

Divorce

What You Need to Know About Your House, Your Mortgage and Taxes



How to Avoid Costly Housing Mistakes in the Midst of a Divorce

Divorce is a tough situation which opens up many emotional and financial issues to be solved. One of the most important decisions is what to do about the house.

In the midst of the heavy emotional and financial turmoil, what you need most is some non-emotional, straightforward, specific answers. Once you know how a divorce affects your home, your mortgage and taxes, critical decisions are easier. Neutral, third party information can help you make logical, rather than emotional decisions.

Probably the first decision is whether you want to continue to living in the house. Will the familiar surroundings bring you comfort and emotional security, or unpleasant memories? Do you want to minimize change by staying where you are, or sell your home and move to a new place that offers a new start?

Only you can answer these questions, but there will almost certainly be some financial repercussions to your decision process. What can you afford? Can you manage the old house on your new budget? Is refinancing possible? Or is it better to sell and buy? How much house can you buy on your new budget? The purpose of this report is to help you ask the right questions so you can make informed decisions that will be right for your situation.

4 Options

You have 4 basic housing options when in the midst of a divorce:

1. Sell the house now and divide up the proceeds.
2. Buy out your spouse.
3. Have your spouse buy you out.
4. Retain your ownership.

It's important for you to understand the financial implications of each of these scenarios.

1. Sell the House Now and Divide Up the Proceeds

Your primary consideration under these circumstances is to maximize your home's selling price. We can help you avoid the common mistakes most homeowners make which compromise this outcome. As you work to get your financial affairs in order, make sure you understand what your net proceeds will be - i.e. after selling expenses, and after determining what your split of the proceeds will be. Note that the split may not be 50/50, but rather may depend on the divorce settlement, the source of the original downpayment, and the legislative property laws in your area.

2. Buy Out Your Spouse

If you intend to keep the house yourself, you'll have to determine how you'll continue to meet your monthly financial obligations, if you now only have one salary. If you used two incomes to qualify for the old loan, refinancing on your own might be a challenge.

3. Have Your Spouse Buy You Out

If you are the one who is leaving, you have the opportunity to start again in new surroundings with cash in your pocket. However, be aware that if the old home loan is not refinanced, most lenders will consider both you and your spouse as original co-signers to be liable for the mortgage. This liability may make qualifying for a new mortgage difficult for you if you decide to purchase a home, even though you won't have legal ownership.

4. Retain Joint Ownership

Some divorcing couples postpone a financial decision with respect to the home and retain joint ownership for a period of time even though only one spouse lives there. While this temporary situation means you have no immediate worries in this regard, keep your eye on tax considerations which may change from the time of your divorce to the time of the ultimate sale.

When You Decide to Sell

If you and your spouse decide to sell your home, it will be important to work together through a professional to maximize your return. Differences aside, you both should be present when a listing contract is put together. Both of you should understand and sign this contract, and both should be active in the ultimate negotiations.

When You Buy Your Next Home

Use the proceeds from your previous home or buy-out to determine an affordable price range for your next home. Maintain a clear focus on getting the right home to suit your new situation. You may wish to review with an agent who offers a house-hunting service to help find a home that matches your new home-buying criteria.