What is Debt Management?

Worksheet

Debt management means creating a plan to repay debts efficiently through strategies like the debt snowball (smallest first), debt avalanche (highest interest first), consolidation, or refinancing. The goal is to reduce total interest paid and free yourself from debt faster.

Questions

1. Debt avalanche prioritizes debts by…

A) Smallest balance
B) Highest interest rate
C) Oldest debt
D) Personal preference

2. Which method often saves the most money on interest?

A) Debt snowball
B) Debt avalanche
C) Balance transfer
D) Doing nothing

3. What is a key benefit of debt consolidation?

A) Increases total debt
B) Creates one simple payment
C) Removes debt instantly
D) Guarantees lower interest

4. During a 0% balance transfer period, where should extra payments go?

A) Savings account
B) The 0% balance transfer card
C) Other high-interest debts
D) Emergency fund

5. Alex has three credit card debts: 2,000 at 12%,5,000 at 18%, and $8,000 at 9%. Using the debt avalanche (highest interest first), which debt should Alex pay down first?

6. Blake uses the debt snowball method with the same debts. Which debt does Blake tackle first?

7. Casey has three loans totaling $15,000. Instead of juggling three payments, Casey consolidates into one loan at 10%. How does consolidation help?

8. Define: What is the debt snowball method?

9. Define: What is the debt avalanche method?

10. Define: What is debt consolidation?

Answer Key

1. B) Highest interest rate — Avalanche targets highest interest first to minimize total interest paid.

2. B) Debt avalanche — Avalanche attacks high-interest debt first, saving the most in total interest.

3. B) Creates one simple payment — Consolidation merges multiple payments into one, easing tracking and management.

4. B) The 0% balance transfer card — Pay the 0% balance aggressively since no interest is accruing — this is a window of opportunity.

5. Sort by interest rate: 5,000 at 18% (highest) >2,000 at 12% > 8,000 at 9%. Pay toward the5,000 at 18% first while making minimum payments on the others. This saves the most interest overall.

6. Sort by balance (smallest first): 2,000 (smallest) >5,000 > 8,000. Blake pays toward the2,000 first. Psychological win builds momentum to tackle larger debts.

7. Consolidation merges multiple debts into one with a single payment, simpler tracking, and often a lower interest rate (if creditworthiness improved). Casey goes from 12% + 18% + 9% to unified 10%, saving money and reducing payment complexity.

8. Pay off debts from smallest to largest balance, regardless of interest rate. Provides quick wins and psychological momentum.

9. Pay off debts from highest to lowest interest rate. Saves the most money on interest but requires discipline.

10. Combining multiple debts into one loan, usually at a lower interest rate. Simplifies payments and often reduces total interest.