21% of Canadians Are Making a Huge Mistake With Their Credit Cards

Description

One of the biggest mistakes you can make with your credit card is to pay only the monthly minimum.

And, according to the MNP Consumer Debt Index, around 21% of Canadians are doing just that.

Yes, put five Canadians in a room, and one is paying the minimum balance on their credit card. Other “bad financial habits” from the study include borrowing money you can’t afford (11%) and succumbing to deals such as Black Friday (12%).

Why is paying the minimum on your credit card so bad, and what can Canadians do about it? Let’s take a look.

Why you should always pay more than the minimum

The minimum on a credit card is the smallest amount your credit card provider will accept per month. If you pay less than the minimum, your card provider will count it as a missed payment.

But the minimum is just that: a *minimum.* By paying only the minimum, you carry a balance, which triggers your cards APR. The longer you carry the balance, the more you pay in interest.

Let’s say you charge $6,000 to a credit card with a 20% APR. Your credit card provider gives you a $120 minimum. If you pay just the minimum, it would take you 106 months to pay off the full $6,000. How much interest do you accrue in those 106 months?

$6,603.

You’ll pay *more than you charged to the card in interest* by making minimum payments alone.

Let that sink in for a moment.

What if you can’t pay more than the minimum?

One out of every five Canadians is struggling to pay the minimum on their credit card, which isn’t a good sign. If that’s you, you do have one solution: get a balance-transfer credit card.

A balance-transfer credit card is a low-interest card designed to receive debt from a card with a high APR. The low interest is usually a promotion, which lasts anywhere from a few months to a year or longer.

The trick is to pay a majority of your credit card debt (or all of it) before the promotional APR period ends. If you do, you could save a tonne of money in interest.

If the promotional period is too short, you can do consecutive balance transfers until you pay off your debt. Of course, balance transfers can come with fees, so you don’t want to perform more than is necessary. But if it means saving money on interest, the fees will be worth the cost.

If you have multiple credit cards, I would try the debt roll-down method. With this strategy, you list your debts from highest to lowest interest rate, pay the minimum on all your debts, then make extra payments toward the debt with the highest rate. Once you pay off the debt with the highest rate, you “roll down” your extra payments to the debt with the second-highest rate. Keep doing this until you’re debt free, and you could save yourself money on interest.

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