

Debt Handling - Debt Reduction - Snowball Method

Very much like opinions you can find multiple ways to attack your debt and reduce your monthly and overall debt load. Some methods are a little less painful than others and easier to understand.

The quick fix and most obvious response is to simply pay down or pay off your debts. If only it was as easy to pay off debt as it is to create debt! Paying down debt when you look at the numbers can seem very difficult, and for some debt-ridden consumers it may seem completely hopeless.

Listen up! There is one easy to follow method that ten of thousands have used with great success. This method is called "the snowball method" and was named by a great financial teacher Dave Ramsey.

The "snowball" technique is very simple. It begins by taking all of your debts from lowest balance to the highest and putting them in order. DO NOT order them by interest rate. Order them by the outstanding balance.

Start by paying the minimum amount required on all of the monthly debts. The next step is to take any and all extra funds you can squeeze out of your budget and put those funds onto the debt with the smallest balance. This way all your effort is focused on paying off the smallest debt first. Once the first debt is paid in full you'll now have money freed up to start paying down to the next-smallest (which is now the smallest) debt. Rinse and repeat until you have paid off all your debts.

There has been some criticism of the simplicity of this debt reduction method, but it does come with some advantages of which there are several. This method allows you to see visible progress as you watch your debt be reduced in generally a short period of time. The psychological boost you receive with winning at the debt game increases your desire to continue moving forward. As you begin to cross off those debts one at a time more of your income will be freed up to pound away at the next debt in line.

Do not under-estimate the psychological power of motivation to continue retiring debt. Watching each debt be reduced is like stepping on the financial dieting scale.

The simplicity of the snowball method does come with a drawback. The time and money required to pay off your debts could cost more money in the long run.

For example if you had 3 balances with the same interest rate paying off the lowest first will grow the highest balance because of higher interest added each month. You would in fact reduce your cost by reducing the order and paying down the highest balance first.

The problem comes with action. Paying down the highest balance first takes a discipline, which many cannot stick with. It does not carry the psychological edge that paying off the lowest to highest balance does.

Any kind of debt reduction plan does take willpower like when using [a loan for credit card debt consolidation](#). Willpower unfortunately is something many faced with mountains of debt find the most difficult and the reason they are dealing with excessive debt in the first place.

Overall despite the criticism using the snowball method to reduce debt works well and is their best chance for many to pay off all their combined debts.

About the Author

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