

EXPANDED INFORMATION ON POWER PAYING DEBTS

*The explanation below appears in the book.
The promised chart follows on the next page.*

Getting debts paid off ASAP...

In your self-directed program to take your financial situation in hand, thrift is an important first step. By reducing waste and unnecessary expenditures, you increase the amount of money you have available to do what's most needed, whether it's to build your emergency fund, to start a long-term savings plan, or to set some aside for a down payment on a house. If you have outstanding debt, such as a car loan, personal line of credit, or a credit card balance, swift repayment of that debt should be a high priority.

Why? Paying interest on consumer goods and services makes no sense at all because you are still paying for them long after they've been worn out and used up. It takes so long to pay off the debt because most of each month's minimum payment goes to interest, and very little actually pays down the amount you borrowed. As a result, it will take many, many months and sometimes years to finally get the last bit paid off. If you are in this situation, you need a strategy to short-circuit the cycle of paying for years and years.

Power paying is your way out of the debt trap. To do this, you make minimum payments on all debts to keep yourself in good standing with your creditors. Plus, you apply a consistent amount of "extra money" to one of the debts every month until it is paid off. When that debt has been retired, you take all the money you'd been paying toward it and apply that full amount to another of your debts. Because the monthly sum paid will now be substantial, you'll pay off that second debt even more quickly. Once it is paid off, you focus on paying off the third with even larger monthly sums – hence the term *power paying*. Some people refer to this as "snowballing" your debt repayment. An explanation in chart form is found on the next page.

Power Paying Debts

Loan Status ▼	Dep't Store	Master Card	Visa	Personal Loan	TOTALS
Total owing	\$2000	\$1500	\$1700	\$2500	\$7700
Interest rate	28%	17%	11%	8%	
Minimum Payment	\$60	\$45	\$50	\$75	\$230

Power Paying ▼					
Phase 1					
minimum payment	\$60	\$45	\$50	\$75	\$230
extra	\$70				\$70
total payment	\$130	\$45	\$50	\$75	\$300
<i>When the first loan has been power-paid to zero, payments will be as follows. Note that all the money that had been put on the first loan now goes to the second.</i>					
Phase 2					
minimum payment	\$0	\$45	\$50	\$75	\$170
extra		\$130			\$130
total payment	\$0	\$175	\$50	\$75	\$300
<i>When the second loan is paid to zero, all the money is now paid to the third. Since \$225 is being paid on that loan each month, it will be paid to zero much faster than the previous two.</i>					
Phase 3					
minimum payment	\$0	\$0	\$50	\$75	\$125
extra			\$175		\$175
total payment	\$0	\$0	\$225	\$75	\$300
Phase 4					
minimum payment	\$0	\$0	\$0	\$75	\$75
extra				\$225	\$225
total payment	\$0	\$0	\$0	\$300	\$300