

## The Truth About Small Payments and Growing Interest

Imagine this: your credit card statement hits your inbox, cash is a little tight, and you decide to send in just the minimum payment. A few days later, you check your balance expecting a noticeable drop — only to see it barely changed. It can feel discouraging, but there's a simple reason behind it: interest.

Understanding how interest works is one of the most important steps toward gaining control of your finances. Let's break down why small payments often don't make much progress — and what you can do instead.

### **What Is Interest, Really?**

Interest is the cost of borrowing money. When a lender gives you access to funds, they charge interest to compensate for the risk of lending and for giving up the use of their money during that time. Interest is typically expressed as a percentage rate applied to your loan's principal — the original amount you borrowed. The higher the rate, the more expensive it is to carry that balance over time.

### **How Is Interest Calculated?**

There are two primary ways lenders calculate interest: simple interest and compound interest.

#### **Simple Interest**

With simple interest, the rate applies only to the original principal. Many installment loans — like certain mortgages, auto loans, and personal loans — use this structure. The math is straightforward, and the interest doesn't "stack" on itself.

#### **Compound Interest**

Compound interest is calculated on both the principal and any previously accumulated interest. In other words, you pay interest on your interest.

This can work in your favor when you're saving or investing, but when it comes to debt — especially high-interest credit cards — it can cause balances to grow quickly if not paid down aggressively.

#### **The Relationship Between Interest and Principal**

On structured loans like mortgages or auto loans, payments are usually set on an amortization schedule.

# NEWSLETTER

MARCH 2026

That means your monthly payment stays consistent, but the way it's applied changes over time. Early in the loan, most of your payment goes toward interest. Later in the loan, more goes toward reducing the principal. Even though the payment amount doesn't change, the breakdown does.

Making extra payments toward the principal can significantly reduce the total interest you pay over the life of the loan. It also shortens your payoff timeline.

## Why Minimum Payments Barely Make a Dent

Credit cards work differently. They're considered non-amortizing debt, meaning there's no fixed payoff schedule. You're given a minimum payment, but that amount is typically designed to keep your account in good standing — not to eliminate the balance quickly.

When you pay only the minimum:

- A large portion goes toward interest.
- Very little reduces the principal.
- The remaining balance continues to accrue interest.
- New purchases can increase the total even further.

## Smarter Ways to Reduce Your Balance

If you want your payments to actually move the needle, consider these steps:

### 1. Build a Clear Budget

Understanding exactly where your money is going is the foundation of debt repayment. A realistic budget helps you identify areas where you can redirect funds toward higher payments.

### 2. Pay More Than the Minimum

Whenever possible, aim to pay the full statement balance. If that's not realistic, pay as much above the minimum as you can. The more that goes toward principal, the less interest you'll pay long term.

### 3. Explore Consolidation Options

If high-interest debt feels overwhelming, consolidating balances into a single loan with better terms can simplify payments and potentially reduce interest costs. In some cases, promotional APR offers may allow you to focus payments directly on principal for a limited time.

At Emerald, we work with individuals who want practical strategies to reduce debt, improve cash flow, and create a more sustainable financial plan. Whether it's reviewing your current obligations, exploring consolidation solutions, or building a repayment strategy that fits your goals, having the right support can make all the difference.

Small payments can feel productive — but when it comes to high-interest debt, they often don't create meaningful progress. The key isn't just paying consistently; it's understanding how your loan works and making strategic choices that reduce interest and accelerate principal payoff. With the right plan in place, you can break the cycle and start seeing real momentum toward financial freedom.

