A guide to persistent debt

What is persistent debt?

Your credit card is in ‘persistent debt’ if you’ve paid more in interest and charges than you have towards the card's balance. This is based on your card activity over the past 18 months.

By paying more each month, you could reduce your credit card balance quicker and move your account out of persistent debt. You could also save yourself money because you’ll pay less in interest.

How can I get my card out of persistent debt?

Your monthly payment covers two things: an amount for interest and charges, and an amount to reduce the card balance. To help to repay more of the card’s balance, you should do one of the following options:

Speak to your credit card provider

1 Contact your credit card provider as they may be able to help. They may be willing to suspend interest and charges on your current card for a while. Or, if you’ve looked at moving your card debt to a loan or card at another bank, let your current provider know as they may be able to offer you a better deal.

Stop spending on the card and increase your monthly payments

2 If you no longer use the card but increase your monthly payments, your credit card balance will reduce quicker. You’ll need to make sure that your payments are high enough to bring your card out of persistent debt. Use the calculator at **www.cardcosts.co.uk** to work out how much you’ll need to pay to clear your debt quicker.

Speak with your lender to make sure the amount you decide to pay is enough to get your card out of persistent debt.

There are ways you could pay more:

- You could pay your minimum payment plus a fixed amount each month. For example, by adding £10 to your minimum payment
- You could pay the same amount each month. For example, you could pay £75 each month, as long as your minimum payment is below this amount

- Put together a budget of what your income and outgoings are each month. You can use this to see how much more you can afford to pay

Speak with your lender to make sure the amount you decide to pay is enough to get your card out of persistent debt.

You can see examples of these ways and their impact in the 'How long will it take to pay off my credit card?' section, further down this guide.

Repay the balance of your card debt with other credit that has a lower interest rate – for example, a credit card or a loan

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You could consider transferring the balance to a new card which has a lower, more affordable interest rate. Or, you could use an affordable loan with a lower interest rate to pay off your card balance, and then pay your loan off with a set monthly repayment.

There are some points to bear in mind:

- **If you transfer the balance to a new credit card** it's a good idea to cancel your old card, and not spend anything on the new card
- **Shop around to get the best deal possible**, for example some credit cards offer a period with a lower rate of interest
- **Use a price comparison site** to help you find suitable providers and identify the best deals
- **Check you're eligible before applying**, as applying for more credit will appear on your credit file. To avoid this, you can go through a provider who uses a 'soft search', to see if a product is available to you. This type of check won't leave a record on your credit file
- **If you choose to repay your card with other credit, keep up with your repayments**, as if you miss a repayment there may be extra charges and interest

There are important things you'll need to consider if you go ahead with one of these options, which we've highlighted further down this guide

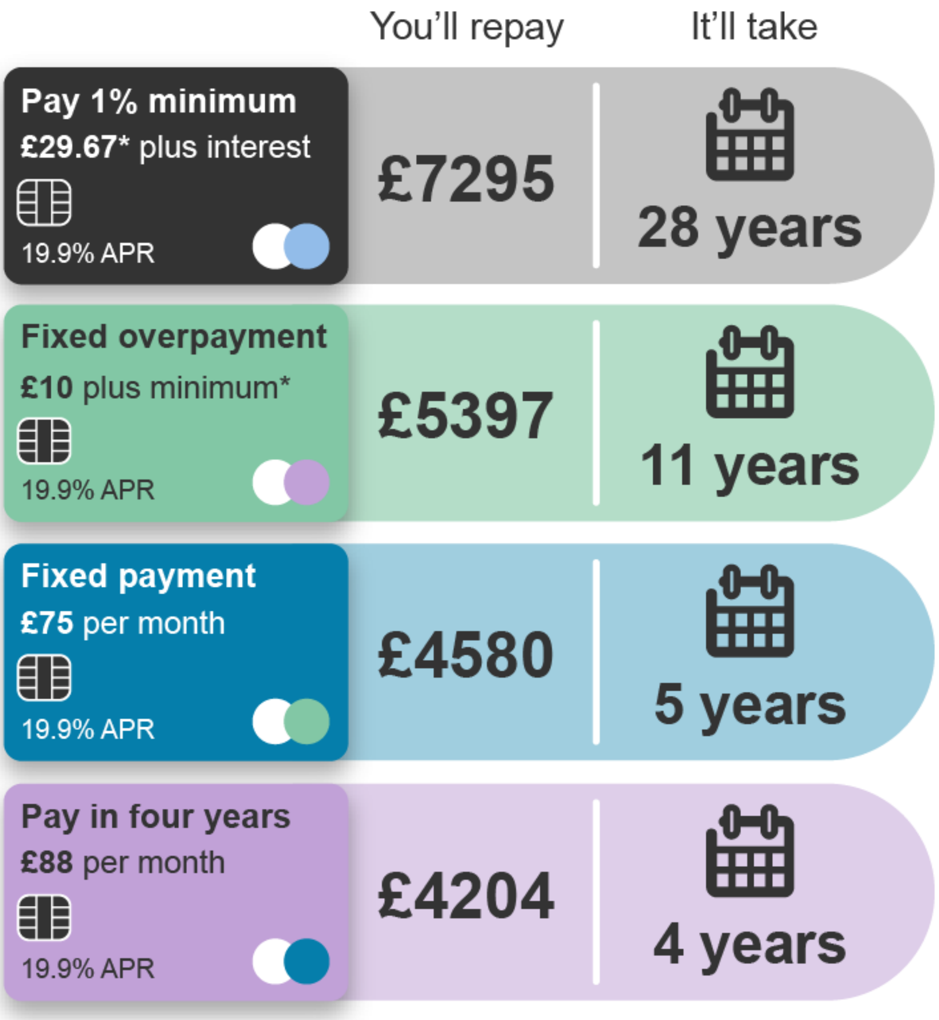
How long will it take to pay off my credit card?

If you decide to increase repayments to your card, it’s good to know how this can affect the total you’ll pay back.

Let’s say that you have a credit card with a persistent debt. You owe £2,967 on it, and you have a 19.9% annual percentage rate (APR). You’ve stopped using the card.

The image below shows you how long it would take you to pay off the balance by only paying the minimum.

It also shows how much quicker you could pay off the debt if you increase your monthly repayment.



*The minimum payment will decrease over time as you clear the balance

Please note, these are example figures. To check how the amount you repay each month impacts your own card’s balance, visit **www.cardcosts.co.uk** to use their calculator.

What if I don’t increase my repayments?

Your credit card provider will contact you if your card has remained in persistent debt for 18 months. The below timeline shows what will happen next.

18 months

You’ve repaid more in interest and charges than you have towards your card balance over the past 18 months. At this point, your credit card company will contact you. They’ll encourage you to take action so that by month 36 (i.e. in 18 months’ time), you no longer have the persistent debt.

27 months

You’ll be contacted again by your credit card provider if your card remains in persistent debt. Again, they’ll encourage you to take action.

36 months

If you still have a persistent debt on your card, your creditor should offer you a way to pay this off within three to four years. They may suggest a payment plan for you, or an alternative credit product. If these aren’t suitable, they’ll consider other options such as reducing your card’s interest rate. This may involve suspending your card, impacting your credit file.

What option should I go with?

Make sure you think about your own situation and how the options to repay your credit card could affect you.

If you get in touch with your credit card provider:

- Remember that each provider is different and will offer different options to you
- If they stop interest and charges this may affect your credit file

If you stop using your card and increase your repayments:

- You’ll need to make sure that the increased amount you pay is enough to get your card out of persistent debt
- If you do use the card, you’ll need to increase your repayments even more

If you repay the balance of your existing card debt with other credit:

- Most credit cards and loans charge a fee for balance transfers, which will increase how much you owe
- If you take out new credit that has a promotional rate, you'll be charged more interest on any remaining balance once this ends
- Promotional rates can be withdrawn if you miss a repayment
- If you transfer your balance to a new card and spend on it, this will normally add further interest
- Taking out a secured loan to repay your credit card balance may mean that your home will be at risk if you don't keep up with your repayments
- Unlike a credit card, loan repayments are a fixed amount each month. You normally won't be able to change the amount you pay once it's been agreed
- There may be early repayment charges if you're able to pay off a loan early

Is there anything else I need to think about?

The suggestions we're making about reducing your credit card debt should be used as a guide. You'll need to think about your own situation to make sure the action you take is suitable for you.

1. Think about all your debts. Look at how much you're repaying overall and the amount of interest and charges. Your debt will reduce quicker if you pay less in interest and charges

2. Think about how long it'll take to pay your debts off. Consider how long it'll take to pay off your debt compared with your monthly outgoings

3. Think about what effect this will have on your credit file. Our website can tell you more information about this. Just visit www.stepchange.org/debt-and-credit-files

4. Whatever strategy you choose, you'll need to make sure it's affordable. Circumstances change, so make sure you keep an up-to-date budget. You can find useful budgeting tips at www.moneyaware.co.uk/category/budgeting

How can I contact you for more information?

Let us know if you have any questions or need advice and support.

- Call us on **0300 303 2517**. We're open Mon-Fri, 9am-5pm
- Visit our website at **www.stepchange.org**