7 Ways A Divorce Can Destroy Your Credit (by: Tracy Becker)

Divorce can be a draining and expensive process that weighs on your emotions and finances, so keeping your credit strong during the proceedings can help secure your independent financial future. To be clear, a divorce does not directly hurt your credit, but there are mistakes that couples make during separation that cause damage to credit scores. Depending on how messy the divorce becomes, common accounts may be put on the backburner and the damage from ignoring financial obligations will come back to haunt both account holders.

1) Refinancing your joint mortgage.

Most married couples who own a home have a joint mortgage account. One of the biggest problems with divorce and credit is people believe that their divorce agreement will supersede their mortgage agreement. When a divorce is taking place either one person agrees to take over the mortgage or they agree to sell the home. When mortgage responsibilities are assumed by one person it is crucial that they refinance the mortgage and take their ex off the account. Many lawyers fail to advise their clients to take care of the refinance by or before the divorce signing. If you wait until after the divorce, you may not have any leverage to push it forward.

- If a refinance is not done, both signers will be listed on the account and are liable if payments are not made.
- Until a refinance is complete, the high debt can hurt the individual who is no longer 'responsible' for the mortgage. If you do not complete the refinance, the high debt from the mortgage will impact loan applications since it is still considered official debt and that can change the amount of financing you qualify for. This could impact future large purchases for years to come.
- If one party defaults the other is still fully responsible for the mortgage unless it is refinanced out of their name. If late payments occur, it can drop scores hundreds of points.
- Also, before agreeing to take over the mortgage, you should make sure that you qualify for the refinance on your own. If the refinance is not approved based on limited income or poor credit, each party will still be 100% responsible even though the divorce agreement states otherwise. At this point, you should consider selling the home.

2) Attorney's offering poor advice relating to credit scores.

Many divorce attorneys will offer financial advice to their clients. They may tell you to stop paying any joint accounts during the divorce proceedings. Before you listen to their suggestion, there are ramifications for not paying your bills.

If both you and your spouse are not paying accounts whether joint or otherwise, if they are listed on credit there will be substantial damage to your credit. Are you okay with having poor scores? If you are, understand that getting approved for a car loan, lease, rental property, or mortgage down the line will be difficult with bad credit. Late payments remain on credit for 7 years and can drive your scores down dramatically. If your spouse is listed as an authorized user, they can easily be removed from the account. Authorized users are not liable for the debt.

3) Managing joint revolving accounts.

It can be risky keeping joint accounts open after a divorce. If you have joint credit card accounts the only way to separate everything is to close the accounts. With revolving accounts, it is not possible to remove a joint cardholder. Like a mortgage, if your spouse assumes responsibility for debt on a joint card during the divorce, it does not mean you are in the clear. If the payor has financial issues and pays late or defaults you will not find out until the late payments hit your credit reports. At that point, it is already too late. If you have a spouse as an authorized user on an account, they can easily be removed. Authorized users are not liable for the debt.

4) Your debt-to-limit ratio on revolving credit.

It is important to consider this when closing credit card accounts. Revolving credit accounts let you decide how much to charge and how much to pay back (no less than the minimums) each month. Revolving credit balances have a greater impact on credit scores since they show financial management patterns of the individual. As you close joint revolving accounts, your aggregate credit limit will decrease, and depending on all credit card balances and limits this can have a substantial impact on your score.

To gain the highest score in the category of balances on revolving credit the ratio of balance-to-limit should be no more than 10%. Also, if an account is very old and you close it, once it drops off the credit it can take points away with it. Old credit helps your average age of credit making your scores higher. Once closed the account can drop off years down the road but if it drops off at the wrong time it could cause issues for you.

5) Managing medical expenses.

It is the small things that many people do not think of that can have a big impact on credit. Medical bills left unpaid can turn into collections and hurt scores significantly. Many going through a divorce find their spouse discarding important mail. Make sure to change your address through all providers to ensure that bills are being mailed to the right location. If a new legal address is not an option yet, consider opening a PO Box until you are settled. Stay on top of doctor visits and when you expect copays to be due, so if you do not get a bill you can call to inquire with your provider.

6) Planning your finances post-divorce.

Some couples are one-income households and very dependent on one another. If you are going through a divorce and never had your own source of income, now is the time to start thinking how you are going to manage expenses. Also, when you close joint accounts it may leave your credit without any open accounts. If you do not have any of your primary credit and start removing joint obligations, you can be left with very little or nothing on your credit profile. You must have primary credit for 6 months to even have a FICO score.

7) Spiteful spouse.

The dynamic between you and your soon-to-be ex can threaten your credit as well. A divorce can bring out the worse in people and some might maliciously keep bills from you to hurt you or not pay bills they said they would control. It is a very good idea to have a credit-monitoring product, but especially when you are going through a contentious divorce. Freezing your credit or having fraud alerts can also help protect you from someone opening new accounts in your name fraudulently. Make sure your address is updated for all accounts that you are listed on and keep track of due dates and closing dates.

Review credit reports (FICO)

No matter how angry, emotional or frustrated you are, couples must be able to communicate about their finances because it can hurt both you and your ex and make the divorce process drag on.

Purchase a copy of your myFICO credit reports and scores, these are the most accurate reports used in lending, review and highlight all the joint accounts that you need to discuss with your spouse. See where your scores are now and consider speaking with a credit expert about maintaining your credit during the divorce process. The best report to purchase through myFICO is the 3B credit report. This report will reflect variations of the credit scores that lenders use, including mortgage, credit card, and auto FICO scores. If you are looking at the wrong scores you may have a false sense of security.

Tracy Becker is the founder and President of North Shore Advisory, Inc. North Shore Advisory, Inc. is a highly respected national credit repair company. They have been serving consumers and businesses for over 30 years. Their services include business and personal credit repair, building, and monitoring.

Besides being the President of North Shore Advisory, Inc. and cultivating an exceptional team, Tracy Becker is a Fico Certified Professional, Certified Expert Credit Witness, and was the "Credit Coach" for Douglas Elliman as well as for the "Eye on Real Estate", a popular radio show on WNYM 970 AM. She has published two books on the subject of credit and she writes/contributes regularly to major news journals and online media such as The NY Times, The Daily News, Crain's, Investment News, American Banker, CPA Journal, Accounting Today, and more North Shore Advisory, Press. Learn more about Tracy's practice at https://northshoreadvisory.com.