DEBT SNOWBALL EXPLAINED

The Debt Snowball method for paying off debt is a motivating method that helps you gain momentum as you pay off your debts. Your “snowball” is the extra money you are putting towards your debt and it grows larger with each debt that is paid off.

First, list all of your debts smallest to largest by amount owed. Pay minimum payments on all of the debts except the smallest one, then attack that smallest debt. Trim your budget to come up with anything extra you can put towards that debt. Once it is gone, take the money you were putting toward that debt, plus the extra money, and attack the next debt on the list. Once that debt is gone, take that combined payment and go to the next debt, knocking them out one by one.

By the time you are paying on the bigger debts, you have much more cash freed up from paying off the earlier debts, that your “snowball” has grown. You build momentum, which changes your behavior and helps you to get out of debt and stay that way.


EXAMPLE...

$420 Hospital Bill ($10 minimum payment)
$2,00 Credit Card Bill ($50 minimum payment)
$10,000 Car Payment ($200 minimum payment)

Pay the minimum payments on all debts except the Hospital bill. Put your extra $200 towards that debt, paying $210 for two months until it is paid off. Then move on to the credit card bill. Add the extra $210 (since you’re not making the hospital payment anymore) to your $50 minimum credit card payment and pay $260 each month until the credit card bill is paid off. Then add the extra $260 to your $200 car payment and pay $460 on your car payment until it is paid off.