Dealing with a persistent credit card debt

What is persistent debt?

A credit card is considered to be in 'persistent debt' when you've paid off more in interest and charges than you've paid off from the amount you've borrowed. This is calculated based on your activity over the previous 18 months.

By paying more each month, you could dramatically reduce your balance, save yourself a lot of money and reduce the time it takes to pay back the borrowing.

What if I don't increase my payments?

Your credit card company will contact you if you've paid off more in interest and charges than you've paid off your borrowing during the previous 18 months.

Ultimately, they want you to make changes so that by month 36 (ie. 18 months later) you're no longer in 'persistent debt'.

They'll remind you again after nine months (ie. at month 27) if you haven't taken any action.

If you're still in persistent debt 18 months after they first contacted you about it (ie. at month 36), then they should offer you a way to pay off your debt within three to four years, which may be a paydown plan or an alternative credit product.

If you can't afford to do that, they'll consider forbearance such as reducing interest rates, but that may mean they suspend your card.

Some credit card companies are getting people to pay more by increasing minimum payments to the card by changing the terms and conditions (T&Cs). Paying at this level guarantees that you're not in 'persistent debt'.

Be aware that if your minimum payment is increased and if you don't pay the increased amount each month, you may be in default with that card, resulting in additional charges and possibly the card being suspended. Your credit file may be affected too. If you're unable to make this increased payment, you should speak to your credit card provider who will consider what forbearance they can offer.

How can I get out of persistent debt?

The key is to ensure that you're paying more towards your credit card balance than you are towards the interest and charges that are being applied.

Your minimum monthly payment includes an amount for interest and charges and an amount to reduce what you owe.

Increasing your monthly payment means you'll pay more off what you owe, so you'll clear the balance more quickly.

How much you need to pay is dependent on your interest rate.

We've included the budget we worked through with you, which shows the extra money you have available to put towards your credit card debt.

There are a number of things you can do to manage your credit to ensure you remain out of 'persistent debt' and ultimately repay your debts as quickly as possible. You can:

- Use your available cash to increase payments to your card(s)
- Re-finance your debt to options with cheaper interest rates eg. debt consolidation loans, 0% credit cards, or
- Discuss forbearance options with your credit card provider(s)

The options included here are for your information only and should be considered having reviewed your own circumstances. There are things you should think about when considering all options:

- **Think about all your debts**. Look at how much you're paying and the amount of interest and charges on all your borrowing. The less you pay in interest and charges, the quicker your debt reduces
- **Think about the time to pay your debts off**. Consider how long it'll take to pay your debt off versus your monthly commitment
- **Consider the impact on your credit file**. Do you plan to continue using credit? Can you afford to? Will you be applying for other credit such as a mortgage or mobile contract?, and
- **Whatever strategy you choose, you'll need to make sure it's affordable**. Circumstances change, so make sure you always keep your budget up to date. Use our handy budgeting tips to free up extra funds

Increasing payments to your current credit card(s)

There are a number of ways you can increase payments to your credit card(s). You could consider the following options:

- **Pay the same amount each month**. Choose an affordable amount above your minimum payment and stick to it
- **Pay your minimum payment, plus a fixed amount each month**. Paying a few pounds more every month can make a huge difference. To see what impact this would have, visit www.cardcosts.org.uk, or
- **Make one-off additional payments**. Try to do this as and when you can afford to. You'll still need to ensure you pay at least the minimum payment every month to avoid breaching the terms and conditions of your card

Benefits of increasing your payments:

- You can stay with your existing provider, and
- Your card won't be suspended if the contractual payment is being maintained and you're paying enough to remain out of 'persistent debt' (ie. more off the balance than the interest and charges applied)

Things to consider:

- You may pay more in interest and charges than you would by moving to a different credit provider
- If you continue to use the credit card, you need to make sure you continue to pay more than the minimum payment each month, and
- You'll need to make sure that your payments are high enough to bring your credit card out of 'persistent debt'

Balance transfers or debt consolidation

Rather than paying more towards your existing credit card, you might want to transfer your credit card balance to a new card, or consolidate multiple lines of credit into one credit card or loan. This will usually involve having to switch to a new lender.

There are some important points to bear in mind:

- **Shop around**. If you're looking for a new credit card or loan, make sure you're getting the best deal possible
- **Promotional rates**. Some credit cards offer a period with a lower rate of interest, therefore any payments will go towards the amount borrowed
- **Look beyond the headline**. Just because a credit card is advertised at a particular interest rate, it doesn't mean that rate will necessarily be available to you
- **Use a price comparison site**. It's good to be cautious. Using price comparison websites can help you source suitable providers, identify best deals and outline any qualifying criteria
- **Check you're eligible before applying**. Making multiple applications for credit within a short period of time can damage your credit rating. Many lenders allow you to check whether you're eligible for a particular product by doing a 'soft search' on your credit file. This won't leave a record that a check has been made, and can help preserve your credit rating. You can make a full application for credit once you're sure you'll be accepted, and
- **Consider how you use your existing credit lines**. Avoid increasing the size of your overall debt.

Benefits of balance transfers and debt consolidation:

- It can be a cheaper way to clear existing debt
- If you currently have multiple debts, a consolidation loan means you'll only have one monthly payment to worry about
- Monthly payments are usually fixed, making budgeting easier
- The interest rate on a loan may be lower than on a credit card, or multiple cards, and
- You can choose how much you borrow and how long to repay it over

Things to consider:

- Most credit cards charge a fee for balance transfers, which will increase the amount you owe
- Once a promotional period runs out you'll be charged interest on any remaining balance. This could be higher than you were paying previously

- Promotional rates can be withdrawn if you miss payments
- Any additional spending on the credit card will normally attract interest
- If you take out a secured loan, your home may be at risk if you don’t keep up with your payments
- In many cases, an arrangement fee will be added to your loan when you take it out
- Unlike a credit card, you can’t normally adjust the amount you pay towards a loan on a monthly basis, once it’s been agreed, and
- There may be early repayment charges if you’re in a position to pay off the loan early