the National Consumer Law Center.

Thanks to provisions in the Credit Card Act of 2009, issuers now have to tell you on your statement how long it will take to repay your balance if you paid only the minimum. If you need extra motivation to pay down your bill more quickly, just check the disclosures.

**It can bump up your interest charges.** When you pay as little as possible, it leaves you with a larger outstanding balance. Unless you have a card with a promotional 0% annual percentage rate period, this increases your interest charges, for two reasons:

* Your card’s interest rate will apply to a larger debt.
* If you have multiple balances on one card — say, a balance transfer and purchases — your issuer will generally allocate the minimum payment to the balance with the lowest interest rate first.

Paying more than the minimum can help you save on interest. Generally, anything you pay above the minimum goes to higher-interest balances first.

**It can hurt your credit.** If you aren’t actively reducing your balances while continuing to use your card, you risk maxing out your card or using too much of your available credit, both of which can hurt your credit scores. As a rule of thumb, FICO recommends keeping your balances on every card under 30% of the limit. [The lower, the better.](https://www.nerdwallet.com/blog/finance/30-percent-credit-utilization-ratio-rule/?trk=nw-synd_403_0_0)

**It can make your debt seem affordable, even when it’s not.** If your debt is more than half your income, you can’t find a way to pay it off within five years, and it causes a huge amount of stress in your life, paying just the minimum likely won’t improve your financial situation. In this case, [bankruptcy might be your best option](https://www.nerdwallet.com/blog/finance/bankruptcy-best-option/?trk=nw-synd_403_0_0). You should at least consult with a bankruptcy attorney about your choices.

**Pay the minimum like it’s 1970**

Your credit card bills might put you into an all-or-nothing mindset: Pay in full or pay just the minimum. But those aren’t the only options. If you’re low on cash one month, pay the old-school “minimum” of 5%. Better yet, pay as much as you can afford.

Here’s how you can get rid of your debt faster:

**Create a debt pay-down plan.** Figure out [how much you can afford to pay](https://www.nerdwallet.com/blog/category/finance/paying-off-debt/?trk=nw-synd_403_0_0) toward your credit card debt each month, and set a goal date for becoming debt-free. If you have good enough credit, transfer your balances to a [0% balance transfer APR credit card](https://www.nerdwallet.com/blog/top-credit-cards/nerdwallets-best-balance-transfer-credit-cards/?trk=nw-synd_403_0_0) to save on interest. Post your debt pay-down goal in plain sight — say, on the refrigerator door or above a doorknob — as a mental nudge to stay on track.

**Reduce spending and increase income.** Free up cash by trimming your day-to-day living expenses and [increasing your take-home pay](https://www.nerdwallet.com/blog/credit-cards/increase-takehome-pay-pay-credit-card-debt/?trk=nw-synd_403_0_0). If you’re expecting a big tax refund this year, ask your employer about decreasing your withholding by filling out a new W-4, so you get that money sooner. If you can, volunteer for some extra shifts at work, or take up a side gig driving with Uber or renting out rooms with Airbnb. Earmark that money for paying down your debt.

**Automate payments.** Auto-pay is the modern version of stuffing your ears with wax or tying yourself to a ship’s mast to resist the siren’s call. It helps you stave off temptation without employing any willpower. As long as you’re confident you won’t overdraw your bank account, use your issuer’s auto-pay feature to pay more than the minimum each month. If you can, schedule your payments right after you get paid each month, so you don’t feel squeezed for cash. Check up on your account regularly and keep tabs on your balances, so there are no surprises.

Low minimums benefit issuers more than consumers. If you want to save money when paying down your debt, do it on your own terms. Don’t let your issuer slow you down.