

The Debt Snowball

Activity: Small groups of three to four students

⌚ 30 MINUTES

Materials: Course materials and the activity handout

Objective: The purpose of this activity is for students to work together in order to evaluate and design a plan to help this person get out of debt and start the debt snowball.

STANDARD Credit and Debt Standard 3: Describe ways to avoid or correct credit problems.

- List actions that a consumer could take to reduce or better manage excessive debt.

Procedure

Divide students into groups. Each group will need a copy of the student activity sheet, planning form and debt snowball form.

Encourage students to think creatively while laying out their plan. For example, their plan could include adjusting expenses (cutting cable, decreasing food, etc.), generating additional income, and proposing any realistic piece of advice that Dave teaches to help this person develop some “gazelle intensity,” such as a garage sale.

Review additional calculations, highlighted below, that students will need to do before they can start.

1. » Current net income per month (80% of \$40,000—to adjust for taxes—divided by 12 to get the monthly net)
2. » Total monthly expenses (add minimum payments and basic expenses)
3. » Interest rate (not necessary for the debt snowball, but it is listed in order for students to evaluate what information they need to use or ignore)
4. » House (listed as a debt but students should know that the house does not go into the debt snowball; see if students realize this on their own before calling attention to it)

Remind them that it is important to stay focused and intense when it comes to getting out of debt.

Current monthly expenses = \$2,555

Monthly net = \$2,666

Answers

Ideas to lower expenses or increase income. Answers will vary but might include getting an extra part-time job, dropping cable/satellite TV, selling or no longer driving your car and using public transportation, if possible.

The Debt Snowball (1/3)

Directions

Work with a group to evaluate the financial information listed below and create a plan to pay off the debt in the least amount of time possible using the debt snowball.

- » Use the planning form on the next page to help you come up with a plan. Do not start your debt snowball until you have discussed ideas with your group and agreed upon a course of action.
- » Use the debt snowball forms.

DEBT	INTEREST RATE	CURRENT BALANCE	MINIMUM PAYMENT
MasterCard	19.9%	\$600	\$22
Visa	23.95%	\$2,545	\$39
Car	4.8%	\$16,800	\$465
Student Loan	6.8%	\$18,400	\$220
Best Electronics	22.65%	\$1,015	\$29
House	7.5%	\$124,878	\$1,025

Additional Information: This person is single, a recent college graduate, and has no children.

- Gross Income:** \$40,000
- Taxes:** 20% of gross
- Monthly Expenses:** \$60 cell phone
\$65 electricity
\$45 cable TV
\$250 automobile fuel
\$85 insurance
\$250 food

Hint: Consider increasing income or decreasing expenses as ways to generate income.

Ideas to lower expenses or increase income might include getting an extra part-time job, dropping cable/satellite TV, selling or no longer driving your car and using public transportation.

The Debt Snowball (2/3)

Student Planning Form

Project Name: _____

Current Monthly Income: _____ Monthly Expenses: _____

Ideas to Lower Expenses or Increase Income:

Proposed Monthly Income: _____ Monthly Expenses: _____

Plan of Action:

The Debt Snowball [3/3]

Debt Snowball

ITEM	TOTAL PAYOFF	MINIMUM PAYMENT	NEW PAYMENT