Payment Blizzard Transcript
00:00:01 Announcer
Welcome to Talking FACS.

What you need to know about family, food, finance, and fitness.
This nationally recognized award-winning podcast is hosted by the University of Kentucky Family and Consumer Sciences Extension Program.

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Our educators share research knowledge with individuals,
families and communities to improve quality of life.

00:00:25 Mindy McCulley
Hello and welcome to Talking FACS.
What you need to know about family, food, finance, and fitness.
I'm your host,
Mindy McCulley Extension Specialist for instructional support at the University of Kentucky.

My guest today is Doctor Nicole Huff,
our extension specialist for family finance and resource management.
Welcome, Nicole.

00:00:45 Nichole Huff
Hi, Mindy.

00:00:46 Mindy McCulley
Our topic today is paying off debt and who doesn't like to pay off debt?
I know that I get excited when I find that I've paid off some bill,
whether it is a credit card statement or something really big,
like maybe a home improvement project.

We're gonna talk about two different methods that might make paying off debt easier.
The snowball method and the avalanche method,
which kind of sound similar,
but they really aren't.

00:01:20 Nichole Huff

They're different.

00:01:22 Mindy McCulley
So many Kentuckians have some form of debt and if you want to pay off debt this year what are some things that we can keep in mind?

00:01:3 Nichole Huff
Yeah,Mindy,
like you said,
there is for some people,
I think there is that satisfaction if you borrow and you pay it off,
but for some people having debt can really weigh on their minds um and restrict their budget,
especially when it feels like the avalanche is on them,
right?
That it's an avalanche of bills.

And so,you know,
whatever your type of debt from mortgage to your car loan,
student loans are an example,
credit card, even medical bills,
but when we have a lot of debt,
it can be really restricting and and can be a burden.

And so,
you know,
for someone who wants to prioritize paying off their debt this year,
two tips to keep in mind,
the first is to create a plan.

So to create a plan to be intentional about reducing your debt.
And then the second is to change your borrowing and spending habits,
so you to do things differently.
So you don't end up in the same situation.

00:02:32 Mindy McCulley
Yes.
We don't want to live by credit,
we want to have credit available when it's necessary

00:02:38 Nichole Huff
a good distinction.
Yes.

00:02:40 Mindy McCulley
Let's talk about creating that plan to reduce our debt.
What do we need to
look at to make sure that we have that plan in place?

00:02:49 Nichole Huff
Yeah.
It's like with any goal I think about getting healthy.
Like, if I wanted to set out to run a marathon,
but I never got off the couch.
Like there's,
you know,
there's little likelihood that I would achieve that goal because it would take discipline.

I would have to create a training plan and,
and work on it a little each day or work on it each week.

Financial goals are much the same way.
you know,
any type of goal is rarely reached by luck or coincidence,
but instead it's reached by hard work and being intentional and creating a plan and following through.

So if you wanna have a plan to pay down your debt first,
you need to kind of list what debts do you have.

So get it all on paper.
because when we put things in writing,
you know,
whether it's by hand or on,
on the computer or typing it out,
but when we list the debts that we have,
we can see and we can see everything together.
So if you're creating a list,

make sure your list includes,
you know,
what debt is it?
So,
so is this your home mortgage or your car payment or a credit card?
But what's the name of the debt?
What is the total amount that you owe?
And then who do you owe that to?
So what is that specific creditor?
And then what is the interest rate?
So how much are you being charged a month to borrow that money,
whether the loan or a line of credit,
what is your minimum monthly payment?

And then finally,
what are you paying each month?
Because we all know that if we're just paying the minimum,
then it will be much harder to ever pay down that principle of the debt.
So start with writing out your debts and breaking it down so that you can see exactly what you owe and who you owe it to can,
you know,
come up with a strategy to pay it off.

00:04:40 Mindy McCulley
And I love that you say put down the total amount of the money you owe because so many times people will just look at what that payment is and have no clue how much they really owe.
And so if you have that number right in front of you,
you're more aware of what you have to do to make sure that you get rid of it.

00:05:01 Nichole Huff
Yes.

00:05:02 Mindy McCulley
So once someone has listed their debts,
what strategies can they use to pay them off more quickly?

00:05:08 Nichole Huff

Yeah,
so you mentioned to it that at the beginning and so that's what we'll kind of look at is the debt,
the debt avalanche method and the debt snowball method.
So both of these,
you may have heard them referred to similarly in the media or from financial professionals,
but both options require you to,
pay,
start with that minimum payment on all the debts,
but you take one debt at a time and focus on and you put any extra income that you can towards that one debt.
Um And so really the difference between these two strategies is which debt you focus on repaying first.

So with the debt avalanche method,
you focus on paying your debts with the higher interest rates first.

I mean,
that's because,
you know,
debt, it accumulates interest very,
very quickly,
especially when you are paying just that,
that minimum amount.

And so if you pay the off the debts with the higher interest rate,
it's gonna save you money in the long run.

But the downside to that method is if that debt that has that high interest rate is very large,
it may take a long time to pay that off.

And so,
you know,
people can get discouraged when it doesn't feel like they,
you're making progress.

And so that's,
that's the difference then in the debt snowball method.

So the debt snowball method,
you start with the smallest debt regardless of your interest rate and then you work towards paying your debts off from smallest to largest.

And so it doesn't consider interest rates.
So a downside is you,
you may not save money initially,
but um some people find it very motivating to see their progress.

So when you pay off smaller debts first,
then you start eliminating those debts from your total amount.
And so it can help you build momentum and give you confidence to tackle some of those larger debts.

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00:07:09 Mindy McCulley
So if you are someone who is motivated by having fewer checks to write or fewer debits to putting your um register each month and go with the snowball method.
But if you are motivated by seeing that debt number shrink shrink shrink,
then you go with avalanche method, right?

00:07:26 Nichole Huff
Yes, absolutely.
Yeah.

00:07:28 Mindy McCulley
So what if we put both of these methods together?
Are we gonna see like a blizzard?

00:07:35 Nichole Huff
It could a good blizzard,
right?

Like uh um but yeah,
I think that, you know,
either,
like you said,
either strategy really,

it works well depending on what motivates you to best stick with your plan,
like just saving money.

Is that more motivating for you knowing you're tackling those interest rates,
or is eliminating those debts?

Is, you know,
scratching those off your list,
is that motivating?

But yeah,
you can absolutely combine the two and,
and this strategy,
I think it's one that I particularly use,

when, when we are,
if we have financed anything and are prioritizing our purchases is looking at um paying off smaller debts by interest rate and then work your way up to the larger debts.
And so,
still what ones can I just go ahead and pay off first that have the higher interest rates um,
until I can work my way up to some of those larger debts.

But,
you know,Mindy regardless of which method you choose.
The key is just being intentional,
intentional about um putting any extra monthly income you have towards that debt you've selected until you pay it off.
And then once you pay that debt off,
then you take that money from that payment and then you put it towards the next debt.
So it's not continuing to pay the minimum payments um across the board,
but you focus on one and pay as much as you can on that until it's paid off.
And then once that's paid off,
you then choose another one to focus on and redirect all of that money.

And then so by the time you are to your larger debts or your debts with,
the lower interest rates,
you have to,
you're able to pay them off so much more quickly because you are putting so much towards so much more towards that principle.

00:09:20 Mindy McCulley
Yeah.
So you mentioned a second tip,
changing your financial habits.
This might be a little bit more difficult for some,
But why does it matter so much?

00:09:31 Nichole Huff
Yeah.
because, you know,
if we ever want to do more than just tread water,
then we have to just do more than pay off that,
that minimum balance.

And we also have to not get ourselves in the situation that caused the debt in the first place.
So it is by, you know,
going back to that marathon example, if we want to go the distance,
you have to make a habit of sticking to,
you know,
that new training routine,
that new training plan and the same is true with debt repayment goals.

And uh so changing your financial habits really examining because you,
you made a statement at the
at the beginning of the podcast that,
you know,
we don't wanna live that credit,
we wanna have credit available,
you know,
to help us out to maybe help us when we need it,
but not as a crutch, as a tool.

And,
and so in order to do that,
we have to focus on,
you know,
how can we get out from under debt so that we are in control of our money.

And so,
you know,
begin by examining uh your income and,
and deciding exactly how much money you can put towards your debt repayment plan each month.
If you look at that income and realize that you don't have very much extra to put towards that debt repayment plan,

then,

you know, what ways can you,
what things can you do -
What other strategies can you do to reduce your spending or increase your income and then being very intentional not to take on any new debt while you pay off that existing debt?

00:11:04 Mindy McCulley
Well, and I especially like to think about the fact that when we're paying off debt,
we don't have that money available to us to spend
like we might want to otherwise.

So once we get the debt paid off,
put that money in savings and then you don't ever find yourself maybe in that situation again.

00:11:24 Nichole Huff
Right. Then,
then your interest works for you.
So,
instead of not paying interest to somebody,
somebody,
the,
the financial institution pays you money,

you know, pays you that interest

00:11:34 Mindy McCulley
And those interest rates are creeping up a little bit.

00:11:37 Nichole Huff
Yeah.
Right.
Right.
Absolutely.

00:11:40 Mindy McCulley
Because debt costs more, that means the interest rates we get paid go up too.
Right?

00:11:44 Nichole Huff
That's right.
That's right.

00:11:46 Mindy McCulley
Nicole, thanks so much for joining me today for this really important discussion.
I really know that it's going to benefit our listeners in so many ways.

00:11:55 Nichole Huff
Thank you, Mindy.

00:11:57 Mindy McCulley
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00:12:05 Announcer
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