What are Debt Payoff Strategies?

Worksheet

Debt Payoff Strategies are planned methods to eliminate debt efficiently — snowball targets smallest balance, avalanche targets highest interest rate, and consolidation combines debts.

Questions

1. Debts: 1,000,3,000, $7,000. Snowball method priority?

A) $7,000 first
B) $3,000 first
C) $1,000 first
D) Pay all equally

2. Debts: 5% interest 4,000, 12% interest2,000, 8% interest $3,000. Avalanche order?

A) 2,000 (12%)→3,000 (8%)→$4,000 (5%)
B) 4,000→3,000→$2,000
C) 2,000→4,000→$3,000
D) Equal payments to all

3. Best reason for debt consolidation?

A) To hide debts
B) To get lower interest rate
C) To increase total debt
D) To avoid payment

4. Snowball vs Avalanche — which saves most money?

A) Snowball always
B) Avalanche always
C) Depends on the debts
D) Neither saves money

5. You have three debts: 2,000 at 5%,8,000 at 8%, $5,000 at 12%. Using snowball, which do you pay first?

6. Same three debts. Using avalanche, what is your payoff order?

7. You have 10,000 debt at 18% interest. You can pay500/month extra. Approximately how many months to pay off extra?

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. C) $1,000 first — Snowball pays smallest balance first to create early motivation.
2. A) 2,000 (12%)→3,000 (8%)→$4,000 (5%) — Avalanche targets highest interest (12%) first, then 8%, then 5%.
3. B) To get lower interest rate — Consolidation combines debts into one loan, often with a lower rate.
4. B) Avalanche always — Avalanche saves most interest, but snowball provides faster psychological wins.
5. Snowball = smallest balance first Payoff order: 2,000 (smallest) →5,000 → 8,000 You pay the2,000 debt first for an early psychological win.
6. Avalanche = highest interest rate first Payoff order: 5,000 at 12% (highest rate) →8,000 at 8% → $2,000 at 5% You pay highest interest debt first to save the most money.
7. Extra payoff months ≈ 10,000 /500 = 20 months (This is approximate; actual time depends on total monthly payment and interest calculations)
8. Pay off the smallest debt first, then use the freed-up payment for the next smallest — builds momentum.
9. Pay off the highest interest rate debt first to minimize total interest paid — saves money.
10. Combining multiple debts into a single new loan, often with a lower interest rate.