FPA FINANCIAL PLANNING PERSPECTIVES

Divorce May End a Marriage, but Unchecked Credit Issues Just Might Last Forever

One of the most important aspects of planning for a post-divorce life is planning for your post-divorce credit history.

While Valentine's Day should be focused on the happy side of love, it's always important for smart individuals to be aware of the potential money pitfalls of love gone wrong. A divorced couple's respective credit histories can still be destroyed if one or the other practices poor credit habits *during or after the divorce.* For example, a failure to remove one's name from home mortgages, auto loans, credit card balances or home equity lines once a divorce is final can produce significant headaches if an ex-spouse loses a job, runs into medical problems or for any other reasons stops paying on time.

With the current state of the economy, pre- and post-divorce credit deserves even more focus from soon-to-be-single individuals. This is why it's so important to link financial planning with the legal side of divorce planning. There are financial planners, such as CERTIFIED FINANCIAL PLANNER™ professionals, who specialize in divorce situations, and they can be found at the Financial Planning Association's website www.PlannerSearch.org.

Here are some key points to consider if you are planning to divorce or if you are post-divorce and are unsure about how your ex-spouse is handling credit you once held jointly:

Enlist your own financial planner with your own attorney or mediator: You may have spent the lion's share of your life making money decisions with your spouse, but when you split, it becomes all about protecting your best interests. While this doesn't have to be an angry process, good planners with experience in divorce matters should be able to identify financial issues unique to your situation and guide you as you handle them. As mentioned, if your spouse is going to keep the house with the outstanding mortgage, you need to make sure appropriate actions (more on this below) are taken to make sure your credit isn't damaged by their inability to pay later.

Demand inspection of each other's credit reports: It's very easy to lose sight of credit matters when other immediate issues surface in the breakup of a marriage. If kids and a divorcing spouse risk physical danger from the other spouse, for example, credit concerns may be in the picture, but certainly not as a first priority. However, before a divorce is finalized, it's particularly important for both sides to review each other's recent credit history because debt trouble can surface during a breakup and cause problems later. Good divorce attorneys and mediators can draw attention to this need, but couples are ultimately responsible for making this process happen. It's best for divorcing couples to make time to pull copies of their credit reports and gather those for the same period from their estranged spouse and inspect both thoroughly (with the help of a planner or their attorney if possible). These respective credit snapshots can be used to make decisions that will protect their credit in the future.

If both sides haven't already obtained their annual free credit reports from the three major credit agencies (TransUnion, Experian and Equifax), the place to go is www.AnnualCreditReport.com. Keep in mind that most "free" credit report services you see advertised on TV take your credit card number and find a way to charge you for your "free" credit information later – don't fall for it.

Remove your ex-spouse's name from your accounts immediately: If you are keeping certain credit card, auto or mortgage loan accounts, both of you should call each lender and follow their respective processes to remove your ex-spouse's name from those accounts. You may need to coordinate with your ex on all written applications to make sure each account ends up where it needs to.

Consider refinancing the debts you keep once the divorce is final: Ex-spouses can run into debt trouble and creditors may come after the other ex-spouse for payment if that debt still exists with a history of both names as creditors. That's why if they're able, both spouses should immediately refinance the debt from mortgages, home equity loans, credit cards or any other consumer loans that they're splitting up. This might be easier said than done given current tight lending requirement and each ex-spouse's profile as solo borrowers, but again, this is why it's particularly important to collect debt advice before the divorce is final.

Keep a continued watch on credit reports and scores going forward: For some couples, it might make sense to sign up for services that alert you to sudden negatives in your credit data, but above all, set a staggered schedule immediately to check your credit reports in the 2-3 years following your divorce to spot any erratic credit activity that an ex-spouse might cause. For example, some ex-spouses have been known to place their ex-spouses names on mortgage or credit applications they might not otherwise qualify for. A sharp eye on your credit history can help you identify fraud or other problems.

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