Debt Repayment Strategies

JEN: So… c-c-cold… Must keep moving…

YETI: Hot cocoa?

JEN: Ooh! Why, thank you. Wait a second… Ahh! Who are you? Wait, where am I?

YETI: Hello, my tiny human friend! My name is Dave, and I am a Debt Yeti, and you're here in The Mountain of Debt!

JEN: What? I don't wanna be here!

YETI: No one does, but as you know, consumer debt is a slippery slope. Debt can be painful.

JEN: Ow…

YETI: It's stressful, it's expensive and it limits the amount of money you can put toward other things.

JEN: So how do I get outa here?

YETI: Hey, chill. You simply have to choose a debt repayment strategy.

JEN: Of course. But… I don't know any.

YETI: Start by making a list of all your debts—credit card, medical, student loans—you name it. You'll need to know the balance, the interest rate and the minimum payment for each debt. Then you can choose from the following strategies: the Snowball method, the Avalanche method or Consolidation.

JEN: Hmmm…

YETI: The Snowball method is good for beginners. In it, you arrange your debts from smallest balance to largest balance. Every month, set aside as much money as possible for debt repayment. Then, after making the minimum payment on all your debts, the rest goes toward paying off the debt with the smallest balance. Paying off those smaller loans frees up more money to put toward debt repayment.

JEN: Like a snowball getting larger and larger!

YETI: That's right. Plus, the small victories can give you some much-needed motivation if you're feeling completely overwhelmed.

JEN: What if I'm not totally overwhelmed, but still have a lot of debt?

YETI: The Avalanche method is, mathematically speaking, the most powerful debt repayment strategy. In it, you arrange your debts by interest rate, from highest to lowest. Every month, you make the minimum payment on each, and the rest of the money you set aside for debt repayment goes toward the loan with the highest interest rate.

JEN: So you get rid of your most expensive debt first!

YETI: Exactly! Now, sometimes that debt may also have a large balance, so it might not feel like you're making as much progress as in the Snowball method, but if you can weather the storm, the Avalanche method is worth it.

JEN: Nice. I mean… cool!

YETI: Then there's Consolidation. This can be a helpful strategy if you're having trouble keeping track of all your various debts and their payment dates. When you consolidate your loans, you take out a new loan and use the borrowed money to pay off all your other debts. You are then left with only one loan—and therefore only one interest rate and one payment date—to worry about.

JEN: I do like the sound of that…

YETI: You still have to do your research and make sure it's right for you. The new loan may have additional fees or a higher interest rate than your current combined debts. Your credit union can give you more information on the loan options available to you.

JEN: Snowball, Avalanche and Consolidation… Those are some helpful strategies, Dave, but I was hoping for something a little more… immediate?

YETI: I see. Well, how about the Sled Strategy? The only thing you need for this one is your balance.

JEN: You mean for my loans? Or just…