



# DEBT

## **ESTABLISHING A DEBT REPAYMENT PLAN**

- 1. Establish a Spending Plan based on a temporary, spartan lifestyle.**  
This frees up every possible dollar for the top priority of debt reduction.
- 2. Determine whether any nonessential assets can be sold.**  
Cash from the sale of assets can be used to give the debt repayment process a kick-start and provide the initial buffer to ensure success.
- 3. List your debts from smallest to largest.**  
Do not pay attention to the interest rate of the debt.
- 4. Pay the minimum payment on all debts and the maximum additional possible on the smallest.**  
The goal is to pay off smaller debts quickly. This will give a sense of accomplishment as well as simplify the process as the number of creditors is reduced. Although one could argue that the greatest overall savings would occur by paying off the highest interest debt first, the psychological impact of getting some debts paid quickly far exceeds the downside of the few additional interest dollars it may cost. When only debts of relatively the same amount remain to be paid, apply extra payment to the one with the highest interest.
- 5. As each debt is paid off, roll the total amount you were paying to the next largest debt.**  
Add that amount to the minimum payment you were making.
- 6. Continue this strategy until all debts are paid.**  
Do not reduce the total amount going to debt repayment as some debts are paid off. It is the “snowball” effect of rolling the previous payment into the next largest debt that gives this system its power.

**7. Incur no new debt, period!**

Discipline will be necessary in this regard. Obviously, you will not make progress if you are continuing to incur new debt as you are attempting to pay off the old. Be creative. Have someone hold you accountable. Ask for God's help. Know in your heart you are doing the right thing.

**8. Discard credit cards.**

Get rid of them. If you must have a card for travel or emergency, have only one.

**9. Reward yourself occasionally but modestly.**

As progress is made and milestones are reached, it is appropriate to reward yourself. For some, the progress itself may be reward enough.

The following page shows a sample Debt Reduction Plan and an explanation for each column. A blank Debt Reduction Plan is included in the Forms section on page 321.

### Sample Debt Reduction Plan

Item	Amount Owed	Interest	Minimum Monthly Payment	Additional Payment \$ <u>150</u>	Payment Plan and Pay-off Dates				
					3 Months	6 Months	15 Months	22 Months	26 Months
<i>Sears</i>	\$372	18.0	\$15	\$165	<i>paid!</i>				
<i>Doctor</i>	\$550	0	\$20	\$20	\$185	<i>paid!</i>			
<i>Visa</i>	\$1980	19.0	\$40	\$40	\$40	\$2.25	<i>paid!</i>		
<i>Master</i>	\$2369	16.9	\$50	\$50	\$50	\$50	\$275	<i>paid!</i>	
<i>Auto</i>	\$7200	6.9	\$259	\$259	\$259	\$259	\$534	\$534	<i>paid!</i>
<b>Total</b>	\$12,471		\$384	\$534	\$534	\$534	\$534	\$534	0

- The first and second columns list to whom the debt is owed and the amount owed. Debts are listed in the order of lowest to highest amount.
- The third and fourth columns list the interest rate and the minimum monthly payment for each debt.
- The fifth column indicates the amount of additional payment above the minimum that can be made and adds that amount to the minimum payment for the first (smallest) debt listed.
- The remaining columns show how, as each debt is paid, the payment for it is rolled down to the next debt. Pay-off dates can be calculated in advance or simply recorded as they are achieved.