Volume 1, Issue 4

Life After Divorce

EXTENSION
Institute of Food and Agricultural Sciences
UNIVERSITY OF FLORIDA

Credit and Divorce

If you have recently been through a divorce or are considering one – you may want to look closely at issues involving credit. You may discover unanticipated problems. Understanding the different kinds of credit accounts opened during a marriage may help illuminate the potential benefits and pitfalls of each.

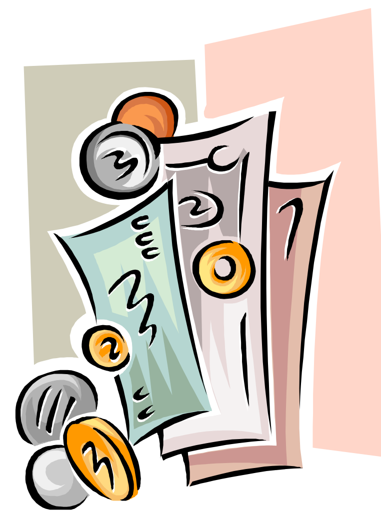
There are two types of credit accounts: Individual and Joint. With either type, you can permit authorized users to use the account. When you apply for credit, either a charge card or a mortgage loan, you will be asked to select one kind.

<u>Individual Accounts:</u>

When you apply for an individual account, only your own income, assets, and credit history are considered by the creditor. Whether married or single, you alone are responsible for paying off the debt on this account. The account will appear only on your credit report. For spouses who do not work for pay outside the home, work part-time, or work in lower paying jobs, it may be difficult to demonstrate a strong financial picture without the income of the other spouse, But, if you are able to open an account in your own name, nobody else can adversely affect your credit record.

<u>Joint Accounts:</u>

The income, financial assets, and credit history of both spouses are



taken into consideration for a joint account. No matter who actually handles the household bills, both spouses are responsible for seeing that all debts are paid. A creditor who reports the credit history of a joint account to credit bureaus must report it in both names (if the account was opened after June 1, 1977).

A joint application combining the financial resources of two people may present a stronger case to a creditor for granting a loan

Inside this issue:

Credit and Divorce

or credit card. But because two people applied together for the credit, each spouse is legally responsible to the creditor for the entire debt accumulated. This is true for a joint account even if a divorce decree assigns separate debt obligations to each spouse. A former spouse can adversely affect another spouse's credit history on a jointly-held account, for example by running up bills and not paying them.

Authorized User:

If you open an individual or joint account, you may authorize another person, often a relative, to use that account. You apply for credit based on your own financial information and are fully responsible for paying any debt. If you authorize your spouse to "use" your individual account, a creditor who reports the credit history to a credit bureau must report it in the name of your spouse as well as in your name (if the account was opened after June 1, 1977).

" A former spouse can adversely affect your credit history on a jointly held account by running up bills and not paying for them."

These accounts are often opened for convenience. They are helpful to people who might not qualify for credit on their own, such as students or homemakers. While these persons may use the account, they are not contractually liable for paying the debt. If you are permitting others to use your credit card, know that you alone are responsible for paying the bills.

If you are contemplating divorce or separation, be sure to pay attention to the status of your credit accounts. If you maintain joint accounts during that time, it is important to make regular payments or your credit record will suffer. As long as there is an outstanding balance on any joint account, both you and your spouse are liable for it.

You also may want to ask creditors to close any joint account or accounts in which your former spouse was an authorized user. Or ask the creditor to convert these accounts to individual ones or to the name of the spouse handling that debt.

By law, a creditor cannot close a joint account because of a change in marital status, but can do so at the request of either spouse. A creditor, however, does not have to agree to change joint accounts to individual ones. The creditor can require you to reapply for credit on an individual basis and then based on your new application, extend or deny you credit.

Establish Your Own Credit History

You may have had experience using credit in your own name or maybe when you were married you shared a credit account. Now you need to establish credit in your own name.

When deciding to give credit, one thing creditors look at is your previous use of credit. If you have had credit in your name before, use those accounts as references on credit applications. If it's been a long time since you used those accounts, the creditor may require more recent information about your credit experiences.

If your name was on a joint account that was mishandled it is part of your credit history. If you feel you weren't responsible for the mishandling of the account, you should report this in writing to the credit bureau. Now is the time to build your own credit history.

Credit: Illinois Cooperative Extension

Fast Facts

If you are divorcing your spouse, pay special attention to credit accounts held jointly, including mortgages, home equity loans, and credit cards.
In conjunction with a divorce, ask creditors to close any joint accounts. Try to convert to or re-open these as individual accounts.

A joint account means that both spouses are equally responsible to the creditor for the account. This is true even if a divorce decree makes one spouse responsible to the other for paying off the joint account (since creditors are not a party to the agreement).

On jointly-held accounts, your credit record will suffer if a former spouse handles it irresponsibly. This could happen for example, if a former spouse makes numerous charges on a credit card and then refuses to pay.

Source: Federal Trade Commission

What To Do If You Are Refused Credit

" Learning about your Credit File is an excellent way to begin establishing your financial independence."

If you are refused credit you have the right to know why. If the business that you have applied to for credit says that the reason for denial was a poor credit history, they must tell you the name and address of the credit bureau it used.

The credit bureau must disclose to you "substance of all information" and the sources of that information included under your name in its files.

You have the right to know what your credit file contains. You also have the right to ask them to delete, correct, or investigate items you believe are incorrect. If you learn that the credit bureau has incomplete, misleading or false information the bureau is required by law to reinvestigate any disputed information.

You have the right to submit a written statement of 100 words explaining past problems or mistakes. This statement must be included when potential creditors ask to review your file.

It is a good idea to check your credit bureau file if you have been turned down for credit, a loan or a job. Even if you know you have a good credit rating, it is possible that your file contains incorrect information.

After you check your file and have information changed or added information to your file, wait several months and check it again. A return check is important to make sure the changes have been made. Any problems with a credit bureau can be reported to the regional office of the Federal Trade Commission.

Learning about your credit file is an excellent way to begin establishing your financial independence.

You Can Improve Your Credit Rating

- Establish your own bank account. Make regular deposits and avoid overdrafts.
- List your checking and savings accounts on credit applications.
- Take out a thirty to ninety day loan from the bank and pay it back on time.
- If you have lived at one address or worked in one job a long time, include that information on your application. Stability is important to prospective creditors.
- Check your credit file periodically to make sure that it contains accurate information.
- Once you do obtain credit, use it wisely. A good credit history makes it easier for you to qualify for credit in the future.

University of Florida /IFAS

Published by:
Deborah Humphries
Family and Consumer Sciences Extension Agent IV

Taylor County Extension Office
203 Forest Park Dr.
Perry, Fl 32348

Phone: 850-838-3509
Fax: 850-838-3546
Email: dshumphries@mail.ifas.ufl.edu

Beware of the Danger Signals of Over Using Credit

- Taking sixty or ninety days to pay bills that you used to pay in thirty days.
- Making only the minimum monthly payment while adding more charges to the bill.
- Paying bills with money needed for something else.
- Continually being late paying bills.
- Going on a spending spree and charging everything if you are angry or upset.
- Finding it harder to save.
- Taking out a new loan before the old loan is paid off or taking out a new loan to pay off the old loan.
- Getting notices of overdue payments.
- Working overtime to make ends meet.
- Not knowing how much you really owe.

If you are having a few of these problems you may be headed for credit trouble. Think about how you use credit and , if you can, start using it less.

Credit: Illinois Cooperative Extension