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DEBT AVALANCHE HANDBOOK

DEBT MANAGEMENT 101

What Is the Debt Avalanche Method?

Debt avalanche is a popular accelerated debt repayment strategy. As the name implies, it's a strategy to help you pay off your debt faster. It's important to review your loan documents carefully, too. Some lenders prohibit early payoff methods and doing so could result in penalties.

If you want an approach that helps you save on interest, debt avalanche may be a good fit. Starting is simple: review your debts and identify the one with the highest interest rate. That's your priority. Now, it doesn't mean that you stop paying attention to everything else. You'll still pay the monthly minimum for all your financial obligations. However, now you can add any extra monthly income you have to the debt with the highest interest.

How to use the debt avalanche method

STEP 1: Determine your disposable income for each month.
STEP 2: Order your debts by interest rate from the highest to smallest.
STEP 3: Allocate the minimum contribution for each debt from your total disposable income per month.
STEP 4: Take what is left of your disposable income and add it to the monthly minimum of the debt with the highest interest rate until it is paid off.
STEP 5: Once a debt is paid off, take your total monthly contribution from the recently paid off debt and add it to the monthly payment for the next debt on the list.
STEP 6: Repeat the process until all debts listed are paid off.

I AM COMMITTING TO SETTING ASIDE: $ ________________

How do I determine my disposable income?

Determining your disposable income is integral to the success of the debt avalanche strategy. You can get an idea of your disposable income by taking your gross income and subtracting the cost of essentials such as rent, utilities (electricity/water/internet), groceries, transportation and other fixed costs in your situation. **Whatever is left can be considered your disposable income.**

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Using the Debt Avalanche Strategy

First, list down your debts below.

Debt	Interest Rate	Remaining Balance	Monthly Minimum

Then, put them in order from the highest to the lowest interest rate. This step will help you see which debt to pay off first using the debt avalanche strategy.

Debt	Interest Rate	Remaining Balance	Monthly Minimum

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Tracking Your Success

Month	Balance Updates	Priority Debt ( )	Debt #2 ( )	Debt #3 ( )	Debt #4 ( )
	Starting Balance				
	Payment				
	New Balance				
	Payment				
	New Balance				
	Payment				
	New Balance				
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How to Use the Debt Avalanche Tracker

1 Month	2 Balance Updates	3 Priority Debt (Auto Loan)	4 Debt #2 (Personal Loan)	Debt #3 (Credit Card)	Debt #4 ( )
March	5 Starting Balance	$9,000	$5,000	$10,000	
April	6 Payment	$1,500	$250	$300	
	7 New Balance	$7,500	$4,750	$9,700	
May	Payment	$1,500	$250	$300	
	New Balance	$6,000	$4,500	$9,400	
	Payment	$1,500	$250	$300	

1 Month
Indicate the first month you're starting your debt avalanche strategy. For example, January.

2 Balance Updates
This column serves as a guide to determine the "Starting Balance" of a debt and the "New Balance" after a payment has been made. Update these values under the debt columns (3, 4, etc.) as soon as your payment is confirmed!

3 Priority Debt
Place the debt you're looking to pay off first based on the criteria for the debt avalanche method. In this case, the debt with the highest interest rate.

4 Other Debts
Place the other debts from your list on Page 2 in each respective column. These should be the debts with the second, third, fourth and succeeding debts with the highest interest rates.

5 Starting Balance
Write down the "Starting Balance" of the debt under the debt columns (3, 4, etc.) when you start following the debt avalanche criteria.

6 Payment
Write the minimum monthly payment for each debt under the debt columns (3, 4, etc.). For the "Priority Debt," this should be the minimum monthly + the remainder of your disposable income per month (See the first page for your disposable income.)

7 New Balance
Write the "New Balance" of the debt for the month after making a payment. Update this regularly.