

Your
**DIVORCE LENDING
BLUEPRINT FOR SUCCESS**

Opening New Doors After Divorce



- » Self-Employed Programs
- » Equity Buyout Solutions
- » Divorce Mortgage Planning
- » Credit Scoring Analysis
- » Government Loan Experience
- » Divorce Refinance Options



Sean A. Stephens, Esq., CDLP®, CMB®

NMLS ID #185288

President | Chief Legal Officer

Call/Text: 813-935-8330

800-806-9836 x280

SeanS@MPLX.org

Blog: DivorceMortgagePlanning.MPLX.org



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What is Divorce Mortgage Planning?

Managing Homeownership and Finances After Divorce

Divorce mortgage planning is a strategic approach to managing homeownership decisions throughout the divorce process. It involves navigating all mortgage options and collaborating with the divorce team to help prevent unintended consequences. Without proper preparation, divorcing spouses may face unnecessary financing hurdles and find it challenging to move forward with mortgage qualification.

What is a CDLP® (Certified Divorce Lending Professional)?

A CDLP® plays a crucial role within the divorce team by providing insight, broad experience, and a well-rounded perspective during the settlement process. Through this expertise in **divorce mortgage lending**, a CDLP® provides **tailored solutions for divorcing homeowners** that help maximize their available mortgage options. Whether they are navigating refinance options, educating on equity buyout scenarios, or exploring other mortgage strategies, this specific experience distinguishes a CDLP® from traditional mortgage professionals.

How can we help?

Our **Divorce Lending Practice Group** works closely with divorcing homeowners, attorneys, and financial professionals to align property decisions with mortgage guidelines and help clients avoid financing pitfalls. Involving us early allows us to develop strategies to help retain or purchase a home, maximize equity solutions, and help ensure availability of mortgage programs. We act as a **bridge between marital settlement agreements and mortgage eligibility requirements**, ensuring that alimony, child support, and asset division do not create financing obstacles. Our expertise provides clarity and confidence, empowering clients to make informed housing decisions.

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Divorce Refinance Solutions

Rate-and-Term vs. Cash-Out Refinance

Divorcing homeowners have two primary refinance options: **Rate-and-Term Refinance** and **Cash-Out Refinance**. A rate-and-term refinance replaces the existing mortgage with new terms, often providing a better interest rate without allowing for cash withdrawal. On the other hand, a cash-out refinance, provides funding for expenses like debt consolidation, divorce obligations, or home improvements but typically comes with higher interest rates and lower LTV limits due to the increased lending risk.

Loan-to-Value (LTV) and Refinance Eligibility

Lenders calculate LTV by dividing the loan amount by the property's appraised value. A cash-out refinance is usually limited to 80% LTV, while a rate-and-term refinance can go up to 95% or higher, depending on the loan program. VA loans are an exception, allowing cash-out refinancing up to 100% LTV. Understanding LTV is crucial in divorce mortgage planning, as it affects refinance eligibility and the amount of equity available for settlement obligations.

Maximizing Home Equity Options

Equity is the difference between a home's market value and the remaining mortgage balance. For example, if a home is valued at \$800,000 with a \$640,000 mortgage, total equity is \$160,000. If split 50/50, the spouse retaining the home would need to access \$80,000 to pay the departing spouse. However, what options do you have when there is limited home equity? In these cases, we can also look at structuring the refinance as an **equity buyout**, which allows us to maximize a property's available equity and exceed the customary LTV maximums associated with a cash out refinance.

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Equity Buyout

What is an Equity Buyout?

Although the term Equity Buy Out may sound like one party is getting qualified to purchase the equity interest of another, it actually involves obtaining a new first mortgage to pay out the departing spouse's agreed-upon equity interest in the property.

Benefits of an Equity buyout

As previously discussed, cash-out refinances are typically capped at 80% of the value of the home and have higher interest rate adjustments **while an equity buyout falls within rate-and-term refinance guidelines**, which allow for a higher LTV, making it the preferred option.

Equity Buyout Example

If a home is valued at \$800,000 and the existing mortgage balance is \$640,000, we are already at 80% LTV and capped for most cash-out refi options. However, with an equity buyout, we have the ability to access up to 95% LTV under a conventional loan and a loan amount of \$760,000. As a result, accessing this additional equity allowed another \$120,000 to be used toward settlement funds.

Drafting Tip - Marital Settlement Agreement

In these situations, the borrower may not receive any cash-out at closing and equity proceeds would be paid directly to the departing spouse. We work with attorneys to **review the applicable provisions of the marital settlement agreement** and ensure the language meets lending guidelines and maintains loan eligibility.

Remember....

**A LEGAL OPTION
IS NOT ALWAYS A LENDING OPTION!**

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Debt After Divorce

Joint Obligations and Authorized User Accounts

A **joint obligation** generally remains on both credit reports until refinanced or paid off, which can impact both debt-to-income ratios and credit scores.

An **authorized user** is someone who is added to another person's credit card account. They can use the account, but are not responsible for repayment. However, if late payments or adverse activity occurs, this will also have a negative impact on their credit. Being removed from an authorized user account can be a simplified process as compared to being removed from a joint liability.

Court Ordered Assignment of Debt

A divorce decree may assign responsibility for shared debts, but lenders still consider both parties liable if the debt remains in joint names, unless proper language is included within the marital settlement agreement. Even if a court orders an ex-spouse to pay a joint debt, missed payments can lower your credit score and impact mortgage eligibility. Refinancing or paying off joint debt is often necessary to fully separate financial obligations and protect credit standing.

Drafting Tip - Marital Settlement Agreement



Precise wording is critical to help prevent mortgage qualification issues. If a divorce decree does not clearly outline who is responsible for which debts, lenders may treat all joint debts as the borrower's liability. Being able to link a specific account to a credit report is critical. **Remember that credit reports do not use descriptive language such as a "Blue BMW" or "Green Chevrolet"** but instead will reference terms of the loan or account numbers. Proper documentation of who is paying the debt improves the ability to gain mortgage approval.

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Self-Employed Loan Programs

Traditional Income Documentation

Traditional documentation refers to the financial records used to assess a borrower's income and financial stability, and sets the standard for what is used under Fannie Mae, Freddie Mac, FHA, VA, and USDA underwriting guidelines. Examples of Documentation include, but are not limited to, the following:

- » 1040 personal tax returns and any Schedule C forms;
- » Business tax returns (1120S, 1120, 1065, etc.);
- » Schedule K-1 forms; and
- » Year to Date Profit and Loss (P&L) and Balance Sheet (audited or unaudited).

What are Non-QM Loans?

Non-QM means non-qualified mortgage. Simply put, these are mortgages that don't follow the qualification criteria necessary to be backed by FHA, VA, USDA, Fannie Mae, or Freddie Mac. We offer a number of different non-qm programs and jumbo loan products with flexible terms that allow for **self-employed alternative income documentation**.

Alternative Income Documentation

Alternative documentation offers flexibility for borrowers who may not have traditional income verification, such as self-employed individuals. In the context of divorce mortgage lending, this can include bank statement programs, asset depletion methods, and business purpose loans.

- » Bank statement programs assess income based on deposits shown in personal or business bank statements over a set period, typically 12 to 24 months.
- » Asset depletion involves calculating income based on liquid assets, dividing total assets by a set number of months to determine a monthly income figure.

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Alimony & Child Support

Debt to Income Ratios

Debt-to-income (DTI) ratios are calculated by dividing monthly liabilities by total gross monthly income used for qualifying, with a lower DTI being better. Alimony and child support can either help or hurt loan qualifying because they can either count as income or be treated as a liability and increase your DTI ratio. Also, remember that non-taxable income may also be "*grossed up*" which is a formula that increases a borrower's qualifying income.

The 6/36 Rule

The "6/36 rule" refers to the general guideline lenders use to determine if alimony or child support payments can be considered qualifying income for a mortgage. According to this rule, the recipient must have consistently received the support payments for at least the past 6 months and must be expected to continue receiving them for at least the next 36 months. This ensures the income is stable and reliable for loan qualification purposes.

Alimony - Lump Sum vs. Periodic

While a lump sum payment may provide the recipient with immediate financial security and a clear end to the obligation by the payor, it lacks the continuance needed to be used as qualifying income. In contrast, periodic alimony payments that meet the 6/36 rule stated above provides stable income that can be used towards loan qualifying.

Drafting Tip - Martial Settlement Agreement



Properly structured agreements help ensure these payments work within the 6/36 rule so they count towards qualifying income. This can be crucial for the divorcing homeowner to qualify for a refinance or for the departing spouse to obtain a new mortgage.

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Credit Scoring and Transaction Timing

What are Minimum Credit Requirements?

Minimum Credit Requirements (MCRs) refer to lending guidelines that must be met to be eligible for loan approval. MCRs are impacted by factors such as credit scores, joint obligations, authorized user accounts, late payments, increased balances, collections, charge-offs, and public records. These can all impact the credit score and qualification process differently.

Credit scores can be especially sensitive for divorcing homeowners. If a dispute occurs, this can lead to late payments being posted, collection accounts appearing, and credit balances increasing during the divorce process. This has the effect of slowing down the loan approval process.

Credit Rescoring - How to improve a score in less than a week!

Credit Rescoring, a.k.a Rapid Rescoring, is a process where we review a credit report, identify specific accounts, and **maximize the built-in potential of a credit score** using credit simulation technology. Through the **Rapid Rescoring** process, it is possible to update a credit score in less than a week! This can mean the difference between getting loan approval and fulfilling divorce decree obligations, or scrambling for alternatives while the clock is ticking.

Drafting Tip - Transaction Timing



How long will it take for the divorcing homeowner to refinance their mortgage? Are there any credit concerns, equity issues, employment problems, or income hurdles? Understanding the scope of their qualification and timing allows for a realistic window to complete the loan process without placing undue pressure on the parties.

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Why Metroplex Mortgage Services

Why Choose Metroplex Mortgage Services?

As Chair of our Divorce Lending Practice Group, our focus is on guiding clients through the complex intersection of divorce and mortgage financing. Through this unique expertise in the field of divorce lending, we are able to create customized lending strategies that help both divorcing homeowners and attorneys navigate the mortgage qualifying process.



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Call, Text, or Email to discuss your
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