

Divorcing Your Mortgage

Divorce Mortgage Planning offers a different perspective and a better solution.



Navigating Divorce Income Streams for Mortgage Planning

THE FOUR MOST COMMON SOURCES OF INCOME IN DIVORCE

Divorce is a life-altering journey that transcends emotional and legal boundaries, profoundly impacting one's financial landscape. A transformative life event that often reshapes one's financial landscape. Understanding and managing income sources is paramount, particularly when securing mortgage financing. This article discusses the four most common types of divorce income sources—employment earnings, support payments, equalization funds, and business income—and highlights the critical need for divorce mortgage planning to ensure financial stability amid the tumultuous divorce journey.

EMPLOYMENT INCOME

While employment income may seem like the simplest of sources considered for seeking mortgage financing, it's not always that simple. It can become very disheartening to learn that your employment income may not meet the qualification requirements of mortgage financing.

Full-Time Employment Income: Steady, reliable income streams for individuals engaged in full-time employment still require that specific metrics are met, including establishing a 2-year work history in the same line of work. If the employee has recently returned to work, there may be requirements such as 6-months on the job before any of the income is qualified.

Part-Time Employment Income: Supplementary income sources, often preferred by parents seeking to balance financial needs with parenting responsibilities, cause a few more unforeseen complexities. Many divorcing individuals return to the workforce part-time as they balance family and the divorce process. Unless the individual has had a part-time employment income for two years, there may be issues using this income for mortgage qualification.

SUPPORT INCOME

Using support income from a divorce to qualify for a mortgage can be a complex and challenging process due to several hurdles. One of the primary hurdles is the inconsistency and unpredictability of support

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payments. Spousal and child support payments may not always be guaranteed, and their duration can vary, making it difficult for lenders to assess their reliability as a source of income. Additionally, documentation requirements for support income can be rigorous, and any inconsistencies or gaps in payment history can lead to mortgage application denials.

The minimum requirements for using support income from divorce for mortgage purposes are:

Receipt and Continuance: Most often, proof of 6-month receipt of support and 36-month continuance post-loan closing is required to use support income as qualifying income. When more than one child is included in the total child support calculation and the support income for one child will cease within the 36-month continuance window, child support payments must be modified to account only for the amount to continue for the three-year period.

Court Ordered vs. Voluntary Payments: Regarding mortgage qualification, court-ordered support income carries more weight and reliability than voluntary support payments. Court orders provide a legally binding commitment, ensuring a predictable and consistent source of income for the recipient. Voluntary support payments are only acceptable under certain circumstances and must meet longer proof of receipt and stability requirements. It may be advisable to request Temporary Support Orders during the divorce process to shorten the waiting period post-divorce in meeting the proof of receipt requirement if mortgage financing is desired sooner rather than later.

EQUALIZATION PAYMENTS AND PROPERTY DIVISION

Equalization payments and property division using a Promissory Note can significantly impact mortgage qualification during divorce proceedings. Lump-sum equalization payments received as part of property division may appear as a windfall of income, potentially affecting a borrower's eligibility. Careful documentation and a well-structured mortgage plan are essential to ensure these payments are appropriately considered and not inadvertently disqualify a borrower.

Equalization Payments: Lump-sum payments or asset transfers resulting from the equitable division of property and assets during divorce are not typically considered income sources for a mortgage. Establishing a strategy to structure equalization payments in the form of income is necessary with the help of a Certified Divorce Lending Professional during the settlement process, not post-settlement.

Promissory Notes: Structured payments through promissory notes, serving as ongoing income sources, are common in divorce when equalizing the marital balance sheet, such as a jointly owned family business. Income from Promissory Notes typically requires 12-month proof of receipt and a three-year continuance requirement. These two requirements usually make it challenging to use this income stream to qualify for mortgage financing.

BUSINESS INCOME

Utilizing business income for mortgage qualification can present significant hurdles, mainly when the borrower owns 25% or more of the business. Lenders often require the inclusion of any business losses in the income calculation, which can substantially reduce the borrower's qualifying income. Additionally, self-employment income tends to fluctuate, making it challenging to demonstrate a stable and predictable source of funds. Accurate business valuation, meticulous documentation, and guidance are crucial to navigating these hurdles effectively, ensuring that business income is considered optimally in the mortgage qualification process during divorce.

The need for divorce mortgage planning, particularly with the expertise of a Certified Divorce Lending Professional (CDLP®), becomes evident when determining the diverse income sources of divorcing borrowers seeking mortgage approval. CDLPs possess the specialized knowledge to navigate the intricate web of employment income, support payments, equalization funds, and business earnings commonly encountered during divorce. With CDLP® guidance, divorcing borrowers can confidently navigate the complex financial terrain of divorce and secure the housing solutions that best suit their post-divorce needs and financial goals.