The Debt Snowball: Step-by-Step

The debt snowball is a highly effective way to quickly pay off debt and gain momentum toward a healthy financial lifestyle.

Before creating your own debt snowball, there are **three important things you should know**.

1. The success of the debt snowball is contingent upon finding extra money to put toward your debt. In our example, we'll use $200. Where do you find extra money in your budget? Cut cable television, limit eating out, earn extra income…do what you can to aggressively attack your debt. If you can't afford $200, start with $50 or $100. To make the snowball work you must find a way to pay extra on your debt.

2. Don't worry about interest rates. It makes sense logically to go after the debt with the highest interest rate first because you'd save more money in interest. However, changing behavior often isn't a logical decision; it's more of an emotional one. Using the debt snowball, you'll pay off your lowest-balance debt first, helping you feel a sense of relief and accomplishment almost immediately. Although we aren't focusing on interest rates, if you feel like your interest rates are too high, call your creditors to see if they'd consider lowering them.

3. It's important that you make your minimum payment on every debt you owe. The extra money you set aside to help blast your debt (see number 1) will be added to the minimum payment on the debt listed first. Pay this new amount on this debt only, but continue to pay your minimum on all other accounts.

Okay, let's get started. The first thing you're going to do is pull out all your statements and files to locate every account which has a balance. For now, don't worry about your mortgage; just focus on credit cards, medical bills, car payments or student loans.

Make a list which includes the creditor's name, account balance and minimum payment due for all debts. *Organize your debt from smallest to largest.* Your list may look something like this.

Creditor	Account Balance	Minimum Payment Due
Target	$450	$25
Chase	$1,200	$100
Bank (auto loan)	$9,500	$375

Now, using the extra money you identified—**$200, in this example**—increase the minimum payment on your lowest debt. *Remember, continue to make the minimum payment on all other debt!* Flip the page over to see what that looks like.

Creditor	Account Balance	Minimum Payment Due	New Minimum Payment
Target	$450	$25	$25 + **$200** = $225
Chase	$1,200	$100	----------
Bank (auto loan)	$9,500	$375	----------

So, the first month of your debt snowball you'll pay Target $225, Chase $100 and your bank $375. After only two months, the Target card will be paid off! How exciting! What do you do next?

With your first debt eliminated, you'll take the monthly amount you paid on it and add it to the minimum payment of your next lowest debt.

Creditor	Account Balance	Minimum Payment Due	New Minimum Payment
Chase	$1,200	$100	$100 + **$225** = $325
Bank (auto loan)	$9,500	$375	----------

So, now you're paying $325 to Chase. Why $325? Well, your minimum payment is $100 and since the Target account is paid off, you're going to take the monthly amount you were paying them ($225) and add it to your minimum payment for Chase. Continue to make your minimum payment of $375 to your bank for your auto loan.

As you can see, by paying $325 each month, the Chase account will be eliminated in just a few months, assuming you've stopped charging expenses to the account. Once that debt is paid, take the monthly amount paid and add it to your next debt—the auto loan.

Creditor	Account Balance	Minimum Payment Due	New Minimum Payment
Bank (auto loan)	$9,500	$375	$375 + **$325** = $700

Now your new car payment is $700, so you're paying almost double what you previously were! Do you see how you're able to snowball your payments and eliminate your debt all by finding an extra $200?

Visit us on the web at **OklahomaMoneyMatters.org** to learn more about money management tips and tools. If you've tried or are trying the debt snowball, drop us an email at **OklahomaMoneyMatters@ocap.org** and let us know what you think about the method!

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