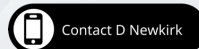




How to Pay Off Credit Card Debt

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8 Ways to Debt Freedom

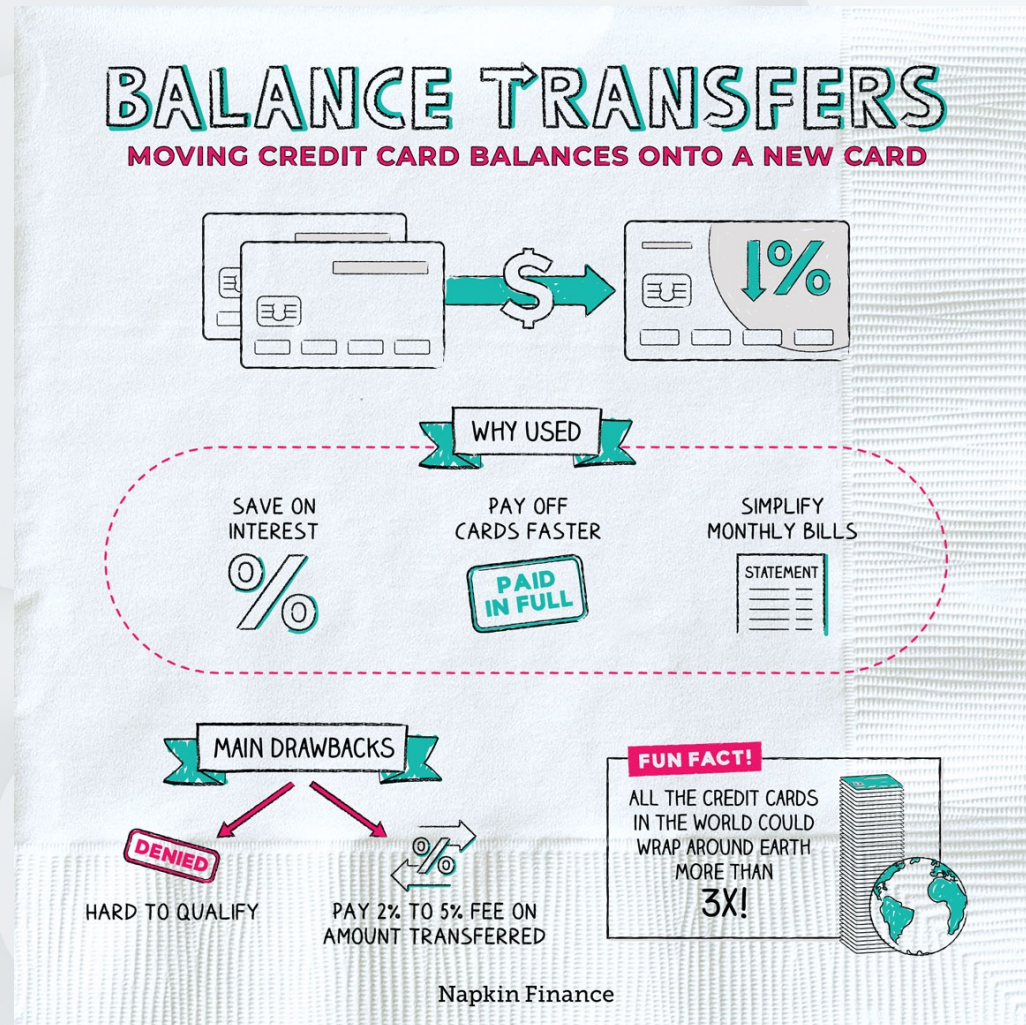
1. 50/30/20 Rule Method
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50/30/20 Rule Method

- This is a popular budgeting plan.
- Write down your monthly after-tax income to see exactly how much money you have to work with.
- List all your fixed and variable monthly expenses
 - Fixed: housing, insurance, childcare
 - Variable: groceries, utilities, entertainment
- Categorize your expenses into three buckets:
 - Necessities – ideal limit is 50% of your income
 - Non-essential expenses – 30% or less
 - Savings/debt payments – 20% or more
 - These allocations are guidelines – get as close as you can.

Credit Card Balance Transfer

- Find and qualify for a credit card with an introductory 0% APR rate.
- Transfer other card balances to the new card and accrue no interest while you pay off your debt.
- Note balance transfer fees, length of the introductory period and interest rate after the introductory period.



Borrow Money From Family

- If your parents or other family can help, consider asking for a short-term loan or assistance with monthly payments.
- Money can complicate a relationship, so create an official loan agreement and draw up terms you can both agree on.
- Then, pay back the loan on time or even early to maintain a good relationship.

Debt Snowball

- This debt payoff method focuses on paying off the debt with the smallest balance.
- You make the minimum payments on everything else – but pay extra toward that smallest debt.
- After you pay off this debt, target the next-smallest debt and so on until you've paid off all accounts.

The Debt Snowball



List your debts from smallest to largest ignoring interest rates

This is the extra amount you can pay from your BUDGET

Debt	Amount Owed	Min Payment Due	Extra Amount
<u>Credit Card #1</u>	<u>\$252</u>	<u>\$56</u>	<u>\$200</u>
<u>Hospital Bill</u>	<u>\$562</u>	<u>\$68</u>	<u> </u>
<u>Car Loan</u>	<u>\$16,900</u>	<u>\$393</u>	<u> </u>
<u>Student Loan</u>	<u>\$33,454</u>	<u>\$385</u>	<u> </u>
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Debt Avalanche

- This method focuses on the debt with the highest interest rate.
- Pay extra toward this account and pay the minimum to the others.
- Then move on to the account with the next-highest rate.
- You'll save more on interest – but paying off might take longer.

The Debt Avalanche



List your debts from largest to smallest interest rate

This is the extra amount you can pay from your BUDGET

Debt (Interest Highest to Lowest)	Amount Owed	Min Payment Due	Extra Amount
<i>Credit Card #1</i> @ 29%	\$252	\$56	\$200
<i>Hospital Bill</i> @ 8%	\$562	\$68	
<i>Student Loan</i> @ 5%	\$33,454	\$385	
<i>Car Loan</i> @ 3%	\$16,900	\$393	

Debt Consolidation Loan

- Similar to a credit card balance transfer, a consolidation loan enables you to bundle multiple debts into a single one, ideally at a lower interest rate.
- Best for borrowers with good or excellent credit scores to get the best interest rates and terms.

	Credit Card Debt	Debt Consolidation Loan
💰 Principal	\$20,000	\$20,000
📈 Interest	21%	11.99% ✓
🏠 Payments	\$600	\$500 ✓
📅 Term	36 Months	36 Months
🔢 Bills Paid Per Month	3	1
💵 Total Interest Paid	\$4,200	\$2,398 ✓

Use the Equity You Have

- A cash-out auto refinance or home equity loan can provide funds to pay off credit card debt
- Rates are lower than credit cards

	Current Mortgage	After Debt-Consolidation
Mortgage Balance	\$ 300,000	\$ 350,000
Interest Rate	3.75%	7.50%
APR	3.85%	7.63%
Mortgage Payment*	\$ 2,223	\$ 2,447
Credit Card Debt	\$ 50,000	\$ 0
Credit Card Payment	\$ 703	\$ 0
Total Monthly Payment	\$ 2,926	\$ 2,447
Total Monthly Savings	\$ 0	\$ 479

Debt Management Plan

- This is a formal repayment plan you can enter into with help from a reputable credit counseling agency.
- A credit counselor notifies your creditors that you're using a debt management plan and try to negotiate lower interest rates and monthly payments.
- These plans take three to five years, depending on amount owed and your ability to pay.
- Card issuers may choose to close your accounts, which could hurt your credit – but it's better than debt settlement or bankruptcy.
- Expect an upfront fee and monthly fees through the plan's term.

Q&A



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