



How to Develop a Debt Relief Plan

Like with anything, you need a plan to succeed. Developing a plan to reduce debt is absolutely critical to success.

The first step in getting out of debt with a debt relief plan is to assess your situation by **listing all your debts on paper in the order in which you want to pay them off.**

It can be according to **interest rate, outstanding balance or payment amount.**

From a numbers point of view, it makes sense to list them from highest interest rate to lowest interest rate, but the most **psychologically rewarding** plan to get out of debt from is to start with the **lowest balance first up to the highest balance.** This is also called the [debt snowball method](#), one of the [debt relief options](#) available.

How to Start Your Debt Relief Plan

1. List **ALL** your debts excluding your house payment.
2. Now that you know in what order you will pay them down, you need to **calculate how much you can comfortably spend in a month.** A good rule of thumb would be to add all the payments together and add 15% to that number. The 15% is what is sometimes called the "accelerator margin", and really serves to kick-start your snowball.
3. Take a look at your list. You will only be **paying the minimum payments** on all but the one on top of the list.

Here's an example of the "[Snowball method](#)" with the format being debt name, balance, rate and minimum payment amount. This is sorted by interest rate.

Loan Name	Balance	Interest Rate	Minimum Payment
Personal loan	\$500	19.9%	\$150
Card #1	\$750	17.9%	\$15
Card #2	\$1200	9.9%	\$20
Car loan	\$3500	6.9%	\$450

Total of payments being made is **\$635** as it stands. Add the 15% and you will be paying **\$730.25** per month toward your debt.

The idea is to **pay off the first one on top of the list** while keeping the others current. So you will pay \$245.25 ($\$730.25 - \$15 - \$20 - \450) on the personal loan. In two months, that first debt has been paid off. **Your "debt free plan" is working!**

Start the Ball Rolling

Now roll that payment in with the next debt on the list, which is Card #1.

You will pay the \$245.25 PLUS the \$15 ($\$260.25$) on that debt. Inside of two months, debt #2 is dissolved and gone, baby, gone.

At this point, you have dissolved two debts in less than 5 months and eliminated the two highest interest debts you own in the process!

Continue down the list in this way and you will **eliminate the entire debt in about 18 months**. If you had gone along paying only the minimum payments on all these debts, you would have been paying for approximately 30 years!

Remember that the minimum payments are for the benefit of the creditor, not you. The longer you keep that balance alive, the more they make off of you.

Snowballing Your Debt Pays Off

This is just one way to implement a [debt reduction plan](#). There are others as mentioned earlier, however you'll probably want to start paying on the debt with the highest interest first, because it's costing you the most.

How you do it is entirely up to you. Whatever you do, your plan to get out of debt must fit your situation.

The important thing is to

1. make the plan,
2. execute the plan and
3. Stay with the plan all the way to the end.

This might require some discipline on your part.

So you can see your progress, keep a chart on the fridge or somewhere you can see it readily. Look at it occasionally and remind yourself that you will be [debt free](#) when the list is empty.

What if I Can't Pay the Minimum Payment?

If you simply do not have enough income to [cover minimum payments](#), then you need to consider credit counseling or a debt consolidation loan with a [reputable debt management company](#).