Fifth Third Bank

Strategies for Paying Debt

Personal loans and credit cards can be beneficial in improving your credit score and building a good history of repayment. They can also help you manage your cash flow. But of course, you want to pay all your debts back as quickly as possible. If you're beginning to feel a bit overwhelmed by debt and the monthly bills that come with it, there are several good strategies for paying your bills down.

Here are a few options for you to consider:

1. Use a Windfall

If you have some money in savings, you can use it to immediately pay off one or two accounts. This frees up money from those monthly payments to put toward other debts or further savings. It also reduces your "debt to credit ratio," which may help improve your credit score.

2. "Snowball" It

This method involves a few steps, but is really fairly simple:

A. List all your debt balances, in order from the smallest balance to the largest.

B. Using your budget worksheet, plan on paying the minimum required payment each month, for each balance.

C. Once you've completed your budget, see how much money you have left for discretionary spending. Then, apply some or all of that "extra" money toward the account with the smallest balance ("Card A")—on top of that account's monthly minimum. So, for instance:

EXAMPLE
Minimum Required Payment on Card A = $50
+ $75 of "Extra" Money, Based on Your Budget
= Total Payment of $125 Toward Card A

D. When Card A is paid off, move on to the next-highest balance ("Card B"). Now you can pay the minimum on this account, plus the total you'd been paying on Card A.

EXAMPLE
Minimum Required Payment on Card B = $75
+ $125 Previously Paid on Card A
= $200 Payment Toward Card B

E. Continue this process until all your debt is gone. Note: Home mortgages are not generally included in this method, as it's expected that you'll be paying on these loans over an extended period. Once you're done with all other debt, though, you may find it very easy to pay at least some extra toward your home loan each month, too. Doing so may take years off your total mortgage term.

3. "Avalanche" It

With this strategy, you simply compare interest rates of all your accounts, and pay extra on the one with the highest rate first (as opposed to the lowest actual balance). When that one's paid off, move on to the balance with the next-highest rate.

It's another easy way to save on interest over time, while gradually taking care of all your outstanding debts.

QUESTIONS?
Contact us at 1-855-347-4864 to speak with a Money Management Advisor today.