Credit Awareness: Keeping You Informed

Don Parsons
Jayco Capital
Certified Mortgage Planner
Phone: 949-428-3099
Fax: 949-313-1999
don@donparsons.com

Divorce and Credit: What You Need to Know

1 out of every 2 marriages ends in divorce today! That's a daunting statistic and one that brings with it an abundance of emotional and financial upheaval for more than half of all married people. It is also a statistic that creates an urgent need for all individuals to become aware of how they can protect their credit standing in the face of a major life change; a change that will surely impact their financial situation.

While a divorce is easy enough to obtain and can be done in a fairly short period of time, the financial and credit issues emanating from the dissolution can linger for years to follow. Confusion or disagreement about who is to pay what bills and who is using specific credit cards can wreak havoc on your credit score. Late pays, no pays and insufficient funds can quickly cause the very best credit scores to plummet--it doesn't have to be that way. By proactively taking just a few simple steps, individuals who are starting over can ensure that they are doing everything possible to start over with their good credit intact.

Following is an example of a proactive action plan that will help you protect your credit during and after a divorce.

Step One: Getting A Clear Picture

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Get copies of your credit reports. Request copies of your credit report from each of the 3 major credit bureaus, Equifax, Experian and Trans Union so you will have full disclosure of your situation.
- Get all of your information into one place. Make a list of all OPEN accounts and accounts with balances. Then create a spreadsheet with columns for the following information:
  - Creditor Name
  - Creditor Contact Number (if it's not listed on the credit report, you can find the customer service number on the back of your statement, or you can always search for it on the internet. Where there's a will, there's a way.)
  - Account Number (sometimes credit reports do not list the full account number, so you may have to dig up some paperwork, but it will be well worth it.)
  - Type of Account (i.e. auto loan, mortgage, credit card)
  - Current status of the account (i.e. current, past due, collection, etc.)
  - Total amount du
  - Monthly Payment Amount
  - Vesting of Account (i.e. Joint/Individual/Authorized Signer)

Step Two: Acting On The Information

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Once you have assembled your information in one place, you can now begin to determine the best course of action for handling the accounts. There are two types of accounts you will be dealing with: secured and unsecured. Both are handled very differently during a divorce. Secured accounts are all accounts that have an asset attached to them, i.e. a mortgage or a car loan. Unsecured accounts are debts with no assets backing them, i.e. credit card accounts. Here are my suggestions:

- **Unsecured Accounts - Your Options:**
  - **Eliminate obligations where you can**: A credit card or a statement with your name on it does not make you a joint owner of the account. Unless the account was originally opened with an application SIGNED BY YOU, you may only be an authorized signer and you can request to have your name removed from the account immediately. Or vice versa, if your spouse is on the account as an authorized signer you will want to have his name removed to avoid any future charges. Be aware however, if negative credit was incurred while you were on the account, the past information will still remain.
  - **Close Joint Accounts**: If there is no balance on the account, call the creditor and close the account immediately.
  - **Freeze Future Charges**: If there is a balance that cannot be paid off right away, the creditor typically will not allow you to close the account. In this case, call the creditor and request to freeze the account from any future charges. This will allow you to pay off the balance over time without making you vulnerable to more debt. Such an action will stop BOTH spouses from using the account, so it is important that you make certain you have another credit card in your own name before you take that course of action.
  - **Transfer Balances To Responsible Parties Individual Card**: Request that the responsible spouse transfer remaining balances on a joint card to another credit card with available credit that is in their name only. Once this is done, CLOSE THE JOINT ACCOUNT IMMEDIATELY.
- **Secured Accounts - Your Options:**
  - **SELL IT:** This is the safest and best option. You sell the asset, pay off the loan in full, wipe the slate clean and move on.
  - **REFI IT**: If the spouse who has responsibility can qualify for a refinance in their own name, or they have a family member who can assist them with the loan, you can have them buy you out completely and you can walk away without obligation and get your name removed from the account.
  - **BE CAREFUL**: The least desirable option is to keep your name on the loan with certain terms and conditions. This option leaves your credit vulnerable to the responsible spouse's actions going forward. A late payment or a default on the loan will damage your credit.

Some Important Tips That Will Help

1. **Make Sure the Bills Get Paid No Matter What The Judge Says**: Regardless of what the divorce decree stipulates, it does not override your account agreements with your creditors. Both spouses are liable and responsible for joint debt regardless of who the judge orders to pay the bill. If the bills are not paid and an account defaults, both spouses can be sued, and both spouses can have their wages garnished. Most late pays occur during the divorce negotiations phase. Don't allow this happen. One 30 day late can drop your score anywhere from 50-100 points, and it takes months to gain those points back.
2. **Protect Yourself From Joint Account Situations**: The best way to handle joint accounts is to eliminate such accounts whenever possible. Because joint accounts are approved using the information from both spouses' credit reports, a creditor will not remove one spouse's name from an

account regardless of the presence of court documents declaring a specific spouse responsible for payment and upkeep.

3. **If You Decide To Leave Your Name On A Secured Loan Account, Be Sure That Your Name Remains On The Title**: Once your name is removed from the title, you no longer own the asset. This means that if the responsible spouse defaults on the loan, and you have to pay it, you'll be paying for something that you no longer own.
4. **Make Sure To Document And Follow-Up:** If you've had accounts paid and closed during the divorce proceedings, make sure your credit report reflects those changes. Follow-up on every item that relates to your credit and continue to do so until you have proof that every item is correctly stated or removed from the report. It can take many months to complete this process. Don't quit until you're certain that all loose ends are wrapped up.
5. **FINALLY**, putting the action plan to work as early in the divorce process as possible will ensure your credit will be protected to the greatest extent possible. Decisive, quick action will empower you to move forward.

In Conclusion

Though it may seem challenging at first, you will soon find that putting the above recommendations into action is easily done once you get started. You will also put behind you a crucial first step toward moving on with your life.