Protecting and Salvaging Your Credit During Marriage and Divorce

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Surprisingly, many couples don't talk about their individual finances. Since credit is something you'll need to use and debt can ruin your credit score, it's a topic that needs to be settled before you join your lives.

What to Do When Your Fiancé Has Bad Credit

There are many circumstances that cause someone to have bad credit. Sometimes, these circumstances are inevitable - such as the person you love had a serious injury or illness that limited his or her ability to work for a time.

As a result, the bills weren't able to be paid on time. Or it could have been that the person you love was once with someone who damaged his or her credit. It really doesn't matter why or what caused it - what matters is how it's going to affect your financial picture if you merge your finances.

When you're engaged to someone, their credit score really doesn't impact your life at this time because your financial history isn't lumped in with your fiancé's. Each of you has an individual file at each of the three credit reporting bureaus.

These files are associated by your social security number, not by who you're engaged to. So your credit isn't touched by the other person's credit. However, if - while you're engaged to someone - the two of you decide that you're going to open up some kind of joint credit account, then that person's credit history becomes linked with yours.

Once your credit is linked to someone else, lenders will look at that person's credit, too. This will affect you when you apply for a mortgage, credit cards, bank accounts and even your monthly utilities.

If someone you're engaged to is applying for joint credit and has a credit score that's low, you can be denied credit. Or you might have to pay a large deposit to a utility company before you can get the utilities turned on.

If the person you love has bad credit and you're planning on making a big item purchase such as a home or a vehicle, then it's better not to link your credit to that person's.

You want financial decisions to be made based on the best possible credit. When a lender looks at the joint accounts on your credit report and sees that you're linked with someone who has bad credit, it can cause you to have to pay a higher interest rate on an account.

It's best to protect your credit from your spouse-to-be until their credit improves. If the shoe is on the other foot and you're the one with bad credit, then you need make sure that you take steps to protect the other person's credit.

Don't apply for joint credit accounts together. If you know that you're going to make a big-ticket purchase together in the future, then work on repairing your credit first, before you create that joint account.

This might take a few months and involve some hard work, but it will be worth it. You don't want the person you love to have their credit dinged because of your lower score.

The number one thing to remember when you're going to get married and one of you has bad credit is to talk it all out before you marry. Each of you should know where the other stands financially with credit as well as debt so that there are no unpleasant surprises after you're married.

What Happens to Your Credit During Marriage?

If you keep your accounts separate after marriage, you don't have to worry about anything on your spouse's credit history ending up on your credit report. However, when you sign for joint credit, then this information is placed on your credit report as well as his.

This is the step that links your credit histories and even if you have excellent credit, if your spouse has poor credit, it will affect you and sometimes, the other person's bad debts can come back to haunt you.

Once you're married and decide that it's time to buy a house, what usually happens is that one person can't get approved on one income alone. Lenders then use the incomes of both parties to figure out whether or not you can afford the monthly payments for the home you want.

When the debt-to-income ratio qualifies, the lender then looks at the credit history. If you're applying for the mortgage in both names, if your spouse has bad credit, a few different things could happen.

You will either get refused, be told that the loan must be in your name only, or you'll get approved and have to pay a mortgage payment that's a lot higher than you can comfortably afford.

This is because when bad credit is involved, many mortgage lenders want the buyers to pay for mortgage insurance. Meaning if you default on the loan, the lender is going to get paid anyway.

What you're responsible for financially when it comes to your spouse depends on the state that you live in. Some states are community property states. If you live in a state designated as such, it means that any debt he or she racks up after you get married also belongs to you as well.

In states that have this, it means that if your husband or wife gets sued for non-payment of an account, the creditor can also sue you as well. You could even have your wages garnished to pay for your spouse's obligations.

Since any joint accounts that you have with your spouse will go on your credit report, you need to be diligent to make sure that you protect your credit. Make sure these joint debts are being paid on time and if they aren't, you either need to take over making sure they get paid or remove yourself from that account if that's possible.

Consistent late payments lower your credit score quickly. It's always a good idea to make sure that you keep credit established in your name and in your name only when you're married.

You don't want your credit history to only reflect joint accounts because you need your credit to reflect individual responsibility and ability to make on time payments. That way, if you ever need credit on your own, you'll be able to get it.

What to Do When You Split Up

Unfortunately, what often starts out as a partnership filled with hopes and dreams doesn't always end up that way. When the relationship begins to unravel, there's a lot of emotional distress and most people aren't thinking about their credit.

But if you want to protect your future credit, then you have to. Don't assume - regardless of your soon to be ex's promises - that he or she is going to keep paying for anything or that he or she is going to be responsible.

If you have joint accounts together, shut them down and do it immediately. Iif you have credit accounts together such as a revolving loan, a home line of credit or credit cards, then your spouse can rack up more debt or simply not pay.

And whatever he or she does to that account will also be put on your credit report. Make sure that you give your creditors proof of what's going on. Your creditor doesn't want to be left holding the bag any more than you do.

Mail each of your creditors a letter that's sent via tracking number telling them to put a freeze on the account to prevent more debt from being added. Explain in the letter that it's your intention to permanently close the joint account once it has a zero balance.

This way, if your spouse is somehow able to add more debt to the account, you won't have to pay it and it gives you a legal foot to stand on if you need to take your spouse to court.

Remove your spouse from any accounts where you may have added him or her as an authorized user. Keep an eye on the activity history on all your credit accounts and immediately report any activity that you know you didn't do.

If you know that you're not going to be able to afford something on your salary alone such as the joint car loan or the mortgage loan, then let your spouse have them.

It might seem like the other person is "winning" but if you damage your credit by holding onto things you can't afford, you lose financially.

Immediately after you separate, line up a budget to live by and stick to it. In order to soothe raw emotions, people will sometimes go out and splurge on something that in the end, they can't really afford.

Don't make sudden spending decisions - especially in large amounts. While everything is working its way through the legal system, keep up with your bills. If you're struggling financially and know you need extra income, get a second job or lower your expenses.

Protect your credit rating by not living above what you can afford. If you have to use your credit cards, pay them in full every month. In an emergency, a credit card is helpful, but living off of one is a sure way to ruin your credit.

Once you're divorced, it's important that you regularly pull your credit reports. You want to make sure that nothing has come back to bite you - especially if it was a joint account.

If you suspect that your ex used your information to add to a debt or he or she isn't paying as agreed, then in order to protect your credit, you need to take him or her to court.

If an ex is ordered to pay something and doesn't, he or she can be called in on a Rule to Show Cause and will either have to make it right or face jail time for violating a court order.

Salvaging Your Credit After Your Spouse Ruined It

While there is an emotional price to pay when a couple splits up, you will heal and move on with your life. In many cases, this moving on will lead you to a beautiful life filled with happiness that you never thought you'd feel again.

But besides moving on emotionally, you have to make sure that you move on financially. Sadly, many people have to pick up the financial pieces as well as the emotional ones because a spouse ruined their credit.

When a spouse ruins your credit, it lowers your score and can prevent you from being able to get credit. But comfort yourself with the knowledge that you can rebuild and make your credit stronger than it even was before your spouse ruined it.

What hurts your credit after a divorce is nonpayment of accounts. While most men or women will immediately close joint accounts, that debt doesn't just go away. It has to be paid.

Suddenly, you've gone from two incomes to one. You have to make sure that your bills can be managed with the one income. So if you have a portion of a joint account that you have to pay off as part of the divorce, you can seek in the divorce to have your ex go ahead and pay off half of it and you refinance the balance in your name alone.

This way, you'll get lowered monthly payments that can fit your budget. You'll also be taking steps to boost the credit in your name alone again. It's a known fact that many women suffer financially more so than men when it comes to divorce.

If you find that you're struggling just to make ends meet, let alone pay the bills, then you have to act fast to salvage your credit. Adjust your budget to let go of expenses that you can't afford right now.

That might include things such as entertainment nights out with friends, coffee shop visits or travel. Cut back to the bare minimum. Sell the things you can so that you can tackle debt with the money the sales bring in.

Take on more work at your job if possible. Do whatever it takes to bring in the money that you need to pay your bills. Using the snowball method, pay off your debts.

Make a list of every debt that you had. When you write out this list, put the debts in order from the smallest to the largest. Then tackle the smallest debt first by sending in the regular monthly payment plus whatever extra you can throw at it.

As soon as that debt is reconciled, take the monthly amount you were using to pay on it and put it towards the second debt on your list. By paying like this, it snowballs until you're making large payments on the bigger debts.

If, for some reason, you have to have money fast, in some cases, you can get what's known as a hardship withdrawal out of your retirement accounts. You can then use that money to pay off any loans along with using it to erase your credit card debt.

Then you can start over with a clean slate. When you use money from your retirement account, you can return that money back to the account at a lower payment than what you're paying on all your debts combined - especially credit card debts.

Having the freedom from debt will give you some breathing room and allow you to begin salvaging your credit. If paying everything off at once isn't an option, then work with your creditors to create a repayment plan that you can both live with.

After the dust settles, you can get a secured credit card and begin to reestablish credit. Pay the card off in full every time you use it and never max it out. Take out a small loan using a co-signor.

Even a $500 loan from your bank will help. You may have family members who understand that your ruined credit didn't happen as a result of your actions and they'll be willing to help you.

You can also ask a family member to allow you to become an authorized user on their credit card account. These are just a few of the steps you can take to rebuild your credit. The good news about ruined credit is that over time, it can be rebuilt.