

The Debt “Snowball”

(For getting out of debt)

1. List debts in order from the smallest to the largest with the smallest balance first.

Don't be concerned with the interest rates unless two debts have similar payoffs, then list the one with the highest interest rate first.

2. Pay the maximum on this first debt (as much as you can afford) until the debt is paid off. Pay the minimum payment on all other debts
3. Every time a debt is paid off “rollover” that payment into the next debt, and continue doing the same thing until all debts are paid off. The idea is to add the amounts together from all previous payments to put toward the “New Payment” for the current debt, creating a “snowball” or compounding effect. This procedure will help to eliminate debt much more quickly, leading to financial freedom.
4. Once all debt is paid off the person (couple) can now start channeling the extra money into an emergency fund, a savings account, retirement, college funds, and paying off the mortgage if that has not been accomplished.