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How to Build Credit After Divorce

Gain the confidence and direction you need to succeed in your new life

Key points

- Realizing your credit record and score isn't quite what it was when you were one-half of a married couple can be very distressing
- Even if you received a lump sum settlement, you may still need to show prospective lenders that you are a reliable borrower
- There are several steps you can take to build or rebuild credit and keep from making the kind of missteps that can be hazardous to your wealth

For better or worse, you're entering a new chapter in your personal and financial life after divorce. If you weren't the primary breadwinner in the marriage, you may have relied on your partner to handle the finances. Starting anew, many in your situation face a rude awakening when they realize their credit record and score isn't quite what it was when they were one-half of a married couple.

Lenders and insurers will typically consider applicants with poor credit to be higher risks and, as a result, may offer them higher mortgage and credit card interest rates, as well as insurance premiums. But take heart—here are some simple ways to build or rebuild credit and keep from making the kind of missteps that can be hazardous to your wealth.

Order and carefully review copies of your credit reports

Go to http://www.annualcreditreport.com to order free copies of reports from the three major credit bureaus and find out what they know about you that could be keeping your credit from being less than pristine. First, look for low-hanging fruit in the form of damaging errors, such as credit limits or balances that are not accurately reflected. If you find a mistake, follow the instructions that came with your credit report to have it amended. After the matter is resolved, you should receive a notification of the correction with the amended report.

Keep in mind that while you may no longer be married to your spouse, you are forever bound in the databases of creditors as long as you have shared debt. Until a creditor releases you, or a determination is made that severs your responsibility on a debt, you can be held responsible for the debt. Stay on top of your payments because if your ex goes over a credit limit or doesn't make timely payments, creditors still have the right to come after you, and a non or late payment could

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What's in a name? If you're a divorced person going back to your family name, wait until it's court-approved before applying for credit in your new (old) name. Be sure to contact existing creditors to let them know of the name change. Know that changing your name doesn't give you a clean credit slate. While your credit history is tied to your name, it's also tied to your Social Security number.

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cause a lingering black mark on your record. Once the debt responsibilities have been divided in the divorce pursuant to a property settlement agreement, close joint accounts and have your name removed as an authorized user. All of this should be properly reflected in your credit report.

Begin to give yourself some (solo) credit

Lenders want to see that you're a good credit risk, meaning that you are a responsible borrower who makes prompt, regular payments. If you and your ex enjoyed good credit and you were an authorized user on credit cards, you should probably not have a difficult time applying for a credit card and should call to see if you qualify for a card in your own name.

However, if you didn't have good joint credit and your income won't qualify you as a good risk from a lender's perspective, making a fresh credit start may require a little effort. Consider:

- A "secured" credit card. This involves your providing funds to the card issuer in exchange for the ability to charge up to a low credit limit, which is a percentage of the secured amount.
- Department store charge card. These are generally easier to obtain than standard credit cards.
- A bank loan. Perhaps you may qualify for an unsecured loan; if not, a loan that is secured with collateral (such as a bank account or other asset received in the divorce that the issuer can seize in case you can't make the payments).

Gradually, once lenders see that you are a responsible payer and a good risk, you'll be able to spread your wings among traditional credit cards, mortgages, credit lines, and other types of loans.

Know the score

Virtually all prospective lenders are guided by your credit score—a numerical compilation of factors, such as payment history, credit lines, debt owed, etc., that is a marker for creditworthiness. Your score is the single-greatest factor in determining how likely it is that you will qualify for the lowest debt interest rates and insurance premiums. Scores may also often be considered by prospective landlords and employers.

The Fair Isaac Corporation, developer of the well-known "FICO" risk-assessment score, has credit categories that range from 780–850 (low risk) all the way down to 620 and below (high-risk or "sub-prime"). You can obtain your FICO score at no cost at www.freecreditscore.com. If yours isn't in the highest or even second-highest rung, there is a lot you can do—or not do—to attain and not lose your financial footing. Here are some key factors that go into a credit score:

- **On-time payment record.** Timeliness counts for about 35% of your credit score, since past missed payments are often an indication of future missed payments. One delinquency could echo for seven years and cost you up to 100 score points.
- **Your debt-to-credit-limit ratio.** The amount of debt relative to your total available credit comes to roughly 30% of your credit score. For credit cards, it's best to not let your balance rise above the halfway mark on any one card's credit limit.
- **Open credit lines.** It helps to keep the balance-to-limit ratio low. There's really no upside to closing a line of credit since untapped credit will improve your ratio.
- **Length of credit history.** The older your credit lines and accounts, the more you have shown yourself to be a good risk and lending prospect.

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- **Sudden burst of new accounts.** This can make lenders and credit card issuers jittery, as it may appear that you are either on a spending spree, unable to pay your bills, or both. It's of particular concern with revolving debt accounts such as a credit card (versus a fixed or installment loan, like a mortgage), where each payment frees up more borrowing potential.

Taking the steps above should go a long way toward helping you become the kind of risk that lenders seek. Remember, though, that while you may currently be focused on creating a credit transformation to assert financial independence, credit is just one piece of your overall wealth picture. Only an integrated, comprehensive financial plan can help identify and track progress toward all of your financial goals—credit and otherwise—and help provide the confidence and direction you will need to succeed in your new life.