



## Debt and Divorce: The Basics

Divorce can be a long and painful process – but money issues make it more difficult. To speed the process, it is vital to know the facts.

### **Obtain your credit report**

As soon as you know that divorce is in your future, obtain copies of your credit reports from all three major credit bureaus. The reports will list at least some of your spouse's credit-related activity; some may be new to you. The sooner you know what you are dealing with the better.

### **Close jointly held accounts**

If you have credit accounts that are held jointly, now is the time to close them. If the other partner uses the accounts before the divorce or legal separation, you may be held responsible for repayment.

For checking, savings, and investment accounts, change the title from joint to individual, and the beneficiaries (the person who you want to inherit the account's funds) to reflect your current wishes.

### **Open accounts in your name**

If you don't already have accounts (such as checking, saving, credit, and brokerage accounts) in your name only, open them now.

### **Debt after the divorce**

Keep in mind that a divorce decree – where each of you agrees to pay specific debts – is for convenience and peace only. If the debt is jointly held, creditors can come after either of you to collect what is owed. That is why it is important for both of you to treat the post-divorce debts responsibly. Missed payments will affect each of your credit report and collection action may start for either of you.

### **Divorce and bankruptcy**

If you suspect that your spouse will file for bankruptcy after the divorce, be sure to discuss it with your lawyer before you go to court. The separation agreement may be structured to consider bankruptcy. If your former spouse does discharge joint debts in bankruptcy, you may be held responsible for the entire payment, though sometimes bankruptcy court will discharge or release the spouse from paying those debts.

## **The Divorce and the House (Jean Chatzky's Money Tip)**

The house can end up being an incredible drain on cash flow (with insurance, property taxes, and unexpected costs for repairs). The best thing to do may be to sell it. Thanks to changes in the laws, it's likely you won't have to face capital gains at all.

A common compromise made allows one spouse to take the house in exchange for other assets. This only works if you know the value of what you're getting — a house isn't worth the appraised value minus the mortgage. In order to make for a fair trade, you also have to factor out the cost of the sale, commission, and any capital gains taxes you are going to owe.

If you agree to refinance to get your ex's name off the mortgage, make sure that the cost of refinancing is subtracted from the value of the house.