

How to Develop a Debt Reduction Plan

1. Stop using debt
2. Pray for strength and guidance
3. Develop a balanced spending plan
4. Save \$1000 emergency fund
5. List all of your debts – except primary mortgage
6. Rank the debts in order of lowest balance to highest balance
7. Use the debt snowball method to begin to pay off your debts
8. Be diligent and intense in your effort
9. Replenish your emergency fund if used
10. Have an accountability partner(s)

The first thing you should do is to stop using debt. If you have developed a balanced spending plan, and lived on it for a few months to make the process work for you, then you should be in a good situation to live without using debt. This process isn't going to be easy. There will be things go wrong and the urges to use debt will sometimes be strong. Ever heard of Murphy's Law? Sometimes it feels like ol' Murphy has moved into your house with you. Kick him out!! You will need to make a commitment to yourself, your spouse, your accountability partner, and God that you are going to live your life without using debt. Make it public if you need to that you are going to live without debt. I don't mean to take an ad out in the paper, but it's always good to have a few very close friends (accountability partners) that you can share your effort with. This whole process will take prayer – the more the better.

The next thing you should do is to develop, and use, your balanced spending plan. We normally suggest you live off of your spending plan for a few months to get the kinks worked out of it, and to be sure you have a workable process. Then you need to be sure you have at least \$1000 of an emergency fund saved up. Things will happen and, without the emergency fund, you will be forced to use debt. Maybe you have something within your spending plan you can do without for a few months to get this emergency fund built up. Maybe you have things you can sell, have a garage sale, or work a little more overtime for a temporary time on your job. You may need to be creative on how you build this fund, but it is very important you do so. You need to set yourself up as best as you can for success rather than failure. The emergency fund will be part of your link to success.

When you are ready to begin your debt reduction plan you should first list all of your debts. A debt list form is provided for you in this NTCC link. We suggest that you don't list your primary mortgage on this list, but list ALL of your other debts. This would include your car, second mortgage, school loans, debt consolidation loans, and even the money you borrowed from Uncle Joe that he said to pay him back when ever you can. After you have your debts listed then rank them from lowest balance owed to the highest balance owed. This will be the order you will pay them off. Yes, you will pay less in interest if you pay the highest interest rate off first, but it won't be that much, and probably the reason we get into debt problems isn't because we are math whizzes. It is normally because we have had other life related or behavioral problems. By paying the lowest to highest off first then you will get to see the successes earlier. This will help with your attitude, give you encouragement, and help to spur you on with your program. Pay the minimum amount owed each month for each debt on your list other than the one at the top of your list that you are currently attempting to pay off.

We suggest you use the debt snowball method to pay off the debts as you go down your list. This means that you pay off the first loan on your list then, after that debt is paid, you will use the payment that was used for that debt and add it to the payment on the next debt on your list. You will do this for each successive debt on your list. This is called the debt snowball method. With each successive debt you will be paying more and more each month. But, your bottom line total of monthly payments never changes. If you do an internet search for "Debt Snowball" you will find all sorts of examples for you to review if you have questions about the process. It is best if you have an "accelerator" at the top of your debt snowball as you begin paying from your debt list. This could be \$25, it could be \$200, or anywhere in between, but it should be an amount that you can take from your spending plan and be able to be consistent with paying it. If your spending plan is so tight that you can't afford an accelerator then the plan will still work, it's just that the snowball won't roll quite so fast. You will add your "accelerator" to your first debt payment and begin your snowball with that amount. Of course, the larger your "accelerator" the faster your snowball begins to roll. But, remember; set yourself up for success, and not failure. Be sure you have an accelerator you can consistently use. The accelerator will also be a determinant of how intense you want to be in reducing your debt. Again, the more intense you are, then the faster your snowball will roll.

If an emergency happens during your debt snowball process, and you have to dip into your emergency fund, then the fund will have to be replenished. If need be you should suspend your snowball temporarily, and go back to minimum payments until the emergency fund is back to at least \$1000. If you have an "accelerator" then you can use this money to help replenish your fund, or you can use some other creative method to get it back so that you can get back to your intense efforts to rid yourself of the debts. It should be added here that any income you receive that is unplanned, and is above your planned income, should be added to the debt you are at on your list. Keep up the intensity!!!

This debt reduction process will not be an easy one. It is good to have an accountability partner to help you stay on course. Sometimes the accountability partner is your spouse and sometimes it is a close, and trusted, friend. Who ever is your accountability partner should have your permission, up front, to scold you if necessary to keep you on track. Oh, and you don't have permission to scold them back, or provide excuses.

Study Proverbs 22:7 and 22:26

Break the chains of bondage and escape from your slavery of debt.

May God bless your efforts.