Divorce and your credit

Reports on Credit — Issue 10

There's a lot to think about when you're getting divorced. You may be faced with a lot of headaches, and credit problems can be some of the most frustrating.

This issue of Reports on Credit answers these important questions:

- Will a divorce decree resolve any credit issues you have with your former spouse?
- If you're contemplating divorce, how can you protect yourself from credit problems?
- Who should pay joint bills while the divorce is in process?
- Can a home mortgage be affected by divorce?

Will a divorce decree resolve any credit issues you have with your former spouse?

A divorce decree is an agreement between you and your ex-spouse. It has no impact whatsoever on your joint debts, including credit cards, car loans, home mortgages and lines of credit. And it doesn't change your obligation to pay back the joint debts you incurred while you were married.

Why? Joint accounts mean joint liability. When you obtained credit, you and your spouse entered into a contract to pay your bills. Your divorce doesn't change that contract.

If you're contemplating divorce, how can you protect yourself from credit problems?

First, call each of your creditors. Ask them how to transfer your joint debt to the name of the person who will be responsible. Usually, you'll both be required to sign an agreement with the credit grantor to release one of you from liability. Creditors don't have to agree, and they often check your credit history and ask about individual income to verify that you can handle the payments alone. Transferring joint accounts into one person's name is an excellent way to protect yourself from new liability, re-establish your individual credit and maintain your valuable positive payment history for the accounts.

If you're concerned that your former spouse might run up large amounts of debt, you should close as many joint accounts as possible so the existing balances can't be increased. Then inform all your creditors, in writing, that you aren't responsible for debts incurred after a specific date. Keep a copy of the letter for your records, and consider sending the original via certified mail. This might not prevent them from trying to collect, but it does show that you attempted to act responsibly.

Remember, even if your name is taken off an account, and even if the account is closed to future charges, you still might have a legal responsibility to pay existing balances.

If you have a good credit history, an alternative is to close all your joint accounts and open new accounts in your individual names. If your joint accounts have balances, obtain individual consolidation loans to pay them off and then close them. This isn't an ideal solution, but you'll each be solely responsible for paying off your individual loans — and you'll be safe from having your credit negatively affected by your ex-spouse.

Who should pay joint bills while the divorce is in process?

During divorce negotiations, keep sending in at least the minimum payment due on your joint bills, even if you ultimately will have no responsibility for the debt.

If you don't, the missed payments on your joint accounts will be posted to both you and your ex-spouse's credit reports. Negative information can stay on your report for as long as seven years, even if you later pay the amount in full. That will make it more difficult to obtain new credit in your own name, and it might make your creditors reluctant to release you or your ex-spouse from liability on your joint accounts.

Be aware that different credit grantors have different policies regarding divorcing couples and joint accounts. That's why you need to contact each of your creditors to discuss who will have ongoing liability for each account.

Even when you and your ex-spouse agree between yourselves to pay certain bills, you still need to contact credit grantors and close your joint accounts or convert them to individual accounts. If your ex-spouse doesn't pay as agreed, it will ruin both of your credit histories.

Can a home mortgage be affected by divorce?

The most expensive asset most couples have is their home. Usually, the divorce decree determines who owns the home and who can live in it after the divorce. But the decree doesn't change the original contractual responsibility to pay the mortgage.

To protect your credit, you might consider refinancing your mortgage so only one of you bears responsibility for payment. If that doesn't work, consider selling your home and dividing the proceeds.

These are difficult and disruptive steps to take, and they often have tax consequences that you'll need to consider. But they'll help you achieve one of divorce's main goals — separate lives.

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