# The Debt Snowball Method

When you were a kid rolling a snowball in the backyard, the best way to do it was to pack some snow into a tight ball, then start rolling it through the yard. Your snowball would become a snow boulder much quicker than it would if you just built it up by hand. That's exactly how the debt snowball method works.

The debt snowball is perhaps the most life-changing Baby Step you'll experience in your total money makeover. Once you're on Baby Step 2—that means you are current on all your bills and have your $1,000 starter emergency fund saved up—list your debts smallest to largest by amount owed. Don't worry about interest rates. We don't care if one debt has a 2% rate and another one has a 22% rate.

Now it's time to make progress.

Pay minimum payments on all of the debts except the smallest one then attack that debt with a vengeance. We're talking gazelle intense, sell-out, get-this-thing-out-of-my-life-forever energy. Once it's gone, take the money you were putting toward that debt, plus any extra money you find, and attack the next debt on the list. Once it's gone, take that combined payment and go to the next debt. Knock them out one by one.

Here's an example. Let's say you have the following debts:

$500 medical bill ($50 payment)

$2,500 credit card debt ($63 payment)

$7,000 car loan ($135 payment)

$10,000 student loan ($96 payment)

With the debt snowball, list the debts in that order (remember, ignore the interest rates). Start by making the minimum payments on everything but the medical bill. For this example, let's say you find an extra $500 each month by taking an extra job, slashing your lifestyle to nothing, and going crazy. That's very doable.

Since you are paying $550 a month on the medical bill (the $50 payment plus the $500 extra), that medical bill won't even last a month. Now, take that $550 and attack the credit card debt. You'll be paying $613 on the plastic (the freed-up $550 plus the $63 minimum payment). In about four months, wave bye-bye to the credit card. You've paid it off!

Now we're at the car debt. Punch that car note in the face to the tune of $748 a month. In 10 months, it will drive off into the sunset. Now you're on fire!

Once you've gotten to the student loan, you will be putting $844 a month on it. 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 in debt in only 27 months using the debt snowball! Congratulations!

The point of the debt snowball is behavior modification. 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 that's it. Pretty soon, you'll lose steam and stop paying extra, but 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. Soon the second debt will follow, then the next. When you see that the plan is working, you'll stick to it. By sticking to it, you'll eventually succeed in becoming debt-free!

The only time you might make an exception to the debt order is if one of the debts is to the IRS. You do not want them in your life, so it would make sense to move a tax bill up in priority. Once it's gone, proceed with the debt snowball like normal.

By the time you are paying on the bigger debts, you have so much more cash freed up from paying off the earlier debts that it creates a “debt snowball” effect. You are putting hundreds of dollars a month on your bills instead of a few bucks here and there. You build momentum, which changes your behavior and helps you get out of debt and stay that way.

Ready to work your own debt snowball this year? Hear what Dave has to say about debt, the debt snowball, and six ways for you to get intense about dumping debt.

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