

INTRODUCTION

Bruce Mitchell: A Man With A Problem

My caller ID displayed an unexpected name: BRUCE MITCHELL. I immediately recalled our only conversation, more than five months earlier. For an initial phone call, Bruce had been extremely open and honest.

“I’ve never been very good with money,” Bruce began.

“A lot of people don’t understand basic personal finance, Bruce,” I told him.

“I know, but I’m in trouble and I need your help.”

“Okay. Tell me what’s going on, Bruce.”

“Over the years, my wife Ann and I have borrowed extensively. We’ve always been able to repay our debt but find ourselves in the same spot a few months later.”

“What do you think causes the problem? Any health or employment issues?” I asked.

“No. Fortunately, we’re good there. Everyone’s healthy. Ann and I have never been let go. On the income side, we’re fine. Honestly, we do *very* well,” Bruce concluded.

“So what do you think the problem is?” I asked.

Bruce paused a few seconds to collect his thoughts. “We moved out of the city a couple of years ago,” he said. “When we did, we sold our apartment for a profit—a huge profit. We used the money gained on the sale as a down payment on a suburban home.”

So far so good, I thought to myself.

“Despite the large down payment, we took a big mortgage because homes in the suburbs aren’t cheap. Then, we spent a ton of money improving the home.”

“Okay,” I said listening intently. “Tell me more about the home improvements.”

“Looking back, we probably spent too much on the remodel,” Bruce confided. “To make it worse, the contractor went bankrupt at a time when we had paid for more work than had been completed. We got royally screwed; we were unable to get any money back. As a result, I had to borrow money from my family to complete the renovation. I still owe most of that money.”

“Well, a contractor’s bankruptcy is a tough break—one which would financially harm most people. Still, you *were* able to borrow money from your family and complete the remodel. Since you haven’t paid your family back yet, your ongoing financial problems don’t seem to be entirely due to the contractor’s bankruptcy.”

“You’re right, Michael. A few other things happened since we bought the home,” Bruce confessed.

“Such as?” I inquired.

“First, our property taxes doubled,” Bruce disclosed.

“Doubled? This must have been some renovation!” I said, shocked.

“It was, but I still never expected my property tax to double. That’s ridiculous, right?” Bruce asked.

“It does seem absurd, Bruce,” I told him.

“I’m fighting the increase, but in the meantime I have to pay those illogical taxes. Plus, our monthly credit card bills are very high,” Bruce told me.

“Are they higher than before you moved out of the city?” I asked.

“Yes, there’s all this stuff with the new home: landscaping, heating oil, electricity, and so on. All of those costs are out of sight. You can see why

I'm so frustrated, right? I have to heat the house. I can't turn the lights off. You get where I'm coming from, don't you?"

"Sure, I do. But there's one thing I still don't understand," I told Bruce. "It appears you spend more than you make."

"We definitely spend more than we make," Bruce readily admitted.

"And you've been doing so for a very long time. The only way anyone can spend more than they make for an extended period is by continually raiding their savings or by taking on additional new debt. Besides your family, who else have you borrowed from?"

"We have big credit card balances. We've used all of our home equity. In prior years, I've taken advances on my bonus," Bruce explained matter-of-factly.

"How were you able to do that?" I asked.

"It's a family-owned company and I'm family, so I asked for help," Bruce replied.

"That was fortunate," I pointed out.

"It was," Bruce conceded. "Ann and I have also borrowed from our 401(k) plans. Most recently, we found some additional money we could borrow from our life insurance policies. But at this point, we have no money left."

"None?" I asked.

"None. I get paid on Friday but right now we have only \$75 in the checking account and I have a few thousand dollars of past due bills. There's no money, Michael" Bruce told me with exasperation in his voice.

Just as I was about to respond, Bruce continued.

"It's embarrassing," he said.

"Of course it is," I told him. "On the other hand, you're still employed, your wife is still employed, and you're both healthy. You *can* fix this."

"I hope so," Bruce said. "You know, I finally came clean with Ann about this last night."

"Your wife didn't know your financial situation?" I asked.

"No, not really. I take care of all the bills," Bruce explained.

"How did she react?"

"Well, she was shocked, of course. But she was also very supportive and confident we'd be able to make the changes necessary to get back on

track. She wants to do whatever we can to keep our house. We really don't want to lose our home."

"Okay, I hear you," I told Bruce.

In explaining how I would help him, I outlined Bruce's responsibilities including summarizing their debts, assets, income, and monthly expenses. I told Bruce we'd move quickly before things became worse.

"Good. One more thing, though, Michael," Bruce replied.

"Sure."

"I'm having heart surgery next week."

"I'm sorry you have to go through that—sounds serious," I said empathetically.

"It is. My mother passed away due to a heart problem years ago. I've been periodically tested since then and the doctors recently found something to address. I'll be fine. Honestly, the financial stuff is stressing me out far more. Send the paperwork you need me to complete and I'll be back to you after the heart surgery, likely in about two weeks."

"Sounds good, Bruce," I responded. "Good luck with the surgery."

"Thanks, Michael."

"Goodbye, Bruce."

"Goodbye."

That was five months ago.

When I didn't hear from Bruce a few weeks later, I feared something went wrong with his surgery. Fortunately, a mutual acquaintance assured me Bruce was in good health. Relieved, I hoped Bruce had resolved his financial problems and no longer needed my assistance.

THIS MORNING

"Good morning. This is Michael," I answered the phone.

"Hi, Michael. This is Bruce Mitchell. We spoke a few months ago."

"How are you Bruce?" I responded.

"Oh good, you remember me."

"Of course I do, Bruce," I assured him.