

## Pay credit card bill early and save

By Marcia Passos Duffy • Bankrate.com

In 2005, the Corbett family had about \$500 in savings and \$12,000 in consumer debt. About half of the money they owed was a result of credit card obligations.

"We were spending every dollar that came in, and then some," says Jason Corbett, a 34-year-old nonprofit manager who lives in Soperton, Ga., with his schoolteacher wife, Molly, and their three children.

Determined to be debt-free, Corbett threw extra money at his debt to pay it down faster. He also used a simple but powerful technique to save a little more -- he began making payments before the billing due date.

"I discovered that if I paid my (credit card) bills sooner ... the interest that accrued would be lower," says Corbett, who documented his debt reduction progress in his blog No Credit Needed.

Eleven months later, the Corbetts were completely debt-free and had started saving.

Making early payments won't save you a ton of money each month. But the savings do add up.

Timing matters

Credit cardholders who carry a balance from month to month do not have a grace period; the credit card company charges interest every day of the month until the bill is paid. The cardholder loses a little money every time he or she makes a monthly payment around the same time as the statement due date.

In addition, this interest compounds. For example, on the second day of the billing cycle, a cardholder pays interest not only on the outstanding balance, but also on the interest charged on the first day.

By contrast, every early payment you make saves you a little money.

"Paying early is always better because the math works," says Scott Crawford, CEO and co-founder of DebtGoal.com, a San Francisco-based free online service that helps consumers create a debt reduction plan and pay down debt.

"This strategy can save you money as long as your credit card interest rate is greater than that of your bank account -- or wherever you hold this cash," Crawford says.

These savings are modest but add up over time.

For example, imagine a cardholder with an 18 percent annual percentage rate, a \$10,000 balance and a minimum payment of 3.5 percent (\$350) of the balance. If the cardholder pays on the last day of the billing cycle, finance charges for the period will total \$152 on an average daily balance of \$9,989.

However, if the same cardholder pays on Day 2 of the billing cycle -- long before the bill shows up in the mail -- the average daily balance falls to \$9,661.

How much will this save in finance charges? Just about enough to buy a latte: \$5 a month, or \$60 a year.

Savings are even greater when the card interest rate is higher. At 29 percent, the cardholder saves \$8 a month, or \$96 a year.

How much can you save by paying early? Assuming a \$10,000 average balance and a minimum monthly payment of 3.5 percent, here's how much you'll keep in your wallet by making your payment on Day 2 instead of Day 31.

Saving early and often

Average balance	Interest rate	Monthly savings from paying on Day 2	Yearly savings after paying on Day 2
\$10,000	18 percent	\$5	\$60
\$10,000	29 percent	\$8	\$96

While Crawford acknowledges such modest savings are "not going to move the needle too much," the strategy makes a small dent in the cardholders' mountain of debt.

Paying early in the month also has other potential advantages. For example, it may help prevent a late charge. Saving \$39 by not having to pay a late penalty is a huge step forward, Crawford says.

And if the cardholder stumbles upon a windfall and plans to apply the money to credit card debt, paying early can create big savings.

For example, a cardholder who applies a \$5,000 windfall to a \$10,000 debt at 29 percent interest can save \$115 by paying the debt off on Day 2 of the billing cycle rather than waiting until Day 31.

Corbett offers a [spreadsheet](#) at his blog that cardholders can use to plug in their own numbers and find out how much they'll save.

### Try micropayments

If you can't afford to fork over a big chunk of change toward your debt all at once, consider micropayments. Corbett made online payments of \$5 each day for an entire month just to see if the credit card company would accept the payments and apply it to the principal. It did.

While Corbett doesn't recommend repeating his approach, he does urge cardholders to set up an online payment program through a bank account. That way, cardholders can make micropayments when they get a bit of extra cash.

Another technique cardholders can use is to divide their monthly payment in half and send half of it early.

A few extra steps can help cardholders get the most out of the "pay early" approach.

Cardholders who make an early payment and want the card company to apply the money toward principal right away are urged to write "apply to principal" on the check or to make a note on their online transaction. Otherwise, the company could hold the money as prepayment of next month's bill.

"If you're not getting away from credit card use altogether none of these strategies will help."

Cardholders also should closely track when they've made a payment and the amount paid, says Sandra Shore, a counseling training manager with Novadebt, a nonprofit consumer credit counseling agency based in Freehold, N.J.

"If you make two payments in one cycle, it can become confusing ... and you could end up missing a payment the following month and get slapped with late fees and even more interest charges," Shore says.

Remember, whatever you pay in one cycle goes toward that one cycle's debt. You can't pay ahead to next month's minimum payment.

While it is nice to pay early in the cycle, it's foolish to jeopardize the ability to pay next month's bill.

"Keep in check your excitement of paying things down and make sure you have enough to take care of minimum amounts for all your credit cards," says Ken Clark, a Certified Financial Planner and author of "The Complete Idiot's Guide to Getting Out of Debt."

Paying credit cards early can help reduce a cardholder's debt burden in the short run. But it isn't the final word in debt reduction strategies, says Greg Ward, a Certified Financial Planner with Financial Finesse, a Manhattan Beach, Calif.-based provider of financial education for organizations, employees and customers.

"Paying early should be part of many things you do to pay down your debt," Ward says. "Just one strategy is not enough."

The ultimate goal, Ward says, is to get rid of your credit cards.

"If you're not getting away from credit card use altogether none of these strategies will help," he says.

"You'll forever be on the hamster wheel."