What is the Snowball Debt Method?

Struggling with debt and can’t see a way out of it? The snowball debt method could be your way to financial freedom.

Dealing with a lot of debt can quickly become overwhelming and it can cause problems in every area of your life. You don’t sleep properly, your stress levels are through the roof and the financial struggle is causing havoc on your relationships.

However, help is available. No matter how much debt you have gotten yourself into, the snowball method could be an effective way out of it. Here, you’ll discover everything you need to know about the snowball method and why it’s been recommended by experts as one of the best ways out of debt.

What is the snowball debt method?

When you roll a snowball down a snowy hill, with each roll it gradually starts to get bigger. The more it rolls, the more momentum it develops. By the time it reaches the bottom, it’s reminiscent of a large boulder rather than the small ball it started out as.

The snowball debt method works very much in the same way. You start off small, then over time it gains momentum and you end up crushing your debt by the time you reach the end.

How does it work?

Using the snowball debt method is easy. You simply pay off your smaller debts first, leaving the larger ones until last. You don’t pay attention to the interest rates of the debts. Instead, you look at the overall amount due, listing the debts from smallest to largest.

You’ll then focus all of your attention on clearing the smallest debt first. You do this by making just the minimum repayments on all of your debts besides the smallest one. Throw as much money at the smaller debt as you can each month until it’s cleared.

Once that smallest debt has been paid off, it leaves you with more available cash to start paying off the second smallest debt. As each debt gets paid off, it leaves you with more available cash to throw at the larger debts. Keep using the method until all of your debts have been cleared.

Why is it so effective?

The main reason the snowball debt method works so well, is because it enables you to see consistent results. You can see the debt going down, which in turn boosts your motivation to continue.

When you’re trying to pay off a larger debt, it can take months to start seeing a major difference. This can leave you feeling like you aren’t really getting anywhere, draining your motivation to continue.

Once you see that first debt wiped off, it gives you a high you won’t forget in a hurry. This pushes you on to work to pay off your next debt, keeping the high feeling going.

It also starts to change your behavior towards your finances. You’ll start making sensible purchasing decisions and develop much healthier spending habits overall.

Debt snowball example

To give you the best idea of how it works, let’s look at a quick example:

Sarah has built up the following debts:

* $300 in medical bills
* $2000 personal loan
* $6,000 car loan
* $15,000 student loan

To use the snowball method, she will start to make minimum repayments on the student, car and personal loan. She’ll then throw every spare dollar she has each month at the medical bills. She manages to sell some old belongings and cut back to put $150 towards the medical bills in the first month, leaving just $150 to pay the next month. So, within two months the medical bill is gone.

She then focuses her attention on the personal loan, paying all of the money she would have had to pay on the medical bills towards the debt. Within 6 months that personal loan is gone. She continues focusing on the car loan and then finally the student one.

As you can see, the snowball debt method is very simple to follow. It’s also one of the most effective debt elimination methods you can follow. So, if you haven’t considered using it before, now is definitely the time to do so.