

5 step WAYG (Whipe As You Go) debt management plan

The 5 step WAYG debt management plan is an alternative to debt consolidation. Often, debt consolidation does not resolve the underlying reason people ended up in the crises in the first place. The WAYG plan **addresses the underlying cause** as well as **eliminate the debt**.

Picture 3 short term debts: 2 Credit cards with balances of \$4200 and \$7300 and a personal loan with a balance of \$12,000.

<u>Credit card one</u>
Balance \$4,200
Annual interest rate 17%
Min. payment \$126/m

<u>Credit card two</u>
Balance \$7,300
Annual interest rate 17%
Min. payment \$219/m

<u>Personal loan</u>
Balance \$12,000
Annual interest rate 11%
Min. payment \$205/m

As an alternative to debt consolidation, the following plan could be put into action:

1) List all credit card and personal loan debts and their minimum monthly repayments:

Debt	Balance	Interest rate	Min monthly payment
Credit card 1	\$4,200	17%	\$126
Credit card 2	\$7,300	17%	\$219
Personal loan	\$12,000	11%	\$205

2) Stop using your credit cards*!

3) Whipe out lowest debt*:

Here the important part starts. You need to keep making the minimum payments towards each debt. If you have been paying above the minimum towards 2 or more debts, drop the payments to the minimum. Now start making extra payments (at least 10% extra) towards the debt with the lowest balance (credit card 1, \$4,200 in this case). The table below shows the payment plan.

Debt	Balance	Interest rate	Min monthly payment	Actual monthly payment
Credit card 1	\$4,200	17%	\$126	\$138 (\$126+10%)
Credit card 2	\$7,300	17%	\$219	\$219
Personal loan	\$12,000	11%	\$205	\$205

By doing this, you will be paying out the 1st credit card in just over 3 years. Paying \$150 and it will take under 3 years!

4) Whipe out 2nd lowest debt:

Once the 1st debt is paid, transfer those payments to the next debt, see table below:

Debt	Balance	Interest rate	Min monthly payment	Actual monthly payment
Credit card 1	\$0	n.a.	\$0	\$0
Credit card 2	\$7,300	17%	\$219	\$357 (\$219+\$138)
Personal loan	\$12,000	11%	\$205	\$205

You were already making payments to this amount each month, so continuing it will not be difficult. The 2nd credit card of \$6,500 (a higher debt!) will only take 24 months to pay!

5) Whipe out 3rd lowest debt

Almost done! Now transfer all payments towards the 3rd debt. See table below:

Debt	Balance	Interest rate	Min monthly payment	Actual monthly payment
Credit card 1	\$0	n.a.	\$0	\$0
Credit card 2	\$0	n.a.	\$0	\$0
Personal loan	\$12,000	11%	\$205	\$562 (\$357+\$205)

This way, The personal loan (\$12,000) will only take 23 months to pay! Your highest debt takes the least time! As you can see, the key is sticking with it, keep transferring the payments. Imagine what you could do if you transferred these payments towards your mortgage next...

*Note: A key here is to stay within your financial limits. A thorough Cash Flow Analysis is an important tool in achieving that. Ask us about our CFA-home to learn more.

