FINLOCKER®

The Mortgage Lender's Guide to Supporting Divorcing Customers

Buying and selling a home at the same time is challenging for borrowers in the best of circumstances. Being court-ordered or forced to sell or refinance the family home as the result of a divorce will likely stir heated emotions, especially when it's not an amicable separation. Your customers will undoubtedly be upset, stressed, and fatigued throughout the process. They may also find it difficult to obtain documents or procrastinate making decisions to delay the inevitable. How your team manages this transaction can set the tone for how your customer proceeds to establish their financial future independently.

If your customer doesn't share responsibility for managing the household finances, they may have a thin credit profile or not be financially prepared to manage their own financial accounts. They could also have a tarnished credit history through no fault of their own.

To help mortgage originators provide guidance to customers during this tumultuous time, we've put together these tips to guide them towards a financially stable future.

Mortgage options for the marital home

For most divorcing couples, the most valuable asset they have to negotiate is the marital home. Emotions are likely attached to the home, which can impact a level-headed decision to divide this asset. However, practical financial reality usually determines how this asset is divided. Here are the five common options for settling this asset.

Refinance the current mortgage

If one spouse wants to keep the marital home, they will need good credit and sufficient qualified income from a job, alimony, child support, or a combination of these income sources to support the mortgage payments and other debts to refinance the home.

To be counted as qualified income, alimony and/or child support payments must have been received consistently and on time for the last six months. The payments must continue for at least another 36 months after applying for the mortgage, depending on the type of product used for refinancing. Mortgage underwriters will want to see the signed Separation Agreement or Divorce Settlement Agreement and the refinancing spouse's bank statements showing deposits. If child support is a monetary factor, they will also want to see each child's birth certificate to confirm they will not reach the age of emancipation (18 or 21 depending on the state) during that 36-month period. If they will, the child support payments for that child will not qualify as income.

The debts solely assumed after the divorce, such as student loans, car loans, and credit card payments, will likely impact the borrower's debt-to-income ratio.

Assume the existing mortgage

Depending on the current mortgage on the marital home, it could be assumed by one of the parties. FHA, VA, and USDA loans can be assumable, but conventional mortgages usually do not have this option. If the existing mortgage is assumable, the process is similar to refinancing, with the assumer qualifying for the mortgage loan according to the current lender's guidelines. While assuming a mortgage usually costs less for the consumers than refinancing, mortgage originators typically make little to no commission on this option.

Mortgage lenders are obliged to execute a release of liability to the other spouse eliminating their obligation to repay the mortgage following the assumption.

Buy the spouse's share of the home equity

If the court splits the home equity between both parties, one spouse can buy out the spouse to keep the marital home. This is a popular option when children are still in school as it can reduce distress if another home is unable to be bought within the same school district.

If there is sufficient equity in the home, the spouse can use a home equity loan to pay the other spouse their share of the home equity. They will assume the existing mortgage (if there is one) and the HELOC payments. Alternatively, a cash-out refinance will enable the party staying in the home to have only one mortgage payment and use the cash-out to pay the spouse for their portion of the equity.

Sell the marital home

The decision to sell the marital home can be the most simple or complicated option, depending on numerous variables.

Selling the marital home and paying off the existing mortgage will enable both parties to move forward to either buy or rent a new residence with the proceeds. The solution won't impact either party's credit.

If the divorcing couple does not have a real estate agent, it is advisable to refer them to a real estate agent experienced in working with divorcing couples. The real estate agent can recommend a real estate appraiser to determine the home's fair market value. They can also work directly with the divorce attorneys if one of the parties is not cooperating with the sale, maintaining the home for showings, or if one party wants a quick sale versus a sale for top dollar.

Keep the home and the mortgage

If one of the parties is not willing to sell the home and neither can afford to refinance the home, the remaining choice is to keep both parties on the current mortgage. While the divorce agreement will need to address who will make the mortgage payments each month, both parties will still be liable for payment.

Of the five options, this option is the riskiest for the mortgage holders and the mortgage servicer. Leaving the non-resident's name on the mortgage will impact their ability to buy a home in the future as the mortgage will be factored into their debt-to-income ratio. Both parties risk damaging their credit if one of the parties misses a payment or their share of the payment and the other party cannot afford to cover the unpaid portion of the payment.

Preparing homeowners for a financially stable future

In addition to helping a divorcing customer obtain a mortgage, mortgage originators have a moral obligation to help them keep their credit and finances intact to ensure they have more financial options for the settling asset and moving forward financially stable.

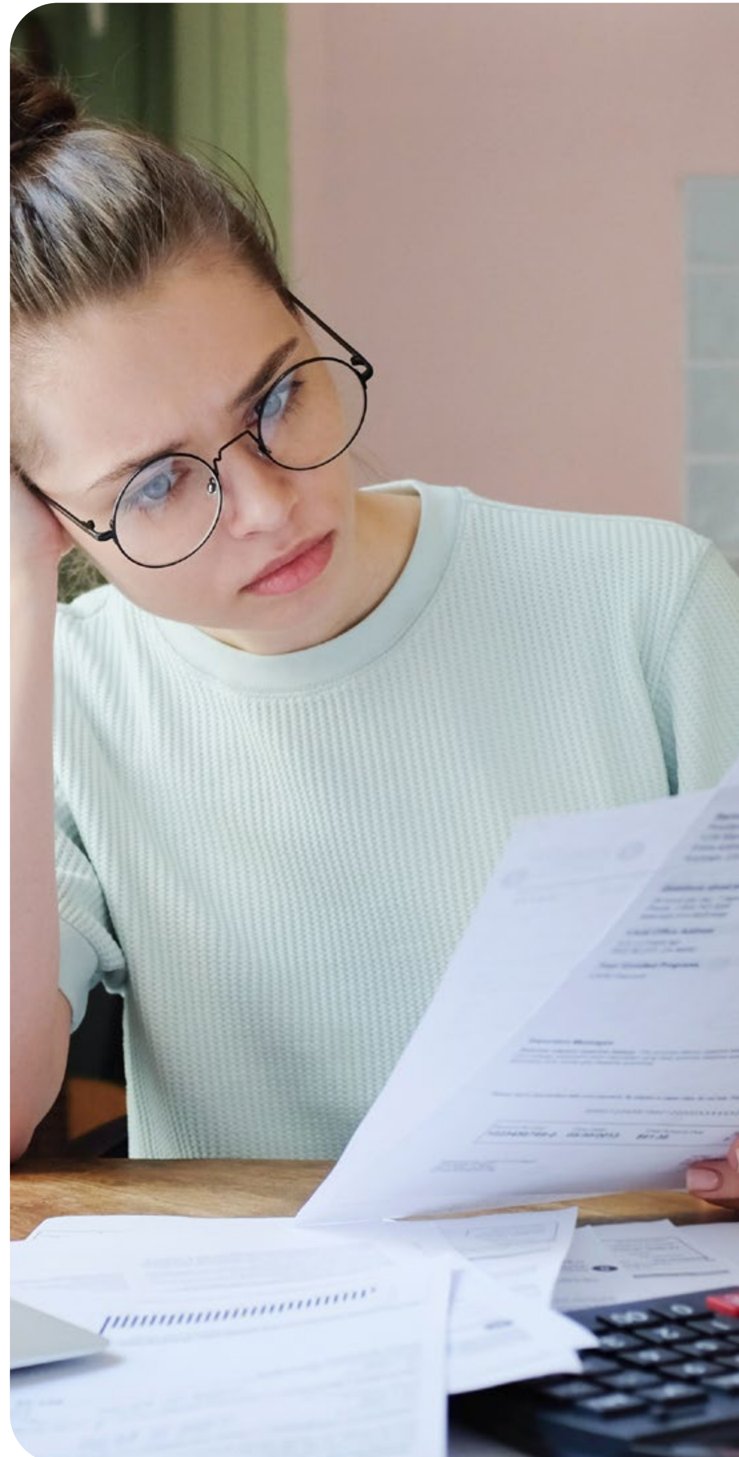
Protect their credit health

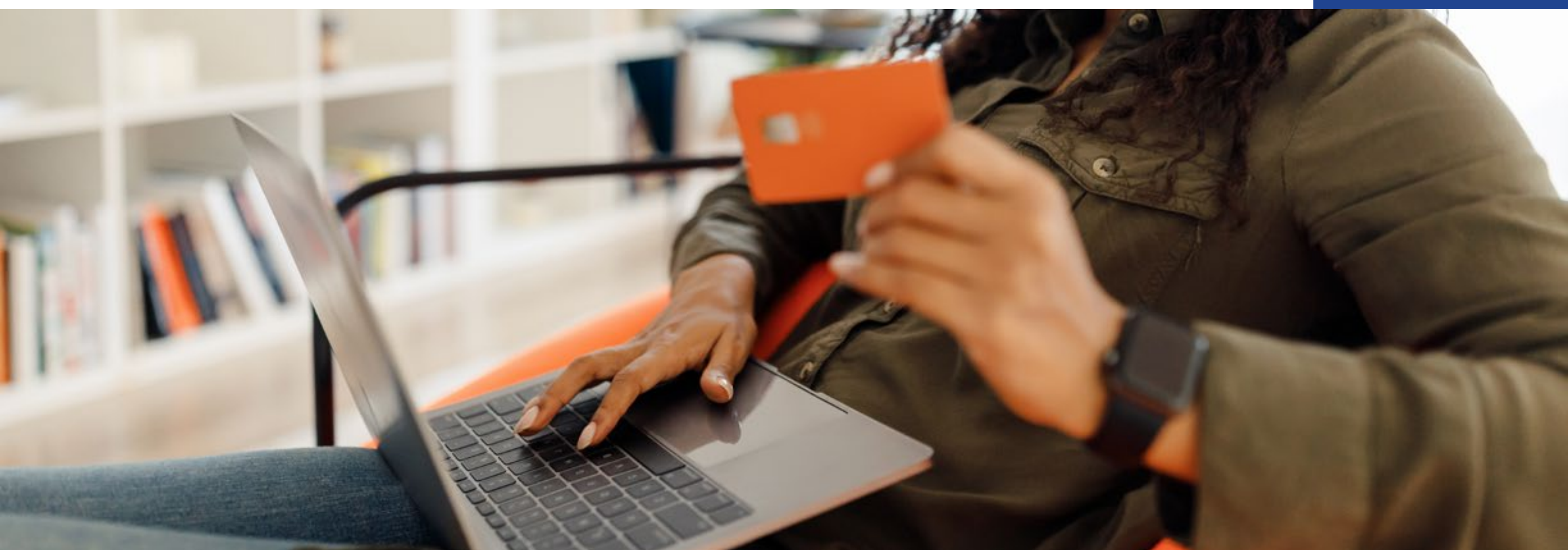
Whether your customer is the plaintiff or the defendant in the divorce action, it is essential they obtain their individual credit score and credit report. This will give you both a starting number and a complete understanding of their individual and joint financial obligations.

Their credit information will help determine the mortgage products they are qualified to use for buying a new home or refinancing their marital home. It will also help mortgage originators know if they should do a hard credit pull or need time to build their credit.

If their purchasing power is diminished, they could be better off renting for a year or two while establishing, building, or repairing their credit, increasing their savings, and waiting for interest rates to decrease.

Each party must closely monitor their credit report throughout the divorce proceedings, especially until all joint accounts are paid off and closed and assets are divided or disposed of. If your customer has a thin credit profile, it's important they try to pay off joint accounts together during or immediately after the divorce to obtain some credit history.

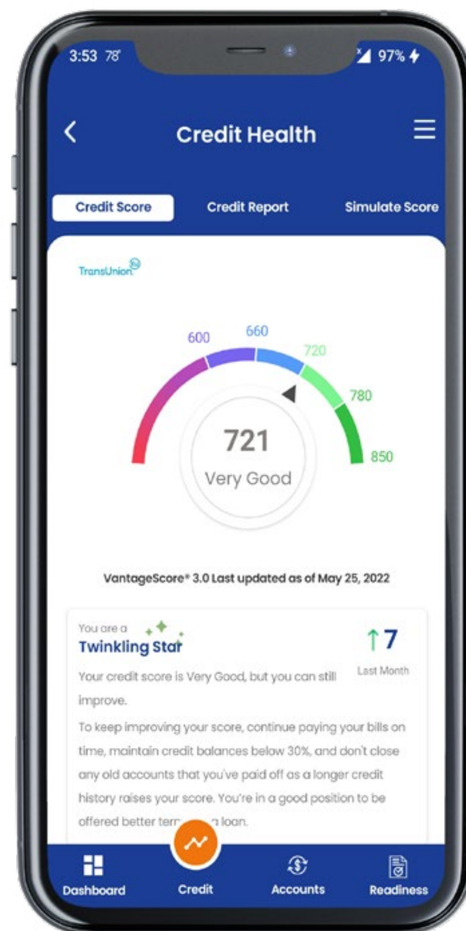




Only one financial app can simplify the process of protecting credit health

Everyone is entitled to one free credit report from each of the three credit bureaus once every 12 months through AnnualCreditReport.com, but that won't provide the frequency needed to responsibly monitor their credit during this major life change.

Following the creation of a new FinLocker app account, all customers are immediately invited to enroll in credit monitoring to receive their current credit score, credit report, and credit history. Within minutes, they can see their personal and joint financial obligations and learn if payments were made on time to any joint credit card, mortgage, or personal loan, regardless of the obligations in the divorce decree.



Regularly monitoring their credit report will also alert them to any unusual activity and help them identify if the spurned spouse has committed identity theft.

To prevent a vindictive ex-spouse from opening fraudulent accounts in their name, they can also freeze their credit report with all three credit reporting agencies directly from the FinLocker app.

Consumers who need to establish or build their credit can utilize the credit compass and credit simulator features.

Prepare documentation

In preparation for their new financial life, each person must make a list of all their assets and debts early in their divorce journey. Having first obtained their credit report will help them identify their personal and joint obligations. However, they also need to list every asset or debt they know the other person owns and owes.

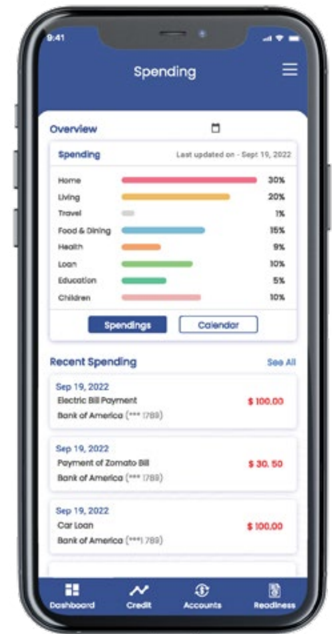
While some accounts, such as banking and investment accounts, and car, personal, and student loans, will likely appear on the credit report, other documents such as retirement accounts, children's college savings accounts, airline miles, tax returns, pay slips, utility bills, may prove challenging to obtain if your customer was not active in the management of the household's finances.

Only one financial app can securely store financial and personal documents

Whether your customer is the plaintiff or the defendant in the divorce action, it is essential they obtain their individual credit score and credit report. This will give you both a starting number and a complete understanding of their individual and joint financial obligations.

Their credit information will help determine the mortgage products they are qualified to use for buying a new home or refinancing their marital home. It will also help mortgage originators know if they should do a hard credit pull or need time to build their credit.

Track purchases and expenses



To help their attorney decide how to split up their marital assets and debts and determine who should pay or receive spousal support, it's important that both parties start tracking fixed expenses, such as mortgage payment, utilities, groceries, childcare, education, transportation, and flexible purchases such as clothes, entertainment, and vacations. Putting a number to these monthly and annual expenditures can also provide a reality check on whether your client can afford to keep and refinance the marital home, buy a less expensive new home, or temporarily rent to maintain their one-income household.

Only one financial app can automatically identify and categorize financial transactions

Looking at old credit cards and bank statements to identify and categorize every transaction is time-consuming. Also, it might not be realistic if your client wasn't the person receiving the statements. When your client enrolls their financial accounts in their FinLocker, the app categorizes every transaction for the past three years.

Reduced household income – Split debt = Lower debt to income ratio

If your borrower ends up with a larger-than expected portion of the marital debt, it will increase their debt-to-income (DTI) ratio. A higher DTI ratio could impact their eligibility for a mortgage to refinance the marital home or buy a new home.

If there is sizeable equity in the marital home, they could benefit from a partial cash-out refinance to consolidate their debt to help them lower monthly payments and save money on interest charges.

Only one financial app can help to lower their debt-to-income ratio

FinLocker provides homeowners and homebuyers with multiple tools to monitor and reduce their debt-to-income ratio. Homeowners intending to obtain a new mortgage loan can view their current debt-to-income ratio prior to application in the mortgage readiness. If their DTI ratio is above recommended guidelines, they can create a goal and budget to start paying down their loans and debt.

If your customer is keeping a home that has built significant equity, they can use the home equity line of credit or debt consolidation calculators to determine if they could benefit from one of these financial solutions to reduce their debt-to-income ratio.

Preparing for a new mortgage application

Women often return to their maiden name after a divorce. If this is your client's intention, they should legally change their name before opening a new bank account or applying for a mortgage to avoid confusion and clerical errors later. Reassure them that this will not affect their credit score or credit report, which are tied to their social security number.

Only one financial app streamlines the mortgage application process

While your customer is still determining how they will settle their marital assets and debts, the mortgage readiness assessment can analyze the current financial data to help them decide whether they currently qualify for a mortgage. It will also display what actions they should take to improve their eligibility and provide a personalized path to guide them towards achieving their goal.

When the readiness assessment shows your customer they have achieved mortgage eligibility, they are empowered to contact their mortgage originator through their FinLocker app to notify them that they are prepared to start their mortgage application. Within minutes, they can present themselves as a verified borrower to their originator by sharing their financial data and documents. Their financial information essentially prefills the mortgage application in the lender's LOS, reducing the need to repeatedly ask for documents during this challenging time in your borrower's life.

Let FinLocker guide your homeowners towards financial freedom

FinLocker is more than a homebuyer readiness tool. Homeowners can use the tools and resources to make informed financial decisions at every stage of their life. Providing a private-labeled FinLocker to your homeowners can help your business create customers for life and improve your customer retention rate.

Watch an online demo, attend a live demo or schedule a 1:1 consultation to see how FinLocker can help your homeowners make informed financial decisions and keep you top of mind for additional mortgage-related transactions.