

Organizing Payment Methods

The following are strategies that can help you prioritize and take control of your debt. Which one you use will depend on your own financial situation and financial goals, and you are welcome to combine elements from different strategies in order to meet your needs. Regardless of which strategies you choose, the key is to start now and take these first steps toward debt management and financial success.

The Long-Term Strategy

This strategy focuses on the kinds of debts that cost the most over time, such as a car loan, student loans, or a mortgage. The goal is to pay the least amount over the course of years, rather than worrying about month-to-month costs. This is considered the most fiscally responsible way to pay off debt, since it reduces the amount of overall interest you pay.

Order your debts by the longest term (or length) of the debt. For example, if you have two loans, one with an interest rate of 15% and six months left to pay on it, and another with an interest rate of 10% and 24 months left to pay, it's a better long-term decision to concentrate on paying off the 10% loan first. This is because over time, that 10% loan will cost you more in interest charges than the 15% loan will in the next few months.

Organize your debts by looking at which one will cost more throughout the length of the debt, and work your way from most expensive to least expensive.

The Long-Term Strategy & Credit Card Debt

Paying off credit cards is an example of the long-term strategy, because if you make only minimum payments every month, it can take several years to pay off your credit and interest will continue to grow. This is called the *minimum payment trap*:

- A \$1,000 credit card at 17% interest will take nearly **7 years** to pay in full if you make only minimum payments, and you will have paid nearly \$500 in interest.
- \$2,500 credit card at that same 17% interest would take nearly **10 years** and cost almost \$1,300 in interest.
- \$5,000 at the same rate would take **12 years** to pay in full and cost an additional \$2,665 dollars in interest.