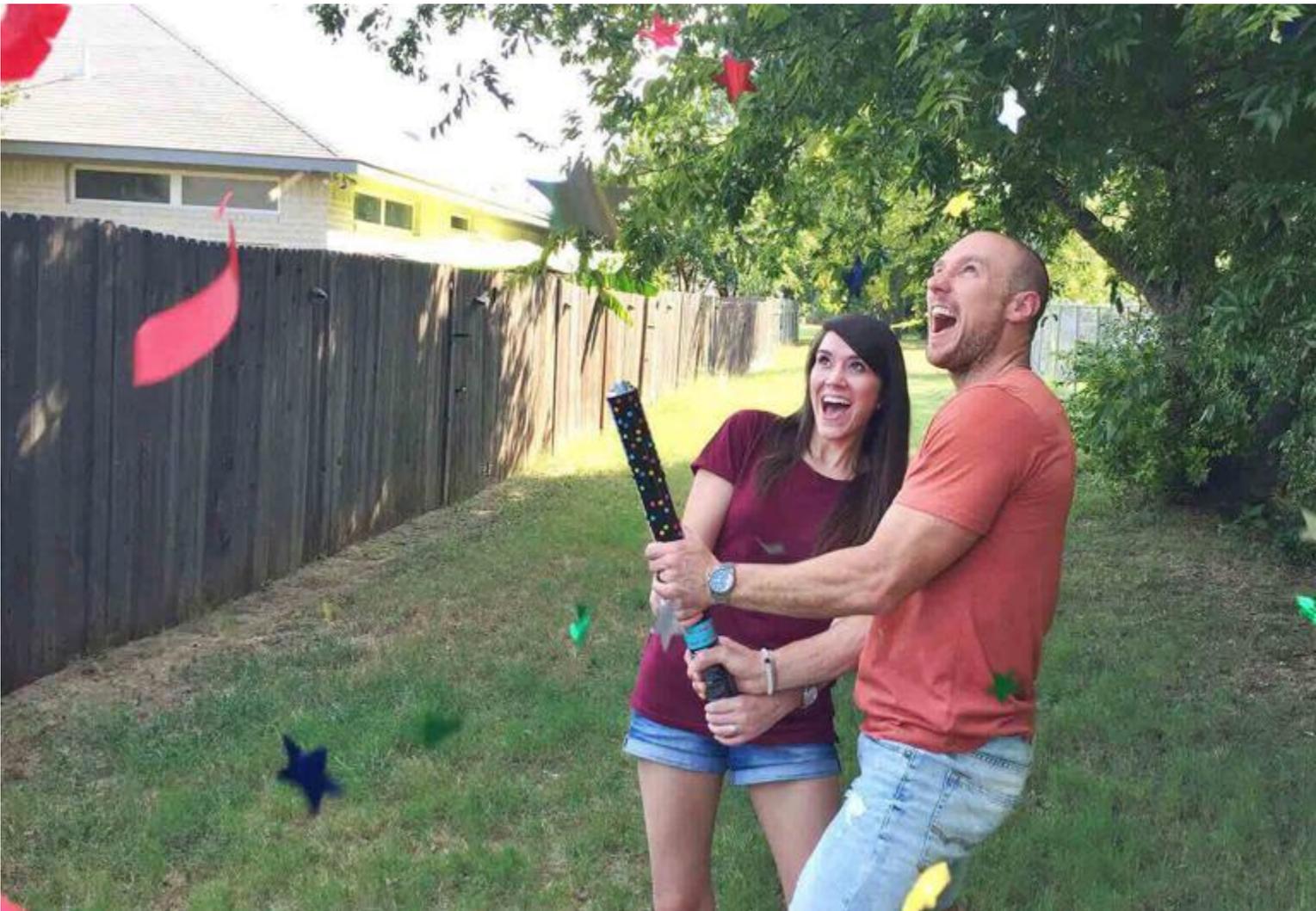


# How to Get Out of Debt With the Debt Snowball Plan



## 4 MINUTE READ

What could you do if you didn't have a single debt payment in the world? That sounds nice, doesn't it? For some of you, that would free up an extra \$300, \$500, or maybe even \$800 you wouldn't have to be throwing at minimum payments each month. Ah, that's the debt-free life.

So how do you make this dream a reality? You need to work the debt snowball and follow the plan for paying off your debt once and for all. Take control of your money instead of watching your hard-earned cash disappear month after month.

**Myth:** You need to pay off the debt with the highest interest rate first to get out of debt quickly.

**Truth:** You should knock out the smallest debt first to create momentum in your debt snowball.

## What Is the Debt Snowball Method?

When you begin Baby Step 2, you'll start working on your debt snowball. This means you're current on all your bills and have \$1,000 saved in a starter emergency fund. The debt snowball method helps you stay motivated while paying off your debt by starting with the smallest debt and working your way up to the largest.

But wait. Doesn't it make sense mathematically to pay on the debt with the highest interest rate first? Wouldn't that save you the most money?

Maybe. But if you begin with the biggest one, you might think you're not making fast enough progress, lose steam, and quit before you even get close to finishing. **It's important to pay your debts in a way that keeps you motivated until you've wiped them all out.** Those quick wins will pump you up!

And that happens when you start with the smallest debt. Once you've saved your \$1,000 starter emergency fund, list all your debts (except the house) smallest to largest. Now it's time to get rid of them ASAP with the debt snowball.

## Here's How the Debt Snowball Works

**Step 1:** List your debts from smallest to largest.

DEBTS	TOTAL PAYOFF	MIN. PAYMENT
Diagnostic	50	10
Hospital Bill	460	38
Home Depot	770	45
Total	1,280	93

**Step 2:** Make minimum payments on all debts except the smallest—throw as much money as you can at that one. Once that debt is gone, take its payment and apply it to the next smallest debt while continuing to make minimum payments on the rest.

DEBTS	TOTAL PAYOFF	MIN. PAYMENT	NEW PAYMENT
<del>Diagnostic</del>	<del>50</del>	<del>10</del>	10
Hospital Bill	460	38	48

*Handwritten annotations: A red line is drawn under the 'Diagnostic' row. A red arrow labeled 'add' points from the '10' in the 'NEW PAYMENT' column to the '38' in the 'MIN. PAYMENT' column of the 'Hospital Bill' row.*

**Step 3:** Repeat this method as you plow your way through debt. The more you pay off, the more your freed-up money grows—like a snowball rolling downhill.

DEBTS	TOTAL PAYOFF	MIN. PAYMENT	NEW PAYMENT
<del>Diagnostic</del>	<del>50</del>	<del>10</del>	<del>10</del>
<del>Hospital Bill</del>	<del>460</del>	<del>38</del>	<del>48</del>
<del>Home Depot</del>	<del>770</del>	<del>45</del>	<del>93</del>
<del>Total</del>	<del>1,280</del>	<del>93</del>	<del>151</del>

I'M DEBT-FREE!!!

- **Credit card 1:** \$500 at 13% with a monthly payment of \$25
- **Credit card 2:** \$1,000 at 19% with a monthly payment of \$50
- **Car loan:** \$6,000 at 4% over four years with a monthly payment of \$135
- **Student loan:** \$15,000 at 5% over 10 years with a monthly payment of \$159



### Want to Work the Baby Steps Faster?

If you pay the minimums on everything and add an extra \$100 to the smallest credit card payment, you'll pay it off in four months. Then you can attack the second credit card to the tune of \$175 per month (\$100 plus the newly freed-up \$25, plus the \$50 payment you're already making). That one will be gone in five months. Now you have \$310 a month (\$175 plus \$135) to put toward the car! At that rate, the car loan will hit the road in 15 months! By the time you get to the student loan, you'll be paying \$469 on it each month! You'll wave goodbye to Sallie Mae in another 24 months and be totally out of debt.

**That's what happens when you have focused intensity** and start with your smallest debt—it leads to big results!

*The best way to see BIG results with the debt-snowball is with [Financial Peace University!](#) Dave's #1 course has helped millions of people make a plan for their money, stop living paycheck to paycheck and beat debt for good. This works! Hurry, classes are starting soon. [Take the first step to changing your future today!](#)*