

Reestablishing Credit After Divorce

The relationship may be over, but the debts you incurred while married still linger. It doesn't seem right, we know, especially since the court agreement separated and defined the financial responsibilities each party would take on.

Court orders do not annul original contracts you signed with your creditors.

So regardless of what the Judge approved, if you signed a contract making you accountable for payment on any type of credit—from home loan, car loan to credit cards—you are still legally responsible for ensuring that the payment is made. If the payments stop, lenders can pursue you and any other party that signed for the credit. In addition, lenders can report delinquent accounts on both parties' credit reports.

Ultimately, collection agencies will come after both you and your ex-spouse if the debts remain unpaid. The effect can be catastrophic on your credit scores jeopardizing your financials goals and dreams. And filing for bankruptcy would sink your credit scores for up to 10 years.

Your options...before your credit is affected

- Use the money you have saved and begin making payments on accounts that are supposed to be paid by your ex-spouse. This will save your credit scores but may wipe out your savings...
- Contact each lender, informing them that the account is assigned by the court to your ex-spouse. This may redirect their collection efforts, but it's unlikely that they will stop harassing you. But showing a good faith effort of working with the lenders won't go unnoticed should you ever end up in a courtroom because of the delinquent payments.
- If the creditor permits, convert the delinquent account to interest only for a short period of time. This will lower the payment and perhaps make it easier for your ex-spouse to make payments. Once your ex-spouse is able to make the payments, the accounts can be converted back to interest plus principle.

- If your ex-spouse is willing, combine all the outstanding balances into new credit cards, car loans, etc. This will take the joint account and turn it into an individual account in your ex-spouse's name only, making them solely responsible for the payment.

The Best Course of Action

While you'd rather not bail out your ex-spouse by dipping into your savings, bad credit for the next 10 years isn't a great alternative.

Remain practical regardless of your emotions. This may sting a bit, but abandoning ship will have you waiting for years before your credit is good enough to secure a loan at a decent rate.

Steps To Take In Divorce Court To Avoid Future Credit Issues

The impact that divorce can have on credit reports and credit scores can be devastating. Here's what to do in court to avoid credit problems in the future:

- Close all credit card accounts in both names. This prevents either the husband or wife from abusing the remaining credit limits. New credit could easily be established in each party's name leaving no confusion over who is to pay what.
- Refinance the auto loans so that only one person owns the car. Essentially one of the two spouses would be buying the car from the other.
- If the house is in both spouse's names, sell it. One spouse can sell it to the other, or find a new buyer. This way both spouses get the equity out of the house, which can be split or used to pay off other loans.
- Take advantage of Consumer Credit Counseling Service. This non-profit agency can assist with a Debt Management Program for individuals going through a divorce.

Reestablishing Credit If Needed

- Do everything you can to make yourself look good to creditors. In other words, don't bounce checks or send late payments.
- List employers and creditors you have good relationships with as references.
- Always be wary of companies offering to help re-establish credit for a fee. Many of them are scams and you can take steps on your own for free.

- Get a job, even a part-time one, if you are not employed. An under-the-table paycheck may seem great, but it will not help you establish credit.
- Establish a residence, and don't move. Frequent moves make creditors nervous.
- Don't forget to cancel all joint credit cards from your marriage.
- Get information about debit cards if you are denied a credit card. Debit cards look like credit cards, but draw against your bank account when you charge purchases.
- If you changed your name because of the divorce, notify all your creditors, financial institutions, and investment or pension accounts.
- Open bank accounts in your own name—including a savings account, even if you can put only a few dollars in each month.
- Budget your money. It may sound obvious, but do not buy more than you can afford.
- Find a co-signer if you are turned down for a loan. Ask parents, family and close friends.
- Make arrangements to consolidate debts if they are more than you can handle. Check in your phone book for a consumer credit-counseling service for assistance
- Talk to an attorney... creditors may agree to accept smaller payments when an attorney indicates you may have to file bankruptcy. Discuss bankruptcy with your attorney if you cannot handle your debts.