How to Prioritize Your Household Debt Payments

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The guy Wall Street and the Bankers hope you'll never meet!

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Getting buried in debt?

Should you make a snowball or trigger an avalanche?

What if you don't have enough cash for payments?

Once you realize how deep you're in debt, it can be overwhelming to imagine what it will take to dig yourself out. A good first step is to consider how to best prioritize each of your household debt payments.

If we assume that your goal is to pay debts off as quickly as possible, then there should absolutely be a 'pecking order' to how debt repayment is approached.

There are two strategies that meet that objective: The **Snowball** and the **Avalanche**. We'll take a quick look at each one, as well as share advice on what to do when cash is tight and you simply can't make all your payments.

The Snowball

The 'Snowball' strategy (advocated by personalities like Dave Ramsey and Suze Orman) attacks the **smallest debt first**. Once it's paid off, apply the payment from that paid-off debt to the next smallest debt. These 're-deployed' payments are referred to as "Rollup" payments. Continue that pattern until all debts are repaid.

The Avalanche

The 'Avalanche' strategy prioritizes debts from **highest interest rate** to lowest and then uses the same rollup payment approach as the Snowball.

Both strategies work quite well, and can often compress the total repayment timeline by one-third or more. When the debtor can add extra money to either strategy (an "Accelerator" payment), the timeline is compressed even further – often to well under half the time it would take paying only the creditor's required minimum payment.

Which Debt Prioritization Strategy is Better?

Snowball and Avalanche each have their own distinct advantages.

Snowball:
Consistent Emotional Motivation

The Snowball's advantage is that debts disappear more quickly, because you are getting rid of the "easy" ones first. That provides a great deal of emotional satisfaction and motivation to keep at it.

(Since the Avalanche strategy attacks debts by interest rate, it tends to have fewer early 'wins' that can keep that motivation level at its peak.)

Avalanche:
More Money Saved Over Less Time

The advantage offered by the Avalanche strategy is that in most cases – it will result in an overall faster payoff, and accordingly, more interest saved. While the Avalanche will never result in a slower payoff than the Snowball the two will tie in many cases.

Do you need to see at least some progress being made right away?
Or can you wait to see a bigger return on your efforts?

Saving and Reclaiming YOUR Money by Compressing the Timeline

In addition to the emotional reward of achieving debt-freedom, compression of the repayment timeline also has two measurable and substantial financial benefits. **Repayment compression saves the debtor interest** – money that does not need to be paid to creditors, and is available for family priorities instead. Interestingly, debt may be the only financial contract we entered into that is priced based on a ‘rate’ rather than a dollar amount. As such, debtors who can accelerate the repayment of the debt can **significantly reduce the overall cost of borrowing without any negative consequences.**

The other financial benefit of repayment compression is what I call **‘income reclamation.’** Each time a debt is paid off on the lender’s schedule, the client gets a small pay raise when the associated monthly payment goes away.

If we calculate the value of all the ‘pay raises’ the client receives by the time they’re debt free on the lender’s schedule; then compare that to the total pay raises they’ll capture using either the Snowball or Avalanche strategies, the debtor will ‘reclaim’ significantly more income using either of the latter strategies, even though they forfeit some of those early pay raises by converting them to rollup payments instead. This saving typically dwarfs interest savings, which are substantial on their own.

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Can't Make Your Payments?

When cash is tight and something has to give, look at debts based on the **consequences of late or skipped payments**. All late payments will impact credit score – although usually, not until the payment is 30-days late. This is typically later than when a creditor's 'late fee' kicks in – so there may be a little wiggle room in making late payments without necessarily impact credit score.

From there, it is a matter of the **lowest late fees**, followed by the triggering of any interest rate hikes that could result. Finally, the issue of repossession or a call on collateral must be considered. Credit cards typically have nothing to repossess; but a car can be snatched in an instant; and repossessing a home can take many months.

Talk with creditors if you are having trouble making even the minimum payments. Many will be flexible if they think it will help them get paid eventually. They may offer a forbearance option or – if your cash-flow crunch was temporary and is now back to full steam – they may 'capitalize' missed payments (add them to the total outstanding balance and recalculate a new payment). This is also the time to go back and read the fine print on the credit card disclosures and other loan documents signed so nothing unexpected sneaks up on you.

Let us show you how to make more money your money while becoming debt free!

In the Live Interest Free program, we teach people how to pay off their debt in half the time – without spending any more money – saving a ton of interest in the process, and having a pile of cash to show for their efforts in the end.

Call (800) 214-6708 today
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