

How to Decide Which Debt to Pay Off First

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When you've made the decision to get out of debt, it can be difficult to choose a course of action. For example, how do you select which debt you're going to pay off first? Financial experts talk about two smart ways to pay off debt.

First, make a list of your debts with the interest rates charged by each company and the balances you owe. With this information in hand, you can make an informed decision of which option will work best for you.

Option 1: Pay off the smallest balance first.

- Begin with paying off the credit card having the smallest balance. Then, move on to the next smallest balance and pay it off and so on.
- Why the one with the smallest balance? Because you can more quickly rid yourself of paying the monthly finance charges associated with carrying a balance on that debt. Plus, you'll have one less debt to pay in a shorter amount of time if you start with the smallest debt.
- Consider this, if you start with the debt having the highest balance, it will take much longer to pay off and you'll still be paying monthly fees for all your cards/loans for however long it takes.
- Why not knock out the smaller debts to actually save a bundle quicker each time you pay off a debt? That money can then be applied monthly toward the next debt you plan to pay off.

Option 2: Start with the debt with the highest interest rate.

- Using your list, determine which debt has the highest interest rate and fees.
- Once you have this information, pay off first the debt with the highest rates.
- After you pay off the first debt, move on to the next creditor on the list that charges the next highest interest rate and pay it off. Continue in this manner until all your charge cards and loan balances are paid off.

Regardless of which method you use, doesn't it feel great to draw a line through a debt on your list as you pay off each account?