

## Understanding Your Credit Card Minimum Payment

Written by Chairman

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After a lengthy discussion with the wife about our credit card bills, I found myself wondering about how credit card minimum payments were calculated. Here's what we found out.

Your credit card's minimum payment is calculated pretty simply and usually equals somewhere between two and four percent of your existing balance, however, this will vary by bank or credit issuer.

Your minimum payment may also include fees and penalties. The only way to really be sure is to read over your bank statement.

So if your balance is \$1000, your minimum payment should be between \$20-\$40.

$$\$1000 \times .02 = \$20, \$1000 \times .04 = \$40$$

If you'd like to know how much of that minimum payment actually goes toward your principle then divide your APR by twelve months and multiply that by your balance.

So if your APR is 19% and your balance is \$1000 then your calculation would be:

$$.19/12 \times 1000 = \$15.83$$

\$15.83 is the interest you paid for that month. So of your \$20 minimum payment, only \$4.19 goes towards your principle.

Based on those numbers, you can see why paying only the minimum payment isn't a recommended strategy. See our article on [Tips to Manage Your Credit Card Debt](#) for more

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information on how to whittle down that debt.