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HANDLING DEBT IN A DIVORCE

BRENTWOOD, Tenn. – Divorce is usually a very emotional and difficult time in life, and it can also raise troubling financial questions. Dealing with debt, for example, can be a particularly tough issue for couples in the midst of a split. The Tennessee Society of CPAs provides some advice on how to smooth out problems and avoid unnecessary friction when finances become an issue.

BE INFORMED

When preparing to negotiate your divorce settlement, it's wise to come to the table with a good idea of the amount of outstanding debt that has been taken out in both your names. This might include a home mortgage, auto loan or balances on joint credit card accounts. Before the divorce is final, you will want to settle how this debt will be handled. There are several choices.

SELL YOUR ASSETS

If you have a mortgage on your house that is in both your names, consider selling the home, paying off the mortgage with the proceeds and splitting whatever is left based on your divorce agreement. You can do the same with a car or other asset that was purchased with a loan. The sale of any asset should occur before the divorce is final so that neither spouse is responsible for payments afterwards. The worst-case scenario is a situation in which one spouse remains in the house - or keeps the car - but fails to make payments. If the loan is in both your names, falling behind on payments can damage both spouses' credit ratings, even if one of them is no longer living in the house or in possession of the car or asset. Even if missed payments do not become a problem, disposing of your joint assets before your divorce makes it easier to move on.

REFINANCE AN ASSET

In some situations, selling a home or other asset may not be the best practical solution. This may be true if, for example, there are young children and both spouses would like them to continue living in the family home. In this case, the spouse who will remain in the home can refinance the loan in his or her own name only. That way the other spouse is no longer responsible for making loan payments.

SHARE THE NEW VALUE

In the case of a home that has increased in value since the couple bought it, refinancing also solves the problem of how to compensate both spouses for that jump in value. Here's how it would work. Let's say that the couple bought the home for \$100,000 and it is now worth \$200,000. By refinancing, the spouse who is keeping the house could take out a larger mortgage and give the other spouse some of the proceeds, based on their agreement in the divorce settlement. In our example, the spouse retaining possession might take out a \$50,000 loan and give it to the other spouse as his or her half of the increase in value. If you want to use this approach, it's important to consider whether the spouse who is keeping the home can qualify for and make payments on a larger mortgage.

About Money Management

Money Management is a weekly column on personal finance prepared and distributed by the Tennessee Society of Certified Public Accountants (TSCPA) as a part of its financial literacy initiative.

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