Debt diary

Divorced 39-year-old moves back in with parents to tackle her debt load

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The first time Michelle Summerfield landed herself deep in debt, her parents helped bail her out. This time, the self-described “shopaholic” is on the long tough road to debt repayment alone.

“Having someone help you with your finances actually doesn’t help you at all,” said the 39-year-old account manager.

Her debt story, one of divorce and careless spending, began in 2006 when she and her husband bought a 1,200 square-foot starter house north of Toronto for nearly $280,000. Ms. Summerfield, who earned between $60,000 and $70,000 while married, acquired a line of credit in her name.

She started dipping into her credit line to decorate their new home with furniture, curtains and some major appliances. “You want to make your house look nice,” she said.

When the couple divorced in 2010, Ms. Summerfield owed more than $33,000 on her line of credit and credit card. Neither partner could afford their house alone, so they sold it. Their profit covered the real estate and lawyer fees, she said.
Unable to afford to live on her own, Ms. Summerfield moved in with her parents where she pays $150 monthly rent and covers costs like her cell phone and internet.

“The financial drain of divorce is huge,” said Laurie Campbell, the chief executive officer of Credit Canada Debt Solutions in Toronto. Many new divorcees mistakenly believe they can maintain their home and lifestyle, but they’re often forced to downsize, she added.

More than 40 per cent of young adults between 20 and 29 live with their parents, according to Statistic Canada’s 2011 census. Some have never left home and others are so-called boomerang kids. Two per cent of these young adults are either divorced, separated, widowed or still married, but living without their spouse.

It’s okay to move back home temporarily, said Ms. Campbell, so long as there is a plan to save a specific amount of money for moving out within a reasonable timeframe.

After her divorce, Ms. Summerfield’s priority was paying off her debt. She buckled and by the summer of 2011, her line of credit debt was down to just over $24,000. She also owed some money on her credit card and nearly $40,000 for a new car she had bought to replace her old unreliable lemon.

Her parents proposed an agreement. They would pay off her line of credit and she would make monthly payments to them at only 1 per cent interest, fall less than the 4.75 to 7.75 per cent her line of credit demanded.

By April 2013, she had whittled her debt down to around $8,900. Her dad forgave the outstanding amount, she said, as long as she promised to stop overspending.
It's admirable when parents want to provide monetary help, says Credit Canada's Ms. Campbell. But parental help can prevent the child from understanding the consequences of their financial mistakes.

She often sees clients who loan money to their kids, money that is never repaid. Some parents will even take out a loan to help, she said, and are then left with that financial burden late in life, a time when they should be enjoying their own retirement.

If parents are determined to step in and help an adult child financially, they need to agree on a repayment strategy or, if the money is a gift, a financial plan that includes future savings, she said.

Unfortunately, Ms. Summerfield did not use her leg up as an opportunity to turn a new leaf. It wasn't long before she started shopping again, racking up more debt.
Dissatisfied with her life, she ventured on a wardrobe redesign, splurged on cashmere sweaters, designer dresses and a $600 purse.

She dropped $5,000 on a bucket-list trip to spend Christmas in New York. "I'm probably still paying for it," she said. Her new debt load shot up to $33,000.
Kathryn Mandelcorn, a Vancouver-based certified money coach with Money Coaches Canada, said it's common for people to fill a void in their lives with purchases. To avoid impulse shopping, she suggests waiting two days before buying anything.

People who have repaid their debt should instead start saving money for things they value, like a secure retirement or a future trip, Ms. Mandelcorn added.
Ms. Summerfield said she was in the wrong emotional state during her shopping spree year and is now working on strengthening her willpower and questioning why she shops.

She is trying not to buy clothes, shoes, electronics and other goods for one year. She's cut the cord on her home phone and cable, and cancelled a trip to the U.K. She does allow herself the occasional coffee or dinner out.

In the roughly four months since she started, Ms. Summerfield has slipped up a few times, buying some books, accounting software and a pair of workout pants.
But, she's been aggressively paying down her consumer debt and car loan, while continuing to max out her company's registered retirement savings plan and saving for future goals. She writes about taming her financial alter-ego, who she calls Spenderella, at Budget Bloggess.

Her car loan won't be repaid until June 2016, but she estimates she'll pay off her consumer debt by the new year. She's set an ambitious goal to reach a net worth of $100,000 by then, which she says is possible given her low expenses, large salary and prior savings.

This time, she's set on fixing her financial mistakes without her parents' help.
"I get myself into the debt," said Ms. Summerfield. "I should get myself out of it."