Here's How Much the Average American Pays in Interest Each Year

by Holly Johnson Updated on 03.22.17

From the moment we're born, we're taught that borrowing money is normal and, dare I say it, *expected*. From mortgages to car loans to $700 smartphones we pay for over 24 months, we're taught to spread the pain of our purchases over the course of many months or years.

Obviously, this mindset isn't always bad. With housing prices surging toward all-time highs, taking out a mortgage is the only way most of us will ever own a home. Student loans can be a great investment — albeit an expensive one — that can lead to a lifetime of higher wages. And of course, small businesses often need to borrow to get their ideas off the ground. Without an infusion of cash, many of the world's smartest business ideas would never have a chance.

How Much Interest Does the Average American Pay Each Year?

But all that borrowing doesn't come cheap. Every time you put something on plastic or spread out the payments, you're effectively paying more for the very same item in the form of interest owed to the bank or lender. Credit is absolutely convenient, but it has a real cost, too.

Have you ever wondered how much the interest you pay on myriad purchases adds up over a year, or even a lifetime? Or how much you could save if you avoided financing and paid for things in cash — even half the time?

Believe me when I say the costs of borrowing are *staggering*. Here's how much interest the average American household is paying on, well, just about everything:

Mortgage Interest: $5,646

The median price of a home sold in the United States climbed to $260,900 in February, according real estate brokerage Redfin. That's great news for those who bought their homes when prices were lower, but a tough pill to swallow for young people entering the housing market for the first time.

With the average interest rate on a 30-year, fixed-rate loan sitting at 4.44% as of this writing, someone purchasing a median-priced home with a typical 20% down payment would owe $169,390 in interest over the 30-year life of their mortgage — or $5,646 a year in interest.

Of course, there are plenty of caveats to consider: Not everyone owns a home, and many who do purchased theirs years ago. Plus not all home buyers need a mortgage, and the mortgage interest tax deduction takes at least some of the sting out of that interest payment. But it's a pretty fair starting point, and it's one that leaves many American families in the hole from the outset.

Auto Loan Interest: $769 to $895

The average new car loan in the fourth quarter of 2016 worked out to $30,621, according to a recent Experian survey, while the average used car loan was $19,329. These loans extended for an average of 68 months and 63 months, respectively, with average interest rates of 4.74% and 8.50%.

Put all these figures together, and the average new car owner pays $4,356 in interest over the course of a 68-month loan, or $769 a year. The average used car buyer, on the other hand, despite borrowing less money, would pay $4,700 in interest all told, or $895 a year.

Credit Card Interest: $855

You can make a case for home and even auto loans, but credit card debt is simply bad news. The average credit card debt per cardholder — and there are now 133 million of us in the United States — was $5,247 in June 2016, according to a report by TransUnion.

With the average APR on all credit cards up to 16.3% as of March 2017, the average cardholder who carries a balance — and there are a lot of them: 43.3% of cardholders are considered "revolvers," meaning they carry a balance from month to month, versus the 29.2% of "transactors" who pay off their balances each month — is paying $855 a year just in interest charges.

Student Loan Interest: $641

America's collective student loan debt is up to an astonishing $1.4 trillion, according to the Consumer Financial Protection Bureau, a burden that's borne by more than 44 million borrowers. That works out to about $31,818 per borrower. (Borrowers in the class of 2016, meanwhile, left school with an average debt burden of $37,172, according to Student Loan Hero.)

Student loans are notoriously complicated, of course — they come in many different types and with varied interest rates — so it's hard to come up with an average rate across the board. As a proxy, we'll use this year's federal interest rate for direct unsubsidized loans for undergraduate students, which is 3.76%.

Even at that fairly low rate, the average student loan borrower on a standard 10-year repayment plan will pay $6,405 in interest in total, or an average of about $641 a year. Borrowers who take out private loans could end up paying even more than that.

Borrowing Adds Up Fast

So, let's put it all together: If you're an average American family with a mortgage on a median-priced home, at least one car payment, an average student loan burden, and just one credit card with an average balance, **you could be paying $8,037 or more *just in interest* each year**.

That's a **whopping 14% of the median household's income** that might be going toward, well… ***nothing*, really — just the pricey privilege of purchasing on credit**.

And that's just the basic stuff: If you finance other consumer goods – like furniture, your smartphone, or a motorcycle or boat – or if you owe money on personal loans or home equity loans, you could be signing off a whole lot more of your paycheck to the bank each year.

While borrowing money can make a lot of sense – and even leave us better off in the long run – it's important to note how the interest we pay each month, and each year, adds up in a big way. Not only does the debt we take on leave us making payments for longer stretches of time, but it leads to higher interest payments (and more money down the drain) over the course of our lives.

Before you borrow money, make sure you know the full cost of the loan – and not just what your monthly payment will be. Then, brainstorm ways to borrow the least amount of money possible. You might *need* a new car to get to work, for example, but nobody *needs* to borrow $45,000 for a new SUV. By borrowing less, you'll whittle down the amount of pointless interest you're paying each year, and increase the amount you can save toward your financial goals — not the bank's.

You can also try sticking to cash when you can, or saving up a large down payment when you absolutely *have* to borrow money. The less money you can borrow over time, the better off you'll be.

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