

Debt Snowball

What is it?

The debt snowball plan is a strategy to pay off debts in order – one by one – by rolling your payments over like a snowball from one debt to the next. You can order your list of debts by interest rate or balance – the choice is yours. It's called a “debt snowball” plan because you take the payments you were making to a paid-off debt and apply them to the next debt on your list. Your payments, therefore, grow with time and build momentum and effectiveness – much like a snowball rolling down a hill.

How to start

- You must know the annual percentage rates of all your debts. Rank them by listing the debts with the highest interest rate down to the lowest interest rate to save the most money. For quick, motivating wins, list from lowest balance to highest balance instead. That is known as a “debt avalanche”.
- Calculate how much you can afford to pay for each debt at the end of each month. Put extra amounts toward the debt at the top of your list. Cut back some of your expenses to generate more cash to pay debts. Avoid taking on new debt as much as possible.
- When implementing the debt snowball plan, you need to pay the minimum amount due on all your other debts, except the one at the top of your list. Once you pay off your first debt, apply the payment from that debt to the next one – don't pocket the savings. Continue to pay only the minimum amount on all of your other debts. Eventually you will work down the list until they are all paid off.

How to stay out of debt

- Avoid overspending with credit cards
- Live within the means of your budget
- Remain accountable for spending and budgeting