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## **Debt Snowball**

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## DEBT SNOWBALL

Understanding that being in debt is a reality for most Americans, here is a tool to use to attack your debt and get it paid off as fast as possible. This is referred to by many as the “Debt Snowball.” It is called that because like in the cartoons of old when you roll a small snowball downhill as it continues it grows bigger and bigger and picks up momentum. This process works the same way with debt – you start by paying off a little debt and then it picks up steam and your momentum grows to a point where it becomes unstoppable!!

Here is the process:

1. Decide that you’ll no longer go into debt.
2. List all your debts, from the smallest to the largest, on the table below. Exclude home mortgage for now.
3. Reduce all your monthly expenses to the minimum.
4. Use all available excess cash to repay the smallest debt.
5. After you’ve paid off the smallest debt, apply all the money you were using to pay off that debt to the next smallest debt.
6. Continue until all your debt is repaid.

<u>Lender’s Name</u>	<u>Principal Balance</u>	<u>Minimum Payment</u>
1.	\$	\$
2.	\$	\$
3.	\$	\$
4.	\$	\$
5.	\$	\$
6.	\$	\$
7.	\$	\$
8.	\$	\$

Here is a simple example. Suppose you owe \$1,000 to Visa and \$2,000 to MasterCard. Each debt has a minimum payment of \$200. Assume you have \$500 available for debt repayment. You would begin by paying \$300 towards the Visa bill each month, with \$200 still going to MasterCard. Once you have repaid the Visa, you then apply all \$500 to the MasterCard bill. Soon, both debts are repaid.