Divorce and credit

Be sure you know the rules of the game

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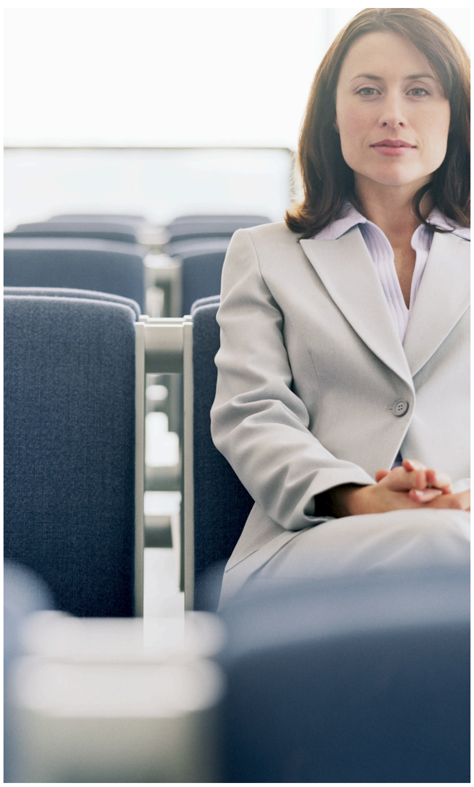

Are you facing divorce or separation?

If you're recently divorced or separated — or are thinking about divorce or separation — your next steps have to be smart. The following suggestions can help you make the right credit-related decisions for your personal situation.

The rules have changed

It's a tougher game now

Divorce and separation create new experiences and responsibilities. Suddenly, phrases like "child support payments" and "100 percent liable for bills" become part of your life. If you ignore your increased financial obligations or fail to separate your accounts, then it may be hard to open new accounts and obtain new loans in your name. However, there are many ways you can protect and restore the good credit you took years to build.

Get your credit report

It will decide where you begin

Before you start the divorce process, get accurate information about your credit standing. Get a free copy of your credit report at www.annualcreditreport.com. If you've already obtained your annual free report from Experian, you may purchase another report by contacting Experian directly at www.experian.com or by calling 1 888 EXPERIAN (1 888 397 3742) for information on how to get a copy of your Experian credit history.

Protect your good credit

You're liable for joint accounts

Your divorce decree does not end your responsibility for joint debts you incurred while married. You are responsible for joint accounts — from credit cards and car loans to home mortgages. Even when a divorce judge orders your ex-spouse to pay a certain bill, you're still legally responsible for making sure it is paid because you promised the lender — both as a couple and as individuals — to do so.

The credit grantor (a bank, credit card issuer, mortgage company or other credit-lending business) also has a legal right to report negative information to a credit reporting company if your ex-spouse pays late on a joint account. If your ex-spouse doesn't pay at all and your name is still on the account, you'll probably have to pay or the grantor can take legal action against you. Here are some additional steps you can take to protect your credit during the divorce process:

- **Close or separate joint accounts —** If you can talk to your ex-spouse, you can avoid a lot of grief. Analyze all your debts and decide who should be responsible for each. Call your creditors and ask them how to transfer your joint accounts to the person who is solely responsible for payments. However, you still might have legal responsibility to pay existing balances unless the creditor agrees to release you from the debt.

- **Take stock of your properties —** You may have to refinance your home to get one name off the mortgage, or you may need to sell your home and divide the proceeds. Consult with your attorney about potential tax implications.
- **Keep paying all bills —** Until you can separate your accounts, neither of you can afford to miss paying your bills. During divorce negotiations, send in at least the minimum payment due on all joint bills. Miss even one payment and that negative information stays on your credit profile for up to seven years, making it hard to obtain new credit in your own name. Beware of well-meaning friends and relatives who may tell you to ignore making payments or to run up debts. Just play by the rules: Make all payments with at least the minimum due.

Establish credit independently

New credit sets you up for the future

This is a major way to move ahead in your new independent direction.

- **Start small and build up —** If you were unable to keep one of your existing accounts by having your ex-spouse removed from the account, then you will need to apply for a new card. Get a credit card that has a small credit limit, perhaps from a local department store or financial institution. Then always pay your bills on time so your credit history will be excellent. After six months, apply for another card. Continue paying your bills on time, and keep your balances low. Don't run up debt beyond what you can afford to pay each month. It's a winning strategy that's easy to master.
- **Ask a family member or friend to cosign —** Perhaps a relative or friend with an established credit history can cosign your loan or credit application — provided you repay that cosigned debt on time. Remember, any transaction also will appear on the cosigner's credit profile. After a few months, try again to get credit on your own.
- **Consider applying for a secured credit card —** You must open and maintain a savings account as security for your line of credit. Your credit line is a percentage of your deposit. Beware of the extra fees you may have to pay for secured credit.

Rebuild a positive credit history

Begin again with good information

You can pick up your pieces and start the game fresh with a positive credit report — if you pay your bills on time. After all, your credit profile is always evolving.

- **Your recent bill-paying pattern is critical —** Your behavior during the next 18 to 24 months is critical in deciding whether you're a good credit risk. Even one late payment can affect your ability to get a mortgage.
- **Help is available if you're having difficulty paying bills —** Seek counseling from a qualified credit counselor. On its Web site, www.ftc.gov, the Federal Trade Commission offers good advice for choosing a counselor.

Bankruptcy is a last resort

You may lose a lot of ground

Bankruptcy could be the last move to make if you get in over your head, or it could be checkmate for your financial future if you aren't careful.

- **Bankruptcy is not an easy way out —** Because a court judgment must be made, filing for bankruptcy does not guarantee that it will be granted. Even if all you do is file your bankruptcy papers with the court, the bankruptcy gets reported on your credit report.
- **Not all debts are included in bankruptcy —** Items such as alimony, child support, student loans and taxes secured by liens still must be paid consistently.
- **Bankruptcy remains on your credit history up to 10 years —** While a declaration of bankruptcy removes many debts, any reference to filing, dismissal or discharge still appears on your credit profile: up to 10 years for Chapter 7 and up to seven years for Chapter 13. During this time, you'll find it more difficult — if not impossible — to obtain a new mortgage, a personal loan or a credit card.

Consider mediation

Remember, you're playing for keeps

Mediation can make the game much fairer by helping you and your ex-spouse work out a reasonable and equitable divorce agreement. If you'd like help finding a mediator, contact the American Arbitration Association. To locate an attorney, check with your state or local Bar Association.

You can win with the right credit-related decisions

No matter where you land on the divorce game board, you will have to take certain actions that can be very challenging, especially from a credit standpoint. However, when you know the rules and plan accordingly, your financial future will be smoother.

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