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WEALTH ADVISER

Helping a Client Overcome Divorce Debt

ILLUSTRATION: WILLIAM FARANCZ FOR THE WALL STREET JOURNAL

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A woman in her early 40s was going through a messy divorce.

After her husband moved out, she began seeing bills in her name for accounts she knew she hadn't opened. She discovered that while they were married, her ex had racked up about $25,000 in debt under her name without her knowledge or consent.

She had a six-figure income. But she was so angry at what her ex-husband had done, that she began sabotaging her efforts to get out of the debt and save for her dream house.

She started spending indiscriminately—going out with friends, buying clothes and traveling—racking up $10,000 of additional debt and spending more money each month than she was taking home.

"Even with a good income, if you're not spending correctly, you can still get into a lot of trouble or make things worse," says Therese Nicklas, a certified financial planner with U.S. Wealth Management in Braintree, Mass. She manages about $20 million for 62 clients.

The woman, hurt by her ex-husband's deception, was "spending money like a sailor on leave," Ms. Nicklas says. "I see it all the time with people who are going through a trauma. They're not thinking straight."

It was at this point that a close family member of the woman engaged Ms. Nicklas. The family member, an existing client, paid for Ms. Nicklas's services to ensure the woman accepted her help.

Therese R. Nicklas
PHOTO: JENNY NORSE PHOTOGRAPHY

Ms. Nicklas began by first helping the woman contest a portion of the debt her ex-husband had incurred in her name. The client was able to prove more than half of it wasn't hers—the car loan for her ex-husband's car, credit cards she didn't have in her possession and certain other accounts where the signature on file didn't match hers.

In the end, she remained liable for about $10,000 of her ex-husband's debt that she couldn't verify didn't belong to her, plus the $10,000 she had amassed herself.

Next, Ms. Nicklas encouraged the woman to curb her spending significantly. The adviser helped her create a budget and a plan to get out of the debt within three years.

To save on housing and utilities, she moved in with a friend. She also started bringing her own lunch to work and cooking dinner instead of eating out. Her efforts helped decrease her basic living expenses threefold to about $1,500 a month. She was then able to put $1,000 a month toward her debt and save another $1,000 for house. She also set aside about $500 a month toward an emergency fund, and $500 a month for retirement savings and still had $200 a month for fun.

The woman met with Ms. Nicklas monthly. They'd sit together while the client paid her bills. The client had initially hoped to put more each month toward paying off the debt, but Ms. Nicklas encouraged her to continue saving as well. Otherwise, she explained, the client might start to feel discouraged that her savings weren't growing.

"I'd show her each month how her net worth was improving. As she was seeing the progress, her self-worth went up," she says.

After a year, the client began paying Ms. Nicklas herself. After three years, she had paid down her debt and saved enough for a down payment on a small two-bedroom house. About six years later she had saved enough to buy her dream home.

This experience reinforced for Ms. Nicklas how important it is for people to get solid financial guidance at times of emotional upheaval. "Without good advice it is very easy to make emotional decisions instead of logical decisions," she says. "With good advice, you have a better chance of a more positive outcome."

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