

# Debt Paydown Strategies

BONUS: Step 13 in Your  
Roadmap to Financial  
Independence

## Debt Consolidation

Debt consolidation combines multiple debts into a single loan or credit account, simplifying payments and potentially lowering overall costs.

Common consolidation methods include:

- Personal Loans
- Balance Transfer Credit Cards
- Debt Consolidation Loans

### Advantages:

- Simplified payments: Consolidation reduces the need to juggle multiple due dates and interest rates.
- Lower interest rates: Borrowers with good credit may secure better rates, saving money over time.
- Predictable repayment: Fixed monthly payments and timelines can help with budgeting.

### Disadvantages:

- Potential fees: Origination fees or balance transfer fees may apply.
- Credit impact: Opening a new loan or credit account may temporarily lower your credit score.
- Risk of re-accumulating debt: Without disciplined spending habits, old credit lines may be reused, increasing overall debt.

## Debt Snowball Method

(Paying Highest Interest Rate First)

This method prioritizes paying off the debt with the highest interest rate first, while making minimum payments on other accounts.

### **How It Works:**

- List your debts from the highest to lowest interest rate.
- Make minimum payments on all debts except the one with the highest rate.
- Allocate extra funds toward the highest-interest debt.
- Repeat the process until all debts are paid.

### Advantages:

- Saves money on interest: By tackling high-interest debts, this method reduces the cost of borrowing over time.
- Efficient repayment: Focusing on interest-heavy debts helps clear them faster.

### Disadvantages:

- Slower psychological rewards: Paying off large, high-interest debts first may take longer, which can feel discouraging.
- This strategy works well for borrowers motivated by financial efficiency and focused on minimizing long-term costs.

# Debt Snowball Method

(Paying Lowest Balance First)

The lowest-balance-first snowball method prioritizes paying off the smallest debt first. Once the smallest debt is cleared, the funds are rolled into payments for the next smallest debt, creating a "snowball" effect as payments grow larger with each cleared account.

How It Works:

- List your debts from smallest to largest balance.
- Make minimum payments on all debts except the smallest.
- Apply extra funds to the smallest debt until it's paid off.
- Repeat the process, rolling payments into the next smallest debt.

## Advantages:

- Quick wins: Paying off smaller balances quickly provides psychological motivation and builds momentum.
- Simplifies accounts: Eliminating debts one by one reduces the number of accounts to manage.

## Disadvantages:

- Higher interest costs: Ignoring interest rates may result in paying more interest over time.



## Explore all Options

Each debt reduction strategy has its own strengths, and the right choice depends on your priorities and financial habits. Reducing debt is a personal journey, and the strategy you choose should align with your financial situation, goals, and mindset. Whether you prefer the efficiency of paying off high-interest debts, the satisfaction of clearing small balances quickly, or the simplicity of consolidating your payments, each approach can lead you closer to financial freedom.

Commit to your chosen method, stay consistent, and celebrate each step forward

Next Steps:

1. Review the 3 strategies above
2. Select the method that best fits your situation and circumstances
3. Start



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