Strategies for DEBT REPAYMENT

Heartland CREDIT UNION

BUILDING A DEBT REPAYMENT PLAN

High-interest debt is stressful and expensive—paying it off should be a financial priority. List the **balance**, the **interest rate** and the **minimum payment** for each of your debts, then consider the following strategies for paying them off:

SNOWBALL	• Debts are arranged and paid off from smallest balance to largest balance • Once a debt is paid off, the money that would have gone to its repayment is applied to the next smallest debt instead	**The Snowball Method** This strategy is great for beginners. While not the most powerful, the ability to quickly cross debts off your list (even if they are the smallest ones) can give you a strong motivational boost.
AVALANCHE	• Debts are arranged and paid off from highest interest rate to lowest interest rate • This strategy eliminates your most expensive debt first • As debts are paid off, more money is freed up for debt repayment	**The Avalanche Method** Mathematically speaking, this strategy is the most powerful. It also requires discipline and determination, as your most expensive debt may also have a large balance.
CONSOLIDATION	• A new loan is taken out and the borrowed money is used to pay off all your other debts • You are then left with only one loan—and only one interest rate—to keep track of and pay off	**Consolidation** If you're having trouble keeping track of various payment dates, this strategy is a good solution. Factor in the new interest rate and any additional fees before choosing this option.

The chart above is a simplified guide. If you're unsure or overwhelmed with where to start, talk to your credit union about debt counseling resources available to you.

DEBT & SAVINGS

To save or not to save, that is the question...

Generally speaking, paying off high-interest debt should take priority over savings and investments. **Your emergency fund is one exception.** It only takes one unexpected expense to force you to take on more debt (and undo your debt repayment progress in the process).

Three to six months' worth of expenses is the prescribed target amount for an emergency fund, but even **a mini-fund of $1,000 is a good starting point** that will offer some peace of mind.

DEBT & STRESS

According to a 2012 University of Nottingham study, those who struggle to pay off their debt are more than twice as likely to experience mental health problems like depression and severe anxiety. Debt repayment is more than a financial goal—it's a health and wellness goal as well.