

## **How a Snowball Can Help You Pay Off Debt**

from Dave Ramsey's Financial Peace

Today, we will explore a simple plan to pay off your debts that is often called a debt snowball. The details of how to execute a debt snowball plan can be found below :

a) List your debts from smallest to largest. Show the amount owed on each debt and the minimum monthly payment on each

Example :

Target	minimum payment = \$50	amount owed = \$1,000
Visa	minimum payment = \$100	amount owed = \$5,000
GM	minimum payment = \$350	amount owed = \$10,000

b) Focus on paying off the smallest debt first. Each month, pay the minimum payment on all remaining debts but the smallest one. Pay the remainder of your budget for debt payments on the smallest debt. This will allow you to retire this first debt quickly, gain some confidence, and move on to the second debt on the list.

Example : if debt budget = \$800, first month payments would be as follows :

Target	: \$350
Visa	: \$100
GM	: \$350

c) Once the smallest debt is paid off, move to the next smallest debt remaining and attack it

Example : Debt budget = \$800, payments are allotted as follows :

Target	: PAID OFF
Visa	: \$450
GM	: \$350

d) Continue the snowball until all of the debts have been retired

This is a fairly simple plan to help you gain some momentum in paying off your debts and should help you gain confidence as you pay off each debt one at a time. The beauty in this plan is that you only focus on paying off one debt at a time, instead of trying to pay off all of them at once.