How to build credit after divorce

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Going through a divorce can be one of the most stressful and emotionally draining experiences of your life. Your credit score is probably the last thing on your mind, but you do need to make sure you're working towards a healthy financial future in the midst of the separation from your spouse.

Some people are left with a very poor **credit score** after divorce because they find their ex didn't pay bills on time and ruined the credit of both parties or they simply didn't maintain financial accounts in their own name throughout the marriage so they lack a solid credit history. Whatever your situation, there are some effective ways to build or re-establish credit after divorce.

Steps to take to help you build (or rebuild) your credit after a divorce

Pull your credit reports

First, find out where you stand, so you know what you need to work on. The only way to know the status of any joint credit accounts, or accounts that were formerly maintained in both of your names, is to check your most recent credit reports from Equifax, Experian and TransUnion. Usually, you can get them once a year at no cost through **www.annualcreditreport.com**; however, due to the financial uncertainty and circumstances resulting from the COVID-19 pandemic, the three credit bureaus are allowing people to pull their free reports weekly through April 20, 2022.

Here are the things to look for in those reports:

- **Note any joint accounts shared with your ex.** You need to know exactly where your credit history is tied to your ex's so that you can make a clean break. Your credit report should show documentation of all the joint and solo accounts associated with your Social Security number.

- **Scour your credit files for any notations of late payments or collection accounts.** Those are major red flags that will jeopardize your chances of qualifying for a new credit card or obtaining credit in your own name. There may not be anything you can do about them once they're there, but you need to know what you're working with.

As important as it is to be aware of the information in your credit files – especially after divorce – a surprising number of adults in the U.S. don't take the time to review their credit history.

A survey from the National Foundation for Credit Counseling found that roughly seven out of 10 Americans don't check their credit reports each year, as they're entitled to do free of charge under federal law (or more often, as noted above). Overlooking this right is a big mistake. But it's one that people don't often realize until they have relationship troubles.

"The fact of the matter is that people bring financial baggage into a relationship, and often don't deal with it until problems arise," says NFCC spokeswoman Gail Cunningham. "Perhaps that baggage comes in the form of a poor credit rating, significant debt, or no experience managing money."

- **Take stock of your own credit history.** Your report will reveal things like how long you've held a particular credit card in your own name. If you still have that card, don't throw the baby out with the bathwater when you cut financial ties with your ex. Make sure you aren't se eager to make a break that you close accounts in your own name that are doing your credit history good.

Don't keep joint credit obligations with your ex

Even if you have an ongoing financial relationship with a former spouse – perhaps he's paying child support or she's paying alimony – it's a good idea to break ties from a credit standpoint.

It's way too risky to keep things like joint **credit cards** or a mortgage in both parties' names, says Lisa Hanson, a financial adviser based in Philadelphia. Hanson specializes in working with divorcees.

"It's best to split the accounts because managing credit after you divorce can be very tricky, especially nowadays with all the credit restrictions and how difficult it is to get things like new mortgages," says Hanson.

Keep in mind, though, that even if a judge says your ex is responsible for your joint mortgage, for instance, unless you officially work it out with the mortgage lender, you are still named on that loan your spouse's payment patterns could be a problem. Do your best to either pay off and close joint accounts or officially separate them with the creditor.

Furthermore, if you maintain a financial link with your ex and they fail to make on-time payments or open too many accounts or otherwise behave irresponsibly with their finances, it can (and will!) negatively impact your own credit even though you may have nothing to do with the decisions being made anymore. This applies even if you're an authorized user on a credit card in your ex's name. While the primary cardholder's activities don't always affect the credit of an authorized user, it certainly can and you don't want that hanging over your head. Additionally, since you're an authorized user, any purchases you make on the card would be visible to and accessible to your ex, the primary cardholder.

Fix mistakes on your credit reports

After you receive your credit reports, make sure all the information about you is accurate, including your credit history, employment history and other personal information. Creditors and banks can make mistakes when reporting data to the credit bureaus, and only you can step in and request corrections. Each of the three credit bureaus provides an online dispute form.

Just realize that even if your divorce agreement says that your ex is supposed to pay certain bills, if he or she doesn't, you're still legally liable for those debts. It's another reminder to officially separate your finances.

Open a secured credit card if necessary

Now it's time to start actively working on building your credit. If your income is too low, or if your credit has taken a serious nosedive after a breakup, one of the best ways to rebuild it is to get secured credit card. **Secured credit cards** can even help you if you have a "thin" credit file or no credit in the past.

However, secured cards do come at a price. You need to pay for the amount of your credit limit by putting money into an account, hence the "secured" part. For instance, if you put up $200 (a common minimum deposit amount), your initial credit limit will likely be $200. You will also need to prove that you are responsible with managing your credit by maintaining a low balance and paying your bills on time. This process will take some time, but is a great way to kickstart your credit-building activities.

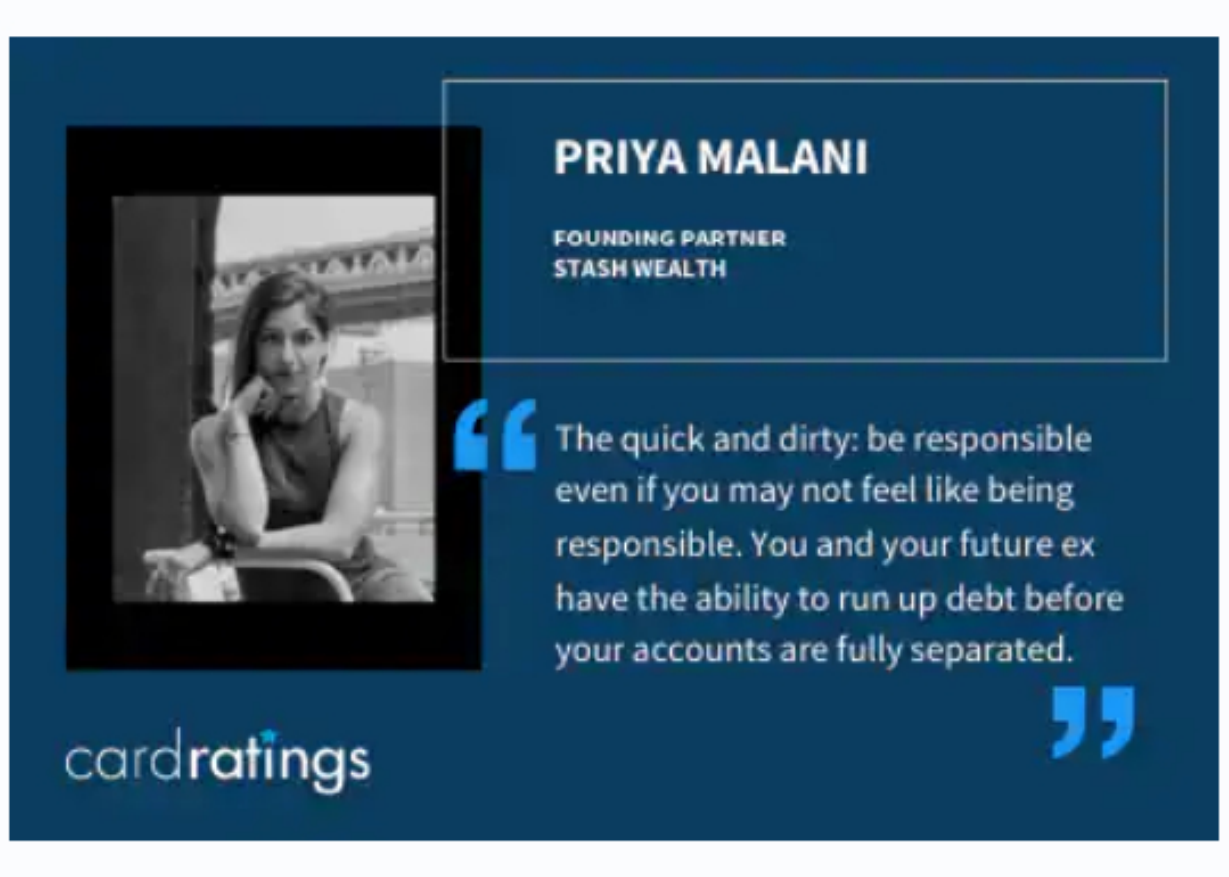
With responsible use, including on-time payments, you should see your credit score start to rise within a few months and, hopefully, soon qualify you for a non-secured credit card.

Pay all credit obligations on time

Finally, one of the best strategies for rebuilding credit – even if yours has suffered from divorce – is to simply pay all outstanding obligations in a timely fashion. According to FICO, the company that created the FICO credit score, 35% of your FICO score is based on your payment track record.

So if you do nothing else, do make a point to consistently pay your bills on time. Also do your best to keep your credit utilization low; that is, try not to use any more than 30% of your available credit at a time. By doing so, you should see your credit score rebound and recover over time, even if divorce initially takes a financial toll on you.

Does divorce affect credit score?



Divorce itself doesn't have an impact on your credit score, but it can and likely will have at least a secondary impact. What we mean is that some of the things that occur or can occur as a result of divorce proceedings may affect your score. Going through a divorce itself, though, doesn't factor in.

"Even though the divorce itself isn't a consideration in your credit score, the way you manage your joint accounts does matter," warns Priya Malani, an entrepreneur and founding partner of **Stash Wealth**, a financial planning firm for H.E.N.R.Y.s (High Earners, Not Rich Yet). "The quick and dirty: be responsible even if you may not feel like being responsible. You and your future ex have the ability to run up debt before your accounts are fully separated. So, if possible, pay off or refinance joint debt prior to the divorce being finalized."

Malani suggests several ways to do this:

- Sell what you're still paying off

- Refinance the loan and do it under one person's name - ideally based on who will be keeping the house or car or whatever else you still owe on

- Remove authorized-user status on credit cards. Even if your former spouse isn't a joint account holder on any of your credit cards, he or she may have authorized-user status on your account. "Not a great look for you," quips Malani.

How does divorce affect credit?

Some of the ways divorce may affect your credit are completely avoidable, but others may not be. Here are some examples:

- **Missed payments.** Understandably, in the midst of a divorce things could get hectic and a payment could be missed. One or two missed payments that are quickly caught and paid, while not ideal, isn't likely to have an impact. However, if missing payments becomes a pattern in the midst of your divorce and those payments start to drag out to 30 or 60 days late, your credit score will reflect that.

- **Reduced available credit/increased credit utilization.** During a divorce, you're going to need to separate your finances and that could mean closing some credit cards. If your available credit goes down, your credit utilization goes up and higher utilization has a negative impact on your credit score.

Malani adds, "If you fund legal expenses or other costs associated with divorce via a credit card, your credit utilization ratio will go up, which will negatively impact your credit score."

- **Halted credit history.** As you're working to divvy up the finances, make sure you don't inadvertently close your oldest credit accounts if at all possible. The length of your credit history plays a significant role in your credit score, and the longer the history the better the impact. If, in the course of your divorce proceedings, you cancel your oldest credit card, it will negatively impact your credit.

- **Bankruptcy.** While not necessarily a part of your divorce, it could be and your credit would suffer the consequences.

"Because bankruptcy can severely impact your credit, it should be considered as a last resort," Malani advises. "If possible, work with your lender to come up with new repayment plans that take into account your new income."

- **Change in your credit mix.** The credit profiles with the highest scores are those that reflect a variety of loan types. If your credit history shows a mortgage, car payment, credit card payments and student loans, you're showcasing a variety of loan types. If, however, during your divorce, your ex becomes solely responsible for the mortgage, car payment and credit card payments, leaving you with just student loans, your report is going to show a lack of variety.

A potential silver lining? Malani explains that an upside to your credit in the mid- to long-run that follows divorce is if you were married to an irresponsible spender who had access to, or shared, your accounts. Separating from that irresponsible spender allows your credit score to go up when they're removed from the accounts and unable to spend under your name anymore.

Can my ex affect my credit score?

Yes, your ex can affect your credit score, sometimes for years after your divorce has been finalized. That's because no matter what the legal decision is regarding the responsibility for a particular bill or debt in the course of your divorce, if your creditor still lists both parties' names on the debt, both parties' credit will suffer if the debt goes unpaid or is irresponsibly handled.

The same is true of authorized users on credit cards. Authorized users aren't officially on the hook for the debt run up on a credit card, but that debt CAN affect the authorized user's credit score.

These reasons are why it's so important to not only establish who has responsibility for certain debts over the course of your divorce proceedings, but to also contact your creditors and ensure names are removed from accounts for which that party is no longer responsible.

Can I open a new credit card during divorce?

You can absolutely open a new credit card during divorce and, in some cases, it may even be wise to do so. That's because you're going to need to establish credit on your own and opening and responsibly using a credit card is one of the quickest ways to do that.

"We recommend opening one in your own name to start building credit history," says Malani, "and drive down your credit utilization ratio before potentially closing a joint account or removing yourself as an authorized user from a previous account. Note that you typically need to show that you're earning income in order to be able to open a credit card. You can also start with a secured card, which requires you to put down an upfront deposit. A new option is using **a debit card that allows you to build credit**."

Remember, though, that it isn't wise to add your spouse as an authorized user on that new card nor should you include your spouse's income as part of your household income when filling out your application. The idea is still to separate your finances, so apply for the card on your own.

Attention to detail is key to rebuilding credit after divorce

Malani points out that debt during divorce varies greatly from state to state. In particular, common law (in which you're held responsible for debts accrued solely in your name) and community property (in which debt is evenly split among both parties, regardless of whose name it is in) are two of the bigger variables.

"Divorce is expensive," stresses Malani. "People often take on debt during the divorce to pay for lawyers, moving, separate living situations, phone plans, insurance, etc. In the settlement, if your ex agrees to make payments on a joint account, and then doesn't, those late or missed payments can show up on your credit report as well as theirs. If they default, you are jointly responsible for their debt."

The bottom line is to prepare as best you can for the financial implications of divorce.

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