SESSION 1—HANDOUT 3

THE EIGHTH WONDER OF THE WORLD: COMPOUNDING—A MIXED BLESSING



COMPOUNDING IS A BEAUTIFUL THING



Not very dramatic…



Dramatic!

COMPOUNDING IS A DANGEROUS THING

**Scenario 1:**

Refrigerator Purchase on credit: $550.00

Interest 18.9%

Minimum payment (4%): $22 per month

Pay for 4 years 11 months $768.97

Interest $ 218.97

3 months later--Car Transmission Purchase on credit: $1900.00

Credit card balance now $2384.00

Interest 18.9%

Minimum payment (4%): $95.36 per month

Pay for **8 years 10 months** $3794.00

Total purchases ($550 +$1900) =$2450

Paid out ($66 + 3794) =$3860

**Interest is $1410.00.**

What Is the Minimum Payment on a Credit Card? The minimum payment on a credit card is the lowest amount of money the cardholder can pay each billing cycle to keep the account's status “current” rather than “late.” (Late fees are enormous.) A credit card minimum payment is often $20 to $35 or 1% to 3% of the card balance, whichever is greater.

**Scenario 2: You struggle with the payments--$95.36**

Refrigerator Purchase: $550.00

Interest 18.9%

Minimum payment (4%): $22 per month

Pay for 4 years 11 months $768.97

Interest $ 218.97

3 months later--Car Transmission Purchase: $1900.00

Credit card balance now $2384.00

Interest 18.9%

Minimum payment (2%): $47.69 per month

**Pay for 30+ years** $9,166.87

Total purchases ($550 +$1900) =$2450

Paid out ($66 + 9166.87) =$9232.87

Interest is $9232.87-2450**=$6782.87.**

You are still paying for your refrigerator and transmission 30+ years after you bought them. Does the refrigerator still run? Do you still have that car? No, but you are still making payments.

**Scenario 3: You save $50.00 per month for 1 year--$600**

Refrigerator Purchase: Pay $350, finance $200 $200.00

Interest 18.9%

Minimum payment (4%): $15 per month

Pay for 15 months $225.00

Interest $ 25.00

3 months later— Savings =$400

Car Transmission Purchase Pay $250, finance $1650.00 $1650.00

Credit card balance now $1805.00

Interest 18.9%

Minimum payment (3%): $55.50 per month

Pay for **11 years 6 months** $3556.66

Total purchases ($550 +$1900) =$2450

Paid out ($66 + 3556.66) =$3622.66

Interest is $3522.66-2450=$**1172.66**.

**BUT THIS IS INTEREST FREE FOR 12 MONTHS!**

Miss a payment? Interest free is gone and you may owe accumulated interest.

How can they loan you money for free?

**NO PAYMENTS FOR A YEAR!**

So how will you pay for it in a year? Save up the money? Make payments to yourself.

**CAN’T PAY CREDIT CARD DEBT?** https://www.incharge.org/debt-relief/credit-counseling/new-york/