

Tool 3:

Reducing debt worksheet

There are two basic strategies to reduce your debt: the highest interest rate method and the snowball method. Look through the pros and cons for each method and decide what works best for you.

Highest interest rate method

Focus on the unsecured debt with the highest rate of interest, and eliminate it as quickly as possible, because it is costing you the most. Once it is paid off, focus on the next most expensive debt.

PRO	CON
You eliminate the most costly debt first. In the long-run, this method can save you money.	You may not feel like you are making progress very quickly, especially if this debt is large.

Snowball method

Focus on the smallest debt. Get rid of it as soon as possible. Once you have paid it off in full, continue with the payment, but now dedicate it to the next smallest debt. This way, you create “a snowball of debt payments” as you eliminate each debt. How? You keep making the payments, but you are redirecting them to the next debt as each debt is paid off.

PRO	CON
You may see progress quickly, especially if you have many small debts. For some people, this creates momentum and motivation.	You may pay more in total because you are not necessarily eliminating your most costly debt first.

Debt reduction worksheet

Step 1: Pick your debt reduction strategy:

- Highest interest rate method:** List your debts from highest interest rate to lowest.
- Snowball method:** List your debts from smallest to largest in terms of the amount you owe.

Step 2: In the column labeled Extra Payment, list the extra payment you will dedicate to the payment of debts until you have it paid off.

Step 3: When this debt is paid off, allocate the entire payment (monthly payment + extra payment) you were making to the next debt on the list.

Lender	Total amount borrowed	Amount still owed	Monthly payment	Extra payment	Payment due date	Date paid off in full

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