DAY 9: TRANSFORM DEBT INTO WEALTH

You can follow the journey in Secret 5 of **"The Ordinary Millionaire"** book (page 144 to156)

Calculating your **Snowball Plan**

To determine your personal debt repayment Snowball Plan, follow the following steps:

1 Gather information on your **outstanding debt**

Consolidate all the information on your outstanding debts. Write down the name of each debt (1), the total balance (2), and the monthly minimum repayment (3). If you have been paying more on your home loan, stop doing that. Use every extra cent you can spare towards your snowball margin.

2 Gather optimal **repayment sequence** of your debt

Once you have all the information written down, divide the total balance (2) amounts by their respective monthly payments (3) and write the answer in column 4. For example, say you have a car (2) with a R72 500 balance and a minimum monthly payment of R6 200. You would then divide R72 500 by R6 200 and get an answer of 12. Don't worry about the answer, which doesn't mean anything on its own. This will help you to determine the optimal repayment sequence of your debt.

Do this for every **debt** that you have.

3 Sequence of **priority debt**

Once you have done the exercise in Step 2 for all debts, you will have determined the sequence of priority debt (5). Mark the debt with the lowest answer as number 1 priority. And so on.

4 Determine the **snowball margin**

Determine your snowball margin, which is any money that you can save with a proper budget. Try to save at least ten percent of your monthly net income.

5 **Snowball** margin

Once you have done the exercise in Step 2 for all debts, you will have determined the sequence of priority debt (5). Mark the debt with the lowest answer as number 1 priority. And so on.

6 **Total** repayment

Add the total repayment amount to the next highest priority debt. The total monthly payment plus the snowball margin becomes the new accelerated premium.

7 **Repay** Debt

Continue steps 5 and 6 to determine the total time left to repay debt.

Note:

You might have thoughts around the impact of paying off the debt with the highest interest rate first. In the Snowball method it doesn't make much difference, the emotional satisfaction of small victories and progress are far more important.

Calculating your **Snowball Plan** (Continued)

Debt	Balance	Installment	Term	Priority	Accelerated Installment	Remaining Term
Home Loan	R1 000 000	R12 653	134	7	R32 943	30
Credit Card (1)	R17 000	R1 275	16	3	R8 825	2
Credit Card (2)	R32 870	R2 465	16	4	R11 290	3
Clothing Accounts	R11 220	R850	16	2	R7 550 B	1
Personal Loan	R25 530	R700	71	6	R20 290	1
Car (1)	R123 500	R8 300	18	5	R19 590	6
Car (2)	R72 500	R6 200	13	1	R6 700 A	11
TOTAL	**R1 282 620**	**R32 443**	**284**			**54**

Your scenario:

Debt	Balance	Installment	Term	Priority	Accelerated Installment	Remaining Term
Home Loan						
Credit Card (1)						
Credit Card (2)						
Clothing Accounts						
Personal Loan						
Car (1)						
Car (2)						
TOTAL						