

The Debt Snowball Method

Use the debt snowball method and the accelerator margin to help speed up paying back your debts

The average American family sits under a mounting pile of credit card debt so high that and if only minimum payments were made, it would take 29 years to pay off. However, there is hope.

By using the debt snowball method and accelerator margin to pay off your debt, you can typically have all your debts paid in under ten years. And that includes your mortgage balance.

With a little sacrifice in your life, you can feel financial freedom once again.

The Debt Snowball Method Defined

Lets take a brief look at what the Debt Snowball Method entails. The basic steps are as follows:

- Organize your debts in order from smallest balance to largest.
- Continue to pay the minimum payment on every debt, every month.
- Determine how much extra can be applied towards the smallest debt - this is the Accelerator Margin.
- Pay the minimum payment plus the Accelerator Margin towards that smallest debt until it is paid off.
- Then, look at your next debt to be paid. Add the old minimum payment from the first debt to the minimum payment on the second debt, and add the Accelerator Margin. Pay this amount toward the second debt.
- Repeat until all debts are paid in full.

How do I come up with the Accelerator Margin?

Take a good long look at where your money has been going and determine some small things you can give up. If you don't have a budget that you are following, stop now and create one.

Using the debt snowball method will be worthless to you if you keep spending money without a plan. Use the free household budget worksheet to figure out where your money is going, then create a budget and stick to it.

The recommended debt accelerator margin is 10 percent of your gross income.

It may seem like a lot, but when you evaluate your spending, you will find that there are a number of things you can temporarily live without to reach that 10 percent. In fact, most people waste a lot of money and don't even know it.

Review your budget to see if you can find categories that you can trim a little to get that extra 10%. Remember, this is temporary - once your debt is paid you can put the 10% back into your budget.

With the debt snowball method, making progress is about 30 percent financial and 70 percent psychological. In order to get out of debt you need to have the right mindset and desire. Then the debt snowball method will take care of the rest.

THE DEBT SNOWBALL

List your debts in descending order with the smallest payoff or balance first. Do not be concerned with interest rates or terms unless two debts have similar payoffs, then list the higher interest rate debt first. Paying the little debts off first shows you quick feedback and you are more likely to stay with the plan.

Redo this sheet each time you pay off a debt so you can see how close you are getting to freedom. Keep the old sheets to wallpaper the bathroom in your new debt-free house!

Date: _____ Count down to freedom

Item	Total Payoff (a)	Minimum Payment (b)	New Payment (c)	Payments Remaining (d)

“New Payment” is found by adding all the payments on the debts listed above that item to the payment you are working on, so you have compounding payments, which will get you out of debt very quickly.

“Payments Remaining” is the number of payments remaining when you get down the snowball to that item.