

# Debt Repayment Plan\$

## Debt Repayment Plans

Credit cards, car loans, and mortgages are all examples of debt that plague many Americans. The secret to paying off debt is very simple: You need to earn more than you spend or spend less than you earn. Then you must apply the savings toward paying down your debt. Before you can start paying off your debt, you need to determine where you stand financially. You must know how much you owe, the interest rates on each debt, and how much you've saved. In other words, you need to know both your net worth and your cash flow. You need to form a budget to see just how much you have to spend and how much you can use to pay down your debt each month.

## The Debt Snowball Theory

This theory is the most talked about and widely accepted method of paying off debt. It's recommended by recognized financial experts such as Dave Ramsey and The Motley Fool, although there's some disagreement about one of the basic premises of the Debt Snowball - whether to start paying off the smallest debt first or the one with the highest interest rate. In both cases you list your debt and order it based on the method, either ordered by dollar amount or interest rate. You pay the minimum balance on everything except the first debt, which you pay as much as you can. Once the first debt is paid off, you take the amount you were paying on the first debt and add that to the minimum amount on the next debt and start paying that amount and so on down the line. So your payment slowly grows like a snowball rolling down a hill. Both of these methods each have their own benefits, and which one you choose is really a personal choice.

## Method #1 – Emotional Advantage

Method #1 argues that debt is 80% behavior and 20% math. This ratio means that if debt is paid off in least balance order to highest balance order, you get quick “wins” when you quickly payoff your debt with the lowest balance. Many people look at their highest balance debt and say “There is no way I’ll ever pay that off” or “It will take me forever to pay that off, why bother.” Both of these phrases often lead to nothing being done because it feels hopeless. Paying off debt in short bursts quickly gives more continuous momentum. It provides confidence that you are making progress and that it won’t take forever to be completely debt free.

Example:

Debt	Total Payoff Amount	Minimum Payment	Current Payment
<b>Credit Card 1</b>	<b>4,000.00</b>	<b>130.00</b>	<b>1,000.00</b>
Credit Card 2	9,000.00	300.00	300.00
Car Loan	12,000.00	300.00	300.00

In this example, you would pay \$1,000.00 on Credit Card 1 until it was paid off and minimums on Credit Card 2 (\$300.00) and Car Loan (\$300.00). Once Credit Card 1 was paid off, you would begin paying \$1,300.00 on Credit Card 2 until it was paid off and minimum on the Car Loan. You need to make sure you plan for these payments. You can add these payments to your budget and make them a fixed line item. Be sure to stay focused, stay the course, and make it your mission to get that debt paid off. Focus and determination will be your primary tools for making that snowball effective.

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## Method #2 – Financial Advantage

Other experts recommend listing your debts with the highest interest rate first so you can save the most money by reducing the debts that grow the fastest due to the interest added every month. The math behind this method is obvious, in that if you pay off your debt with higher interest first you will pay less interest in the long term. You will save money in the long term, but it may or may not be a significant amount.

Example:

Debt	Total Payoff Amount	Interest Rate	Minimum Payment	Current Payment
Credit Card 1	4,000.00	18.6%	130.00	300.00
<b>Credit Card 2</b>	<b>9,000.00</b>	<b>19.2%</b>	<b>300.00</b>	<b>1,000.00</b>
Car Loan	12,000.00	7.2%	300.00	300.00

In this example, you would pay \$1,000.00 on Credit Card 2 until it was paid off and minimums on Credit Card 1 (\$130.00) and Car Loan (\$300.00). Once Credit Card 2 was paid off, you would begin paying \$1,130.00 on Credit Card 1 until it was paid off and minimum on the Car Loan. Again, if you choose this method, you need to plan for the payments.

Every individual situation is different. You must take each factor into considering when choosing which method is best for you. There may be personal considerations that would motivate you to pay off certain debts first, such as a family loan that is late or is causing tension in the family. Each method has its own advantages and disadvantages. Both work in paying down debt, but your success will depend on which one works best for you.

## Tips for Getting Out of Debt Even Faster

The following are some tips for getting out of debt even faster:

- Call your credit card companies and get your rates reduced. If they refuse, call them back and try again.
- Make your minimum payments automatic. Use online billpay and make your minimum payments on all debts automatic. This will keep you from accidentally missing a payment and being charged late fees. The additional amount you have from your snowball can either be made as a separate payment or added to the scheduled payment before it goes out.
- Do anything you can to get extra money to pay against your debt, such as having a garage sale, saving spare change, getting a seasonal or side job, etc. Whenever you get extra income that's not in your budget, pay against that first debt.
- Don't spend your tax return or yearly bonus if you get one, instead, pay against your debt. Sacrifice in the short term to gain in the long term.
- Move your debt to a lower rate card if you can. Be careful though, a lot of credit card companies charge a percentage based fee on balance transfers, so try to find one that doesn't. Also, be aware of introductory offers and when the offer period ends.

- Eliminate unnecessary expenses and put the savings against your debt.

Debt is like a dark cloud following you around. It keeps your money from growing, places strain on your finances, and interrupts your personal life. However, not all debt is bad. Student loans can help you to further your education and career. A mortgage can help you live the "American dream" of owning your own house. All you have to do is control your debt, and don't let it control you.