

Here's How the Debt Snowball Method Works

The debt snowball method is a debt reduction strategy where you pay off debts in order of smallest to largest, gaining momentum as each balance is paid off. When the smallest debt is paid in full, you roll the money you were paying on that debt into the next smallest balance.

It looks something like this:

Step 1: List your debts from smallest to largest.

Step 2: Make minimum payments on all your debts except the smallest.

Step 3: Pay as much as possible on your smallest debt.

Step 4: Repeat until each debt is paid in full.

An Example of the Debt Snowball

Say you have the following four debts:

1. \$500 medical bill (\$50 payment)
2. \$2,500 credit card debt (\$63 payment)
3. \$7,000 car loan (\$135 payment)
4. \$10,000 student loan (\$96 payment)

Using the debt snowball method, you would make the minimum payments on everything except the medical bill. For this example, let's say you have an extra \$500 each month from taking a side job and cutting your expenses down to the bare minimum. **You are gazelle intense.**

Since you're paying \$550 a month on the medical bill (the \$50 payment plus the extra \$500), that debt will be done in one month. You would then take that \$550 and attack the credit card debt. You can pay \$613 on the plastic (the freed-up \$550 plus the \$63 minimum payment). In about four months, you'll wave goodbye to the credit card. You've paid it off!

Now punch that car loan in the face to the tune of \$748 a month. In 10 months, it'll drive off into the sunset. Now you're on fire!

By the time you reach the student loan—which is your biggest debt—you can put \$844 a month toward it. That means it will only last about 12 months. After that, Sallie Mae better get used to living somewhere else, because you've kicked her out!

Thanks to your hard work and sacrifice, you have paid off \$20,000 of debt in only 27 months using the debt snowball method! Congratulations!

Why Does the Debt Snowball Method Work?

The debt snowball works because it is about **behavior modification**, not math.

In our example, if you start paying on the student loan first because it's the largest debt, you won't see it leave for a while. You'll see numbers going down on a page, but pretty soon you'll lose steam and stop paying extra. And you'll still have all your debts hanging around.

But when you ditch the small debt first, you see progress. **That one debt is out of your life forever.** The second debt will follow soon, and then the next. **When you see the plan working, you stick to it.** And when you do that, you'll succeed in becoming debt-free!

By the time you're paying on the bigger debts, you have so much more cash freed up from paying off the earlier ones that it creates a debt snowball. Suddenly, you're putting hundreds of dollars a month toward your debts instead of a few bucks here and there. **You build momentum, and that changes your behavior and helps you get out of debt for good.**

***Ready to work your own debt snowball?** Learn how to pay off debt, make wise spending decisions, save for the future, and more in Dave Ramsey's class Financial Peace University. Find a class today!*

Excerpt from Dave Ramsey Newsletter, January 2018

How to Use Debt Avalanche

You may be able to save time and money by paying off your debts with the highest interest rate first.

BEV O'SHEA & SEAN PYLES

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There are lots of ways to get into debt, but two popular ways to [pay it off](#). They are commonly known as the debt avalanche and the debt snowball.

Mathematically speaking, a debt avalanche (also known as "debt stacking") is likelier to pay off debts in a shorter time and save you the most money on interest. This payoff method targets debts with the highest interest rates first.

A debt snowball plan, in contrast, prioritizes your smallest debt first no matter the interest rate. Each time the smallest one is eliminated, you move to the next smallest.

If you need short-term victories to inspire you, you're a [debt snowball](#) candidate. If you tend to be analytical and patient, a debt avalanche may appeal to you.

Using the debt avalanche strategy

Proponents of the debt avalanche approach include NerdWallet columnist Liz Weston. “You’ll get out of debt more quickly by going after toxic debt first,” she says. “On the other hand, if you truly don’t think you’ll succeed without making small victories, a debt snowball is way better than doing nothing at all.”

Oftentimes, people can address their debt by creating a budget and sticking to it, which frees up cash to implement an avalanche debt-payoff strategy. Once you’ve got a handle on what you owe and where you spend, it’s time to start on the avalanche.

Oftentimes, people can address their debt by creating a budget and sticking to it.

Add up all the minimums you must pay on your debt — ordered from the highest interest rates to lowest — and then figure out how much extra you can pay beyond the total of your minimums.

Let’s say you have a hospital bill for \$300, and the hospital is allowing you to pay on it interest-free. You also have a credit card balance of \$2,500 at 22.9% interest and another of \$5,000 at 15.9%.

That \$2,500 credit card balance becomes your top priority, because it carries the highest interest rate. If you can put an extra \$200 over your total minimums to pay off debt, it will go to that one until it is paid off. Then you add that debt’s minimum to the \$200 extra, and put the total toward the bill with the second-highest interest rate.

Continue knocking off debts and rolling their minimums into the extra debt payment amount until all debts are repaid. If a promotional interest rate ends, you may have to reorder your debts to keep your focus on the one with the highest rate.

Both an avalanche and a snowball use money you’ve committed to pay off debt. Sometimes, though, you happen across “extra” money, like a rebate check or a full jar of change. You can supplement either payoff strategy by using that found money to further chip away at debts ([the “snowflake” method](#)).

How to Snowflake Your Debt

BEV O'SHEA May 19, 2016

[Managing Money, Paying Off Debt, Personal Finance](#)

A debt snowflake is a way of paying off debt that immediately captures small savings for use toward outstanding bills.

It sounds a lot like other strategies that aim to speed the arrival of your debt-free date, but it's different:

- In a [debt snowball](#), you aim any extra money at the smallest bill first, racking up a psychological victory as you repurpose that payment toward the next-smallest debt.
 - In a [debt avalanche](#), you go after the highest-interest debts first, decreasing the total interest paid. It's less rewarding in the short term but more efficient.
- In both of those strategies, you are using money you have especially [budgeted for debt payoff](#).

The snowflake method, on the other hand, finds tiny, day-to-day savings and uses them to make your zero-debt day come even sooner. It's compatible with either the snowball or avalanche strategies. Like snowflakes, tiny savings collected over time can have a big impact. And you have to be quick to capture them: Snowflakes disappear fast.

Make the most out of found money

If you've budgeted carefully, you may think there are no more savings to be had.

But the small amounts of money you can snowflake toward debt (or an [emergency fund](#)) can come from less obvious sources like:

- Splitting a 12-inch sub with a friend when you would have otherwise ordered your own 6-inch sub (potential savings: [about \\$2!](#)).
- Discovering a \$20 bill in a coat pocket (and before you take clothes to the cleaners or donate them, please check all the pockets).
- An unexpected rebate check in the mail.
- A yard sale.
- Payment for jobs that are outside your normal budget (lawn mowing, baby-sitting, pet care, housesitting).

You get the idea. We are not talking about big amounts of money here.

Nor are we talking about money accounted for in your budget; this is found money only. And you don't want to divert the money you have allotted for your own discretionary spending — your budget won't work without it.

The idea is to benefit from these small cash surprises instead of letting them slip through your fingers, without even the tiniest contribution toward your financial goals such as [consolidating and paying off credit card debt](#).

Capturing little bits of cash

How do you manage to keep such small savings from simply disappearing?

- If you keep a [change jar](#), you can put the extra savings there and use that money to help pay down debt at the end of the month. The important thing is to make sure it's not in your pocket or wallet, available to spend. If you're depositing cash, be sure the bank's locations are convenient to you.

10 HABITS OF DEBT FREE PEOPLE...

- If it's money unspent in your bank account, some banks or credit unions may allow you to transfer even tiny amounts from checking to savings. (The last thing you want to do is to accidentally trigger a fee for excessive transfers — and many financial institutions have them — because you moved \$3.21 from checking to savings.) Otherwise you can try grouping the tiny transfers together, say, once a week, or write a check to yourself.
- If you are using **snowflakes to make a loan disappear** early, be sure that extra payments are acceptable to the lender and that you can have the **extra cash applied toward principal.**
- If you are making “micropayments” on credit cards, be sure you won't incur charges on either end of the transaction.

4 Ways to Consolidate Credit Card Debt...

1. _____
2. _____
3. _____
4. _____

BUDGET

Proverbs 10:4 "Poor is he who works with a negligent hand, but the hand of the diligent makes rich". *Proverbs 13:18 – He who ignores discipline comes to poverty and shame, but whoever heeds correction is honored.*

GOAL ORIENTED

The Just Live by Faith - Then the LORD answered me and said: "Write the vision And make it plain on tablets, That he may run who reads it."
[Habakkuk 2:2 NKJV](#)

CREATE LISTS

Proverbs 11:14 "Where there is ~~no~~ guidance, a people falls, but in an abundance of counselors there is safety.

SPIRITUAL IDENTITY

For the word of God is living and powerful, and sharper than any two-edged sword, piercing even to the division of soul and spirit, and of joints and marrow, and is a discernor of the thoughts and intents of the heart.
Hebrews 4:12

LIVE BELOW YOUR MEANS

There is precious treasure and oil in the house of the wise [who prepare for the future], But a short-sighted *and* foolish man swallows it up *and* wastes it. Proverbs 21:20 amp.

GENEROUS

Remember this: Whoever sows sparingly will also reap sparingly, and whoever sows generously will also reap generously.
7 Each of you should give what you have decided in your heart to give, not reluctantly or under compulsion, for God loves a cheerful giver. II Corinthians 9:6-7

KNOWLEDGE SEEKERS

Proverbs 1:7 "The fear of the Lord is the beginning of all knowledge".
II Timothy 2:15 "Be diligent to present yourself approved to God, a worker who does not need to be ashamed, rightly dividing the word of truth.

LEGACY MINDSET

Proverbs 13:22 A good *man* leaves an inheritance to his children's children,
But the wealth of the sinner is stored up for the righteous.

DILIGENCE

- Proverbs 119:1-3 msg 1 "You're blessed when you stay on course, walking steadily on the road revealed by God.
- 2 You're blessed when you follow his directions, doing your best to find him.
- 3 That's right - you don't go off on your own; you walk straight along the road he set".

RESOURCEFULNESS

"And you shall remember the LORD your God, for *it is* He who gives you power to get wealth, that He may establish His covenant which He swore to your fathers, as *it is* this day". Deuteronomy 8:18

5 THINGS TO GET RID OF TO ACHIEVE A DEBT FREE LIFE

EXCUSES

Judges 6:12-17

IGNORANCE/LACK OF KNOWLEDGE

Hosea 4:6 KJV: My **people** are destroyed for **lack of knowledge**: because thou hast rejected knowledge, I will also reject thee, that thou shalt be no priest to me: seeing thou hast.

BAD COMPANY/NEGATIVE PEOPLE

Proverbs 13:20 "Walk with the wise and become wise, for a companion of fools suffers harm.

ISOLATION/NOBODY KNOWS...

Proverbs 18:1 "Whoever isolates himself seeks his own desire; he breaks out against all sound judgment".

Proverbs 34:17-19 "When the righteous cry for help, the LORD hears and delivers them out of all their troubles. The LORD is near to the brokenhearted and saves the crushed in spirit.

Many are the afflictions of the righteous, but the LORD delivers him out of them all.

FEAR: False Evidence Appearing Real

II Timothy 2:17 "For God has not given us a spirit of fear, but of power and of love and of a sound mind".