What to do when your mortgage rules you

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This is part of a Globe series that explores our growing dependence on credit – from the average household to massive institutions – and the looming risks for a nation addicted to cheap money. Join the conversation on Twitter with the hashtag #DebtBinge

Vicky and Sandhya Bhardwaj bought a house in 2011, and now the house owns them.

The Mississauga house has appreciated nicely in price, but the couple's mortgage rules their budget. Asked to comment on their situation, financial planner Renée Verret pegged their mortgage and other fixed monthly expenses at a very high 79 per cent of their net pay. As a result, they're borrowing to supplement their lifestyle. Also, they have no emergency fund and their expenses are set to rise when their baby arrives in August.

"I'm worried for them," said Ms. Verret, a certified financial planner with Money Coaches Canada. "All the things they want as longer-term goals are going to be tough." Here's an edited transcript of a conversation Ms. Verret and I had about their financial situation, what they can do about it and how it relates to our national debt problem.

Can you summarize their financial predicament for us?
I think they bought too much house for what they want to do. They can meet some of the goals they have, but they will have to make some tough choices.

How common is this situation among the clients you have?
Maybe about 40 per cent, not a majority. Most of my clients are late 30s, early 40s, and they got into the market when it was still what I call affordable.

Let's start with some good news in looking at this couple's finances. What do the Bhardwajs have going for them?
They have a long runway – they're only 39 and 33, which means they have time to make adjustments and get on track. Also, they have the potential for higher income, and they're in a period of time when they're going to start a family – that's a lovely time.

This couple would like to know if they can consolidate all their debt into their mortgage so they end up with one payment for all at a reduced rate. How feasible is this?
I think they'll be able to do it. They can either do a blend-and-extend (add new borrowing into the existing mortgage and extend the term of the loan with a rate that is a blend of the existing mortgage rate and current rates) or they'll wait until the current mortgage is up for renewal in 17 months.

Note: Ms. Verret talked to a mortgage broker who said this couple's current mortgage at 3.29 per cent could be combined with other debts into a new five-year mortgage at a blended rate of 2.81 per cent.

What's the hazard of this debt consolidation strategy?
My caveat is that they don't do this every five years at mortgage renewal time.

There's a baby on the way in August – how will this affect their family finances?
There's going to be an even tighter cash crunch if they aren't able to consolidate debt on their mortgage right away.

What are your top suggestions for this couple to cut expenses?
Alcohol and tobacco, goodbye. Dining out, goodbye. Entertainment, goodbye.

Would downsizing the house make sense?
It depends on their goals. If they want the luxuries in life like private school for their kids, then the easiest way to do it is to downsize.

Retirement saving can be a casualty in a cash-squeezed household. How can this couple find money to save for retirement?
It's always the same way – income has to go up, and expenses have to stay the same. Extra money that is not being used as part of your budget plan has to go to savings.

How long do you think it will take this couple to be debt-free and start saving in a serious way?
This mortgage makes it very difficult for them to do that. I don't think they're going to be on a good path for saving, especially with a child coming, for another five to 10 years.

But there would still be time to save for retirement then, right?
I think they can do it, but it's all a matter of their expectations. My fear is that when you live in a [large] house like this, it's a set-up for what your standard is going to be in retirement. You'll be going from a debt-funded life to an actual retirement where there's no more money coming in.

What advice do you have for young couples who are looking at buying a house and want to avoid a debt bind?
Usually, couples like this have an idea of a price range and down payment. Whatever their range is, I suggest they try to live with that level of mortgage payment for three months. See how you manage – what you can do, and what you can't do.

As a financial planner who works with a lot of indebted people, what's your take on our national debt problem?
It's this low-interest-rate environment. People are not feeling enough pain for the life that they're financing. When interest rates do go up, it's going [to] hurt, and that's when things will change. I really believe people have to feel some pain before they change.