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**Lunch & Learn**

***Script for Assisting Divorced & Separated Clients***

**Approximate Length: 30 - 45 Minutes with Questions**

**References:** Mortgage Currentcy has created a reference that you should bring with you to answer questions. We also suggest that you type “divorce” into our search bar and read through some of the questions and answers from our experts on this topic.

***“Divorced Borrowers – Quick Comparison Chart”*** is found in the Charts & Checklists section under Universal. This should **NOT** be shared with your audience. These charts are meant for ***your reference only*** to guide you in answering questions. Charts are updated frequently and contain details that a novice may find confusing. If you pass these out, you run the risk of having old information with your referral sources and that can turn into a contract based on outdated information. Not good!

***Script Tip:*** Scripts are meant to be used as a guide for talking points and not read to your audience. Make sure that you understand the talking points and put this script into your own words. Be sure to add your Information, logos, NMLS # and Other Company Required Disclaimers to your presentation. Also, check your company overlays. We base our Lunch & Learn programs on agency requirements, and some lenders overlay requirements that may be different than the information in our presentation.

***Embellish and make this presentation your own.*** Your audience will love hearing your “real life” stories and how you solved those problems using the information you are presenting. Those stories in addition to the presentation will help position you as the “go to” mortgage person in your community.

**Slide One:** Hello everyone, my name is *[your name]* with *[your company]* and I thank you for attending today’s session on Assisting Divorced and Separated Clients. No doubt you’ve either been through a separation or divorce or know someone that has, and it is very tough emotionally. The last thing anyone needs to worry about is more problems with living arrangements and financing. Our goal today is to add some clarity to this life event and offer solutions that fit the client’s individual need.

**Slide Two:** One of the first questions may be what to do with the marital property, or how to make the transition to another home easier. Should we take the marital property and rent it, sell it, or refinance the loan? Figuring this out during a tough time in a person’s life requires presenting options to help them make a well-thought-out decision. That is where a great real estate agent and loan originator make a fantastic team!

**Slide Three:** Clients Need Empathy & a Logical, Non-Emotional Advocate to Navigate Financial Decisions Successfully, because as we all know there are a lot of things to consider before decisions are made. Working as a team, we can help many people through a tough and tumultuous period in their life.

**Slide Four:** Divorced & Separated clients face some very unique issues, and these issues can also be quite painful to talk about and resolve. This is where experience counts. Let’s take a look at some of the points to discuss.

***Division of Assets:*** If there are assets like a home, rental or investment properties, 401k accounts, savings or even personal property, the parties are going to have to agree who gets what. Assets are great to have, but each type of asset is viewed differently in lending.

***Division of Liabilities:*** Most married couples have liabilities that are shared, and how those liabilities are handled during the divorce along with who is ultimately responsible for the liability can result in great outcomes or catastrophic outcomes like credit issues. I’ll talk more about this issue specifically a little later in our program today.

***Child Support or Alimony Payments or Receipt of Payment:*** Here is something you may not know. As a lender, I am not permitted to ask a client if they receive child support or alimony payments. I am only permitted to ask if there is any other type of income that the client would like to have considered for the repayment of the loan. Specifically, the Equal Credit Opportunity Act prevents us from asking specifically about alimony or child support because of discrimination concerns around “marital status”. If the client chooses to disclose this income to us, then we can work with them regarding the guidelines required by lenders for receipt of those payments or payment of that support. On the other hand, if the client is paying child support or alimony, I am permitted to ask that, as it is a liability that must be considered.

***Disposition of Marital Home & Associated Debts:*** Marital home and how it is titled, along with who is on the note, are details that can make or break getting a new mortgage. ***[Note to Presenter – This is a great opportunity to share a story about a problem/solution you had in this area]***

***Extenuating Circumstances & Credit:*** As much as we all hope for the best out of a bad situation, sometimes that just doesn’t happen. Arguments, hurt feelings, revenge or lack of income get in the way and cause extenuating circumstances or credit issues. I’ll go into greater detail on this subject later in the presentation.

How the client works through and is guided through these unique issues will either result in a situation where someone is or is not able to get financing for what they want to do.

Let’s take some of the stress out of this situation and talk about some details clients should think through.

**Slide Five:** The first place to start in assisting a client is gathering the facts. Whether decisions have already been made or whether a client is seeking options for decisions they are contemplating, this fact-gathering step is very important to their success.

Sometimes assumptions are made that if the couple lives in a home together, then they are both on the title and the note. Those of you who have been in this industry for a while know that this is not as simple as it seems. We tend to see all sorts of variations in this area such as one person is on the note and both are on the title. Or, one spouse is on the note and title and the other spouse is not. Who is living in the home, how long they have been living there, and who is on the note and title can make or break a refinance if one party wants to stay in the home.

Or, in the case of a Veteran client, if the Veteran quit claims from the property, their eligibility is still tied up on that property, which means they cannot use VA financing on another home. As you can see, it gets complex depending on that person’s individual situation.

Do they have legal or financial counsel? Clearly, we are not legal or tax consultants, and don’t want to be put into that position either. If they have legal or tax consultants, I like to work with them to help the client structure a mortgage loan that meets their client’s desired outcome.

Have they thought about whether or not they are going to keep the house, sell it or buy something else? It may be easy to decide that between the parties, but if it is not structured in a way that can result in both parties getting their own financing, then it can result in bigger issues for them.

If the couple has minor children, and discloses child support, then a lender will consider the age of the child and the longevity of the child support in order to use this as income. As a general rule, lenders look for child support to continue for 3 or more years.

If Alimony income is disclosed to the lender, then the lender will need to work with the client about how to use it as income or consider it as a debt.

When Alimony or Child Support liability is disclosed, lenders will consider this to help the client pick the right program based on their needs, as there are variations in loan programs as to how the lender handles this type of debt.

Lenders will also look at the types of agreements in place.

Again, I cannot stress this enough. It’s important to talk with a lender before making some of these decisions, as many people are so very disappointed that they cannot buy their own place because they did not think through some of the details.

**Slide Six:**

One of the most important details in a divorce or separation is whether or not there is a legal agreement in place.

Lenders like agreements that are formal, written and court-ordered. Those agreements are the only way lenders can demonstrate good risk decisions and borrower stability with regard to assets, income and liability in order to approve a loan. If agreements are not formalized or court ordered, then the lender may not be able to proceed without that. It really depends on the client’s situation.

For instance, if a formal agreement exists that says spouse A is responsible for the house payment, even though Spouse B is still on the note, the lender does not have to count that payment against Spouse B because the agreement is court-ordered. If it is not court-ordered, then the lender must count the house payment against Spouse B. Unfortunately, there are not a lot of people that can qualify with two mortgage payments!

**Slide Seven:** A client does not need to disclose Alimony or Child Support, and as stated earlier, as a lender we cannot ask if the applicant receives Alimony or Child Support. We can ask them if they receive any other type of income that they would like considered for the repayment of the loan.

However, we can ask if the applicant is required to PAY Alimony or Child Support, as this would be considered a liability that needs to be considered.

If the client discloses that they receive Alimony or Child Support, the lender may be able to use this income. Alimony and Child Support income are treated differently. A lender also considers the longevity of the income and how long it has been received. Since there are guideline variations in this area, one program may work better than another.

For instance, if I can only show that I have received 3 months of child support or alimony, then my only options are FHA or VA. FSB will require an exception to their overlay of 6 months. However, if I have received alimony or child support for 6 months or more, then my options open up to Conventional loan options.

Or, if the court-ordered agreement states that payments are voluntary, then this income could not be used on conventional loans and only on FHA loans if I have a 12-month history. If the agreement is voluntary and not through the courts, then we will need a written agreement dated from the time the payments started and we will need proof of 12 months of payments showing the income is stable.

Lenders must also document the receipt of the income, which can be tough if a client is not counseled properly before they consider applying for a loan. I’ve seen circumstances where the payments are paid in cash or only partially paid because one spouse deducted an expense or is simply sporadic in payment. The best counsel is to make the client aware of how lenders document receipt of payment to be sure that we can show consistent amounts, on the applicant’s bank statements.

Lenders will also treat Alimony Income and Child Support Income differently. Alimony is considered income under IRS rules; therefore, it is taxable. Child Support is not taxable and because lenders base their qualifying ratios on “gross income,” they need to adjust that income to a gross income that is what it may look like if it actually were taxed. To do this, they may add 15%-25% to the client’s income to “gross it up”. It really depends on the program, but that little bit of extra income can mean the difference between an approved file or a lower rate for the client.

**Slide Eight:** Next, let’s take a look at the liabilities of the client. When you are single or married, this is usually pretty easy to consider. However, divorced or separated clients may have co-mingled liabilities.

***How Many Months are Left?*** One common question we receive on divorced clients who have been divorced for a while is whether or not we need to count a liability such as child support or alimony when there are fewer than 10 months left. For the most part, lenders will still count this debt. However, there are programs that consider the assets or impact of the debt, so it is important to always ask before assuming.

***Voluntary vs. Mandated Payments:*** Payments that are Voluntary, and where the applicant has no legal ties to the creditor, will not be counted by lenders. As an example, a former spouse agrees to pay off a credit card on a voluntary basis (not court-ordered) and that person is not officially obligated to the creditor; because this is voluntary and not a legal obligation of the divorce or separation agreement or the creditor, the lender will not count it against the person voluntarily paying the debt. Bottom line is that it is not mandatory, and the person could technically stop paying it at any time.

***Contingent Liabilities & Debts Paid by Others:*** Lenders look at secured debt liabilities and non-secured debt liabilities differently. We generally break these down into “contingent liabilities” or “liabilities/debt paid by others”.

When a borrower has outstanding debt that was assigned to another party by court order (such as under a divorce decree or separation agreement) and the creditor does not release the borrower from liability, the borrower has a contingent liability. The lender is not required to count this contingent liability as part of the borrower’s recurring monthly debt obligations. The best example of this is a house payment.

Once again, how this is structured is important to the type of loan a borrower can obtain. For instance, Fannie Mae does not require that the person was removed from the title, but Freddie Mac does. Now, while that may seem like no big deal, there may be another file issue that requires the use of one of those programs over the other, and this may complicate the approval of the loan. This is another reason why the counsel of a lender is helpful, so that both spouses are able to move in the direction they would like to go.

***Debts Paid by Others:*** When a debt is not mortgage related, such as a credit card, even though another party may still be obligated under the agreement, the lender will still count that debt until they are able to show that someone else paid it for 12 months.

***Quit Claims:*** Be warned that simply quit claiming a person from a property does not eliminate liability. Let’s talk before you advise this!

**Slide Nine:** You can probably imagine that with the turmoil of a separation or divorce, credit issues can arise. It may be that the primary wage earner decided to stop making house payments and left the house. Or, that two residences caused financial stress. Lots of things can happen during this time. This is what lenders call a “life event” or “extenuating circumstances”.

Basically, it means that a blip happened in your credit history that is not an indicator of your credit history ***before*** the life event or an indicator of your credit history ***after*** the life event.

Depending on the circumstances and the loan program, a lender may need to approve the loan manually or they may be able to get a loan approved through their automated underwriting system. That may sound like no big deal, but it can be. For instance, lenders have less risk if a loan is approved through automated underwriting because it means the investor will take the loan. However, if a loan has to be underwritten manually, this can mean more risk for the lender.

If the lender reviews the file manually, then they look at whether or not the credit problems just occurred during the divorce. Has the person reestablished their credit after that life event, and are they now paying things on time? Life is not perfect, and lenders know that. While this situation requires finesse, there are ways to work with temporary life events. So, don’t lose hope and get the facts before you make decisions.

The last important point regarding this subject is the difference in conventional loans vs. government loans. While FHA and VA do not consider extenuating circumstances, and Fannie and Freddie do, it doesn’t mean that a client should apply for conventional financing. Even though FHA, as an example, doesn’t consider extenuating circumstances, they are a little easier to deal with on credit score issues and derogatory wait periods. This is another reason why an educated lender needs to assist the client, so that they don’t end up rejected when another type of loan is available.

**Slide Ten:**

Before we finish today, let’s take a look at some common situations we run into.

If an applicant cannot document 6 months or more of Alimony or Child Support and they need that income to qualify, FHA or VA are their options. (exception must be granted based on file parameters for FSB Overlay)

If the child support is voluntary and the client needs that income to qualify, then only FHA will take that loan with documented receipt of income.

If the client needs to gross up the Child Support income and needs every cent they can get in income, then USDA and FNMA financing offers the most generous gross up amount.

If the title has not been transferred out of a client’s name, but the other spouse must pay the house payment based on the agreement, then Freddie Mac is the best solution.

If there are extenuating circumstances, then Fannie Mae may be the way to go as their automated underwriting system will accept extenuating circumstances, and if approved, the client will not have to go through a manual underwriting which could increase their rate.

Guidelines are always changing and updating, so please feel free to contact me for the newest information available.

**Slide 11:** I hope that you enjoyed our time together today, and that you learned some tidbits that may help you in your business. I’m happy to answer any questions that you have, or stay for a bit to discuss a question one on one. Thanks again for your time today!

*[Note to presenter: After you answer questions, immediately set a date with the person in charge for the next lunch and learn. This is your time to take advantage of the good feelings in the room. Your goal is to do at least one per month, so at the end of each session, set the next one!]*