

Co-signing Mortgage for Divorcing Daughter

Q. My daughter is in the process of a divorce. For the sake of her three school-aged children, she would like to remain in her house, but the soon-to-be ex wants his name off the mortgage. She has asked my husband to postpone retirement for a few months until things are settled so that he can co-sign a loan with her as an employed individual. What are the implications of this?

-- Worried mom

A. Your daughter is asking a lot, and you're smart to make sure you understand the ramifications of such a move.

Ever since the housing market debacle of 2008, obtaining a mortgage has become more difficult as rules and restrictions were put in place to be sure borrowers were able to afford the real estate they were purchasing, said **Claudia Mott**, a certified financial planner with **Epona Financial Solutions** in Basking Ridge.

She said when a couple divorces, it's common for the spouse who will be keeping the home to have to refinance the mortgage in order to remove the other spouse's name. The deed to the home may also need to be changed, Mott said.

Mott said proof of income is one of the reasons a divorce-related refinance may take longer than a standard refi.

"In the event the major source of income is alimony, a bank may want six months of statements showing the deposits have been made, even though a divorce decree may indicate that a spouse will be receiving the support," she said.

A lack of employment shouldn't prevent your daughter from obtaining a new mortgage if the alimony she will be receiving is a sufficient source of income to satisfy the banks' requirements relative to the size of the mortgage, she said. But, if the bank won't consider a loan because the total income isn't sufficient, then your daughter may need to think about whether she can truly afford to maintain the home.

If your daughter's soon-to-be ex is unwilling to wait for six months to pass then refinancing with a co-signer could be the only option, Mott said.

There are many issues to consider when taking on the role of co-signer.

"The new mortgage will be come as much your husband's responsibility as it will be your daughter's," she said. "Should she be unable to make payments, he would be expected to keep the loan current."

The addition of the mortgage may also impact his credit score.

"If a payment is missed or is late, this will reflect negatively on both your daughter's and your husband's credit reports," she said. "The addition of the mortgage may also reduce his ability to borrow in the future, restrict his ability to open new credit cards or obtain an auto loan."

While your daughter may not have a choice, refinancing the loan is also an expensive option.

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"There will be closing costs associated with the mortgage refinance and these will be incurred a second time when your daughter refinances to remove your husband's name," Mott said. "Additionally, she may end up with a less attractive interest rate down the road, than the one she obtains in the next few months."

Good luck in making this important decision.

Email your questions to ask@njmoneyhelp.com