Debt to Zero

Which **Debt Repayment Method** is Right for You?

Deciding how to pay off your debt isn't always easy. Use this **FREE** guide to find the best methods to eliminate your debt!

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Which Debt Repayment Method is Right for You?

How do you know which debt reduction method will work best for you? Put simply this depends on your level of debt, your level of discipline, and your prospects for the future. This guide will provide you with some of the best-known methods that debt relief experts recommend for managing your debt and becoming debt-free!

This guide is broken down into **SIX** sections:

- Budgeting
- Debt Reduction Methods
- Debt Consolidation
- Debt Management Plans
- Debt Settlement
- Bankruptcy

Each section will provide in-depth detail about how each repayment method works. It will explain how it works, how it may affect your credit, and the pros and cons.

Budgeting 1 of 2

How can I get out of debt on my own?
Start by making a budget. A budget is a spending plan based on your total income and expenses. In other words, it's an estimate of how much money you'll make and spend over a period of time. I.e., weekly, monthly, or yearly.

What should be included in you budget?

1. Fixed expenses – This will include items such as: rent or mortgage payments, health insurance, car insurance, and so on – expenses that are the same every month.
2. Flexible expenses - Spending that varies each month includes your electric bill, groceries, phone bill, etc.
3. Discretionary expense- These expenses are wants, not needs, and include things like dining out, buying new clothes, getting the latest gadgets, etc.
4. Subtract your total expenses from your total income.
5. Set your priorities, including **debt repayment**, saving for retirement, building an emergency fund, etc.

Building a budget is an essential first step toward controlling your finances and paying down debt. Creating a budget will take a little work, but once you have one in place, maintaining it is a lot easier. *Get the budget worksheet on page 14*

Budgeting 2 of 2

A good budget will include debt payoff plan. A debt payoff plan should contain the following information:

Debt List

To create your plan, you need to list all the debts you owe, the remaining balance due, interest rate and the minimum monthly payment.

Use the **Debt List worksheet on page 16** to write down the following:

1) Who you owe

2) The amount you owe

3) The minimum payment for each debt obligation

4) the interest rate (list from highest to lowest)

Set Your Debt Priorities

You need to determine what debt you want to focus on according to your priorities. You may decide to only focus at first on your "**bad**" debt.

Bad debt includes **credit cards**, **personal loans**, **medical debt**, and **recreational vehicles.** This type of debt will most likely have the highest interest rates.

There are several different methods you can use to tackle your debt. Let's go over the common methods.

Debt Reduction Methods

Debt Snowball Method

This method entails paying off your debts with the **lowest balance** by paying more than the minimum required, covering the interests and the principal amount over time.
Here's how you can use this method:

1. List all your debts with the lowest balance to the highest balance.
2. Pay more than the minimum on your debt with the lowest balance.
3. Pay the minimum on all other debts.

ACCESS THE DEBT SNOWBALL & AVALANCHE CALCULATOR

HERE

Repeat this process until your debt with the lowest balance is paid off. Then move to the debt with the next lowest balance.

Debt	Balance	Minimum Payment	Monthly Payment
Credit Card 1	$1, 500	35.00	$75 fixed pay (Above minimum)
Credit Card 2	$3, 500	45.00	Pay minimum
Student Loan	$12, 000	100.00	Pay minimum

Debt	Balance	Minimum Payment	Monthly Payment
~~Credit Card 1~~	~~$1, 500~~	~~35.00~~	~~$75 fixed pay (above minimum)~~
Credit Card 2	$3, 500	45.00	**75.00 + 45.00 = 120.00**
Student Loan	$12, 000	100.00	Pay minimum

Pros & Cons

This approach can boost your confidence and help reduce the stress associated with paying off debts. However, it's important to understand that this method does not consider the interest rates of all accounts. While you're focused on paying off your debt with the lowest balance, the interests on the others will continue to accrue.

The Avalanche Method

The Debt Avalanche Method takes a slightly different approach then the debt snowball. With this method, you focus more on reducing the debt with the **highest interest rate**, rather than seeing short-term progress in paying off your small accounts.

Let's see how this approach works.

1. List all your debts with the highest interest rate first.
2. Always pay more than the minimum on your debt with the highest interest rate.
3. As for the rest on the list, pay the payment minimum for now.

ACCESS THE DEBT SNOWBALL & AVALANCHE CALCULATOR

HERE

Repeat this process until your debt with the highest interest is paid off. Then move to the next.

Debt	Interest Rate	Minimum Payment	Monthly Payment
Credit Card 1	29%	35.00	$75 fixed pay (Above minimum payment)
Credit Card 2	21%	45.00	Pay minimum
Student Loan	10%	100.00	Pay minimum

Debt	Interest Rate	Minimum Payment	Monthly Payment
~~Credit Card 1~~	~~29%~~	~~35.00~~	~~$75 fixed pay~~
Credit Card 2	21%	45.00	75+45 = 120.00
Student Loan	10%	100.00	Pay minimum

Pros & Cons

Because this method focuses on the highest interest rates first, you will save money in the long run. The downside is it requires patience and determination because you will not see progress right away.

Debt Consolidation Loans

What is it?

Debt consolidation involves consolidating multiple debts into one loan with one payment. The goal of debt consolidation is to reduce your overall interest rates and obtain a loan that saves you money.

Types of Debt Consolidation Loans

Personal Loans: A debt consolidation loan lets you consolidate multiple credit card or loan balances into one. Since these loans are unsecured, you'll need a good credit score to get the best deal.

Those with bad credit can still qualify for a debt consolidation loan, but these loans will beat a higher interest rate. Barrowers should always compare quotes from different lenders before you commit.

Home Equity Loans: Home Equity loans typically have lower interest rates, making them an attractive option for debt consolidation. However, it's essential to understand that your home is the collateral for the loan. If you don't repay what you owe, your house is at risk of being repossessed.

Credit Card Balance Transfers: Balance Transfers allow you to consolidate your credit card balances into a single credit card. Sometimes banks offer credit card balance transfers with low or 0% interest rates to entice you to transfer your balance. ***A word of caution, the low or no interest rate will usually expire, which may significantly increase your interest rates after.***

Pros & Cons

- Debt consolidation can help you manage your debt by lowering your monthly payments, reducing interest rates, and simplifying repayment.

- While this may sound like a good option for managing your debt, you may pay higher interest in the long run. Be very thorough in reviewing the loan terms and weighing the pros and cons. This can be risky!

- Debt Consolidation does not address financial behavior or cause you to change your habits, you could end up replacing old debt with new debt.

Debt Management Plans (DMP)

What is it?

A Debt Management Plan (DMP) is a structured plan typically administered by a credit counseling agency. A credit counseling agency can help you manage your debt through education, budgeting, and the use of other strategies or approaches to eliminate your debts. You will work with a credit counselor who will analyze your debts and other aspects of your finances, work with your creditors, and create a Debt Management Plan (DMP).

How long does it take?

The Debt Manage Plan can help you pay off your debts comfortably and practically within three to five years. The goal is to lower your monthly payment by negotiating for lower interest rates. Once you agree on the plan, you will send your monthly payments to your credit counseling service provider. They will take care of making the payments to your creditors based on the agreement.

How much does it cost?

The cost of a DMP will vary by state and by agency. Some agencies charge a nominal set up fee, which should be $75 or less. Most, if not all, agencies charge a monthly fee of between $25 and $50.

You will want to work with a counseling agency that's ***accredited.*** DMPs, help you pay off your unsecured credit card debt. In addition to helping with your DMP, the credit counselor may be able to help with your mortgage or student loans.

In most cases, a DMP lets you pay one monthly payment and less interest.

Pros & Cons

This program will help you pay off debt without filing for bankruptcy or trying a riskier method. It lets you keep up with your other monthly commitments while you get out of debt.

Your credit report could show that you are using these services, telling financial institutions that you have problems managing your finances. This can temporally damage your credit rating and put you in an even worse position when the terms of the agreement are not fulfilled.

Debt Settlement 1 of 2

What Is it?

Debt settlement is a negotiation process with your creditors to help you get back on top of your finances. The settlement can use a combination of debt forgiveness and a payment plan to help you pay off your outstanding debts. In debt settlement, you and your creditors agree on one or a combination of the following:

Settle: You can settle your debt by paying a lump sum less than your outstanding balance. How much you will pay will depend on the amount you and your creditor will agree on.

Forgive: Debt forgiveness means your creditor will reduce the amount you owe or remove an outstanding balance. This usually comes with conditions, so it's best to get professional help navigating your options.

Renegotiate: This is the process of negotiating a new repayment plan. Doing this on your own can be tricky. Knowing what to say (and what not to say) is critical - or you could worsen your situation.

Some people may prefer to obtain the services of Debt Settlement professionals when it comes to debt settlement. Experts can help you:

1. Take a significant amount off your outstanding debt
2. Lower your monthly payment
3. See progress within 24-48 months
4. Get rid of collection calls
5. Avoid having to file for bankruptcy

Note: Professional debt settlement is generally considered risky and is not always the best option.

Depending on your circumstances and other factors, such as your income, you may be unable to pay off all your debts without professional help. Getting services from experts can exponentially increase your chances of successful debt management.

Debt Settlement 2 of 2

Pros & Cons

Professional debt settlement is generally considered a risky and ill-advised debt repayment method.

The most significant advantage of debt settlement is how much it can reduce your existing debts. With a good strategy, creditors will forgive half or even more of your outstanding balances. Another benefit is the relatively short time it will take to pay off your debts, usually within 24-48 months.

Debt Settlement will have a negative impact on your credit report. However, the negative impact isn't permanent, as you should see improvement in your credit score once your debts are paid off.

The IRS considers forgiven debt taxable. That means you'll probably owe taxes on the difference between what you owe and what you agree to pay***. For example, if you settle a $12,000 debt for $6,000, then $6,000 was "forgiven." That $6,000 is most likely taxable.***

You might want to consider debt settlement if you do it yourself. The idea is to pay less than you owe. If you do this on your own, ensure you get a written agreement from your creditor before paying them.

Bankruptcy 1 of 2

When you are in an irreversible financial position, filing for bankruptcy may be your only way out. Depending on which bankruptcy protection you qualify for, your existing debts can be canceled in bankruptcy. All your creditors will be forced to stop any collection attempts.

"Bankruptcy can offer you a fresh start."

It is important to understand that bankruptcy can significantly impact your credit profile, leaving a mark that could stay for up to 7 to 10 years. Before resorting to bankruptcy, carefully assess your situation using the points below.

1. Your income is less than the state median.
2. Your debt-to-income ratio is more than 40%. This means more than 40% of your monthly income goes to servicing your debts.
3. You have determined that bankruptcy is the only practical option for you.
4. You are at the risk of losing your home due to unpaid debt.
5. You have been asked to appear in court due to unpaid debt.

When to File for Bankruptcy? Suppose your monthly income has been consistently below the state median for the last six months, and more than 40% of your income goes to paying your debt. In this case, you may qualify to file for bankruptcy.

One immediate benefit of filing for bankruptcy is a Judge can issue an "automatic stay." This will prevent creditors from making collection attempts, repossessing your car, garnishing your wages or bank accounts, and foreclosing on your home.

Before filing for bankruptcy, you must know it is a legal proceeding. Any decisions made relating to bankruptcy filing should be made after careful consideration. You should consult with a lawyer specializing in bankruptcy who can explain the process, your options, and the legal implications.

How much does it cost? As of July 2022, there is a $338 filing fee for Chapter 7 bankruptcy and a $313 filing fee for Chapter 13 bankruptcy. These fees vary, and there will likely be an additional 1,000 to 2,000 in lawyer fees. This amount does not include attorney fees and pre-filing and pre-discharge education.

Bankruptcy 2 of 2

Two Most Common Types of Bankruptcy

Bankruptcy is a federal legal proceeding that relieves individuals or businesses from an irreversible financial situation. It allows individuals to cancel their debts or pay them off under a supervised bankruptcy plan. The main goal of bankruptcy is to clear outstanding debt and provide a fresh start. There are two types of consumer bankruptcies: **Chapter 7 and Chapter 13.**

Chapter 7

Chapter 7 is the easiest and most common type of bankruptcy. It is also known as "straight" or "liquidation," where any not exempt properties, such as antique collections, a second car, or second homes, will go through liquidation. Proceeds of the liquidation will be used to pay off your debts. Chapter 7 bankruptcy is used to eliminate most types of debt. Chapter 7 bankruptcy remains on your credit report for 10 years from the filing date.

Chapter 13

Chapter 13 is a "reorganization" bankruptcy that doesn't require you to liquidate your assets. Here, you will make monthly payments to pay off your debts based on a bankruptcy plan of 3-5 years. In chapter 13 bankruptcy, a repayment plan is determined based on what he or she can afford. The courts may forgive some debts depending on the specific case. Chapter 13 remains on your credit report for 7 years from the filing date.

The Pros and Cons of Bankruptcy

The most significant impact of filing for bankruptcy is on your credit profile. Bankruptcy provides a "clean slate." However, the filing can negatively affect your creditworthiness for up to ten years. As a result, you may find it hard to get a new loan, whether for a house, car, or even a new credit card. It could also affect your chances of employment in some cases.

Some debt cannot be discharged even in bankruptcy. Student loans, financial support to a spouse after separation, expenses relating to child support, taxes, and government fines or penalties are examples of "non-dischargeable" loans. That means you will continue paying for them even after bankruptcy.

Debt to Zero

budget WORKSHEET

Use this **Zero Based Budget** worksheet to see how much money you spend this month.
Then, use this month's information to help you plan next month's budget.

Some bills are monthly and some come less often. If you have an expense that does not occur every month, put it in the "Other expenses this month" category.

MONTH ______________________ **YEAR** ____________________

My income this month

Income	Monthly total
Paychecks (salary after taxes, benefits, and check cashing fees)	
Other income (after taxes) for example: child support	
Total Monthly Income	**$ 0.00**

My expenses this month

	Expenses	
HOUSING	Rent or mortgage	
	Renter's insurance or homeowner's insurance	
	Utilities (like electricity and gas)	
	Internet, cable, and phones	
	Other housing expenses (like property taxes)	
FOOD	Groceries and household supplies	
	Meals out	
	Other food expenses	
TRANSPORTATION	Car loan	
	Car insurance	
	Gas for car	
	Car maintenance (like oil changes)	
	Public transportation and taxis	
	Parking and tolls	
	Other transportation expenses	

Debt to Zero

budget WORKSHEET

	Expenses	Monthly total
HEALTH	Health insurance	
	Medicine	
	Other health expenses (like doctors' appointments and eyeglasses)	
PERSONAL AND FAMILY	Child care	
	Child support	
	Money given or sent to family	
	Clothing and shoes	
	Laundry	
	Donations	
	Entertainment (like movies and amusement parks)	
	Other personal or family expenses (like beauty care)	
FINANCE	Credit card payments	
	Personal loans (boats, RV, etc.)	
	Bank or credit card fees	
	Other fees	
OTHER	Debt repayment plan	
	Emergency fund	
	School costs (like supplies, tuition, student loans)	
	Other expenses this month	
	Total Monthly Expenses	**$ 0.00**

Expenses

$ 0.00	-	$ 0.00	=	$ 0.00
Income		Expenses		

Consider Adding **$ 0.00** **To Emergency Fund or Debt Repayment Plan**

If your expenses exceed your income, look at your budget to find expenses to cut.

Debt to Zero

debt LIST

#	DEBT	CURRENT BALANCE	RATE	PAYMENT
1		$	%	$
2		$	%	$
3		$	%	$
4		$	%	$
5		$	%	$
6		$	%	$
7		$	%	$
8		$	%	$
9		$	%	$
10		$	%	$
11		$	%	$
12		$	%	$
13		$	%	$
14		$	%	$
15		$	%	$

www.debttozero.com

We're Here to Help

The mission of Debt to Zero is to help people make sense of the ever-more complicated world of debt management. We believe that anyone can start taking control of their finances to achieve their biggest priorities in life!

What started as an idea to help people with **FREE** advice has turned into a website now assisting thousands of visitors daily. At Debt to Zero, we won't recommend any service or product that we have not thoroughly researched or tested. Many of the products or services recommended we use ourselves.

Struggling with debt is never easy. But you don't have to navigate this on your own. At Debt to Zero, you will get objective insight on financial matters to make smart, informed decisions, and find the best strategies to pay off debt.

Throughout the week, check out our blog for timely, relevant information on today's most important personal finance topics. Our blog posts are packed with helpful tips you can start implementing today.

We're passionate about helping you achieve your financial goals, no matter what they are.