Mortgage Equity PARTNERS

Divorce & Mortgage Solutions

A Guide for Attorneys & Their Clients

- Navigate Mortgage Options During Divorce
- Refinance, Buyouts & Legal Considerations
- Income Qualification with Support Payments

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📝 Introduction

Divorce often brings major financial and housing decisions, and one of the most critical aspects is the mortgage. Whether your client wants to keep the home, sell, or refinance, understanding the mortgage process is essential. This guide is designed to help divorce attorneys and their clients navigate mortgage options efficiently and avoid common pitfalls.

🧠 Key Mortgage Considerations in Divorce

1. Should the Home Be Kept or Sold?

Divorcing couples must carefully assess whether keeping or selling the home is the best option.

Consider the following:

- 💸 **Affordability**: Can the spouse wishing to keep the home afford the mortgage, taxes, insurance, and maintenance on a single income?
- 💰 **Equity & Buyout**: Is there enough equity to buy out the other spouse through refinance or cash-out?
- ❤️🩹 **Emotional vs. Financial Factors**: Are emotional ties clouding sound financial decisions?
- 📉 **Market Conditions**: Will holding the home be a good investment, or does selling now make more sense?

Decision Factors – Keep or Sell?

Factor	Keeping the Home	Selling the Home
Affordability	May be manageable with one income	Eliminates risk of unaffordable costs
Emotional Attachment	High—sentimental value	May be emotionally difficult
Equity for Buyout	Requires enough equity to refi & pay ex	Equity split simplifies finances
Market Conditions	Good if home appreciates	Avoids risk if market declines
Future Flexibility	Limits mobility	Frees up options for new start

2. How to Remove a Spouse from the Mortgage

- ✍️ **Quitclaim Deed vs. Mortgage**: A quitclaim deed transfers ownership interest but doesn't remove mortgage liability.
- 🔁 **Refinance**: Only way to legally remove a spouse from mortgage debt.
- 🏢 **Assumption**: Possible with VA loans or specific lender approval.
- ⚠️ **Credit Impact**: A remaining ex-spouse on the mortgage is still liable for late payments or default.

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3. Understanding Debt-to-Income (DTI) Ratios Post-Divorce
DTI = Total Monthly Debt / Gross Monthly Income

Scenario	Monthly Income	Monthly Debt	DTI Ratio
Before Divorce	$8,000	$2,000	25%
Receiving Support	$7,500	$2,000	26.7%
Paying Support	$6,000	$3,200	53.3%

📌 *Support income counts if consistent and documented. Support obligations count as debt and can reduce eligibility.*

🏡 Mortgage Options for Divorcing Clients
1. Refinance to Remove an Ex-Spouse

- 📉 **Rate-and-Term Refinance**: Removes ex and may lower the rate.
- 💵 **Cash-Out Refinance**: Allows equity buyout.
- ✅ **Qualifications**: Based on income, credit, and DTI.

2. Cash-Out Refinance Guidelines

Loan Type	Max LTV	Notes
FHA	80%	Higher DTIs allowed
Conventional	80%	Typically, lower rates, stricter DTI caps

3. Buying a New Home Post-Divorce

- 🧑 Must requalify solo based on income/assets.
- 🧰 Programs: FHA, VA, Conventional.

Program Min Score Max DTI Down Payment Mortgage Insurance

Program	Min Score	Max DTI	Down Payment	Mortgage Insurance
FHA	580	Up to 56.9%	3.5%	Required
VA	Varies	Lender discretion	0%	None
Conventional	620	Typically, 43-45%	3-5%	Required if <20% down

🛑 Temporary Housing Strategy During Divorce

Smart ways to bridge the gap before securing a new mortgage:

1. 🛒 **Don't Buy Prematurely**: Wait until divorce is finalized to avoid credit/debt surprises.
2. 🏠 **Short-Term Lease**: Look for month-to-month or 6-month rentals with flexibility.
3. 👨‍👩‍👧 **Family Support**: Living with relatives can reduce costs and help with savings.
4. 📂 **No Paper Trail? No Problem Solved**: Keep documentation of rent/payments to satisfy underwriting.

💼 How Alimony & Child Support Affect Mortgage Approval

When Used as Income:

- 📅 **Fannie Mae**: 6-month history + 3-year continuance.
- 🧠 **Freddie Mac**: Similar, with AUS flexibility.
- 📅 **FHA**: 12-month history + 3-year continuance.
- 🔍 **VA**: Case-by-case, must be stable.

When Counted as Debt:

- 💸 All loans count monthly support payments in DTI.
- 📊 FHA allows higher DTI than conventional loans.

📜 Lender Guidelines: FHA vs. Conventional

Feature	FHA	Conventional
Min Credit Score	580 (with 3.5% down)	620+
Max DTI Ratio	Up to 56.9% (AUS approved)	Typically, 43-45%
Max LTV (Cash-Out)	80%	80%
Min Down Payment	3.5%	3% (HomeReady)/5%
Alimony/Support as Income Use	12 mo history + 3 yr continuance	6 mo. history + 3 yr continuance
Support Payment as Debt	Counted in DTI	Counted in DTI
Title Seasoning for Cash-Out	12 months	6 months
Divorce Final Requirement	Must be final before closing	Must be final before closing
Non-Occupant Co-Borrower Allowed?	Yes	Yes (with restrictions)

⚠️ Common Pitfalls to Avoid

- 🚫 Not removing ex from mortgage = ongoing credit risk
- 🚫 Not verifying affordability early in the process
- 🚫 Not documenting support income properly = delay or denial

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🤝 How I Can Help

With 21 years in mortgage lending, I specialize in guiding divorcing clients with:

- 📝 Prequalification's
- 💸 Refinance Scenarios
- 🧭 Strategic Planning to Meet Post-Divorce Financial Goals

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📘 *This guide is an educational tool for attorneys and clients. Share it freely with those who need clarity during divorce.*