## Using the "Debt Snowball" Method to Pay Off Debt

## **Objective**

To reduce and eventually pay off debt using the Debt Snowball method.

## What to Know

You might wonder if you will ever pay off your debt. Maybe you have tried to pay off debt in the past, but you found yourself back to square one – or in even greater debt!

The Debt Snowball method, successfully used by many people, can keep you focused. This debt repayment technique was originally made popular by personal finance expert Dave Ramsey, and it involves paying off your smallest debt balances first while making minimum payments on all your other debts. You will devote any extra money each month to paying off the smallest debt first. Remember, you make only minimum monthly payments on the other debts. When the smallest debt balance is settled, you move on to the next smallest.

This method can be used with just about any type of debt except mortgage loans. When you pay off smaller balances, you get a motivational boost through "quick wins," encouraging you to stay disciplined and keep going with debt repayment.

## What to Do

- 1. Review your spending plan and budget enough to cover the minimum monthly payment for every debt.
- 2. Gather your credit card or loan statements and any other debt balance information. Arrange the debts by balance, from smallest total payoff balance to largest. Disregard interest rates unless two debts have a similar payoff balance. In that case, list the one with the highest interest rate first. Use another piece of paper if you run out of space.
- 3. Every month, put the extra money you budgeted for getting rid of debt toward your smallest debt. Once the smallest debt is paid off, take the entire amount you were paying toward that debt (monthly minimum payment plus any extra money) and target the next-smallest debt.

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Debt	Total Payoff	Minimum Payment	New Payment*
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Debt	Total Payoff	Minimum Payment	New Payment*
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*Once a debt is paid off, take w payment of the <i>next</i> debt. As the		=	
Here is an example. You have a free payments. You have two c \$5,000 (at 14.9%). Pay the hosp because it saves you money to people) require early victories tyou.	redit cards with bala pital bill first. At first pay off debts with h	ances of \$3,000 (at 23. you might think this c nigh interest rates first	9% interest) and loes not make sense, ! But if you (like many
If you choose the Debt Snowba balances, watch for opportunit increasing as you pay off debt). rate card or get a debt consolid	ies to get lower inte Perhaps you can tr	erest rates (especially i	f your credit score is
Reflections on This Exercis	se .		
What was the most difficult pa	rt of this activity? W	/hy?	

How helpfu	was this exercise?	
(1 = not ver	helpful, 5 = moderately helpful, 10 = e	xtremely helpful)
What did yo	u learn from this exercise?	