JUMBO JUNGLE | ANYA MARTIN

ONE SPOUSE WANTS THE HOUSE

Financial solutions for divorcing couples when one person wants to keep the house and the other wants to be taken off the mortgage

In a divorce, the house is often the biggest asset the couple will divide—and splitting it is a complicated matter.

When one spouse wants to keep the house, the other often wants off the mortgage. Refinancing the loan in one name is the typical solution, but it's not always easy. If a spouse cannot refinance, often the only alternative is to sell the home.

While the financial challenges are similar for mortgages of any amount, the issues are compounded when a jumbo loan is involved, says John Walsh, CEO of Milford, Conn.-based Total Mortgage. When refinancing a jumbo mortgage—one above government-backed loan limits of $417,000 in most areas and $625,500 in some high-price communities—an individual's income matters as much or more than his net worth, Mr. Walsh says.

Federal rules for securing a loan mandate a 43% debt-to-income (DTI) ratio, which looks at the borrower's monthly debt payments relative to gross monthly income. But what many divorcées don't realize is that alimony and child support has to be received for 12 months before lenders will count it as reliable income, Mr. Walsh says. Payments also typically need to be shown as continuing for at least three years after the mortgage starts, he adds.

"The logic behind that is, even though the former spouse is required to pay alimony and child support, divorces can be contentious," which could affect payment amounts and the schedule, Mr. Walsh says. If the settlement includes assets, cashing some in to refinance with a higher down payment can help, because it reduces the loan amount, he adds.

Even if the breadwinner spouse is the one refinancing, challenges can arise, says Mathew Carson, a broker with San Francisco-based First Capital Group.

For example, he has a client who was unable to qualify for a jumbo refinance despite a $250,000 annual income. Her DTI is 45% due to her earnings being reduced by the $3,500 a month she pays in alimony and child support to her ex-husband, he says. She also has credit card debt.

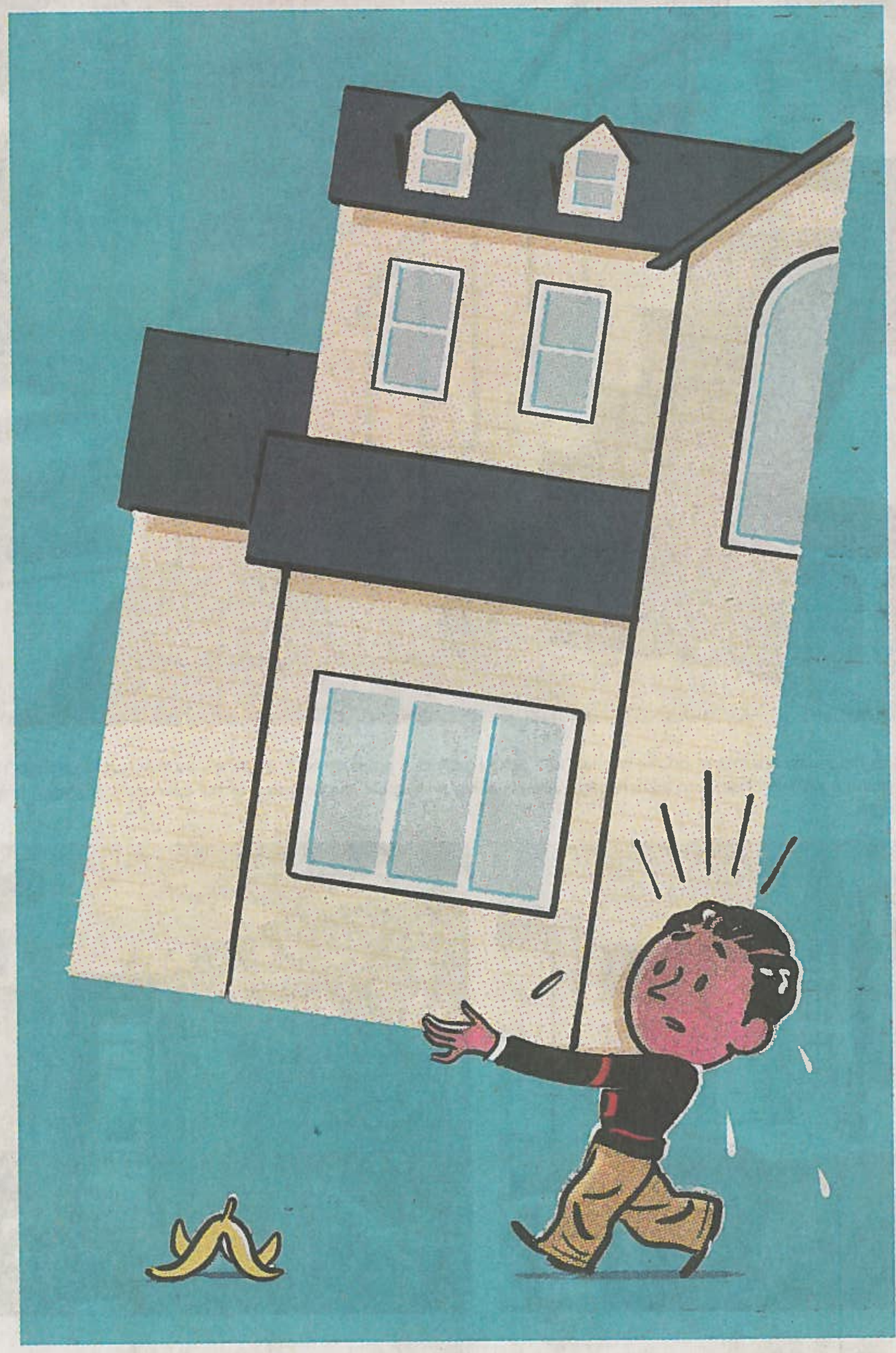
This client has a seven-year adjustable-rate mortgage that is about to reset to a higher rate with a remaining balance of $880,000, Mr. Carson says. She wants to take advantage of low interest rates and refinance to a $970,000, 30-year-fixed-rate mortgage, which would allow her to pay off some debt and remodel her bathroom, he explains.

Credit history can also snag a borrower who no longer has a spouse to help pull up a score, says Dawn Humphrey, a senior wealth planner at SunTrust Private Wealth Management.

While some lenders will accept a score as low as 660, borrowers can expect to pay a higher interest rate, which in turn means a higher down payment, she adds.

Sometimes a spouse may agree to stay on the mortgage, trusting the ex to continue making payments. While this eliminates the need to refinance, the loan balance will appear on both parties' credit reports—even if all payments are made on time, Ms. Humphrey says.

One alternative would be for the spouse with the house to refinance with a nonqualified mortgage, meaning it doesn't meet federal lending guidelines. A nonqualified mortgage gives a lender more flexibility on DTI requirements, but it doesn't provide federal protection if a borrower defaults on the loan and sues, Mr. Walsh says. Because of that, not all lenders offer these. Only about 15% of all jumbo mortgages are expected to be nonqualified in 2014, according to Inside Mortgage Finance.



Chris Gash

Here are a few tips divorcing couples can consider:

• **Double-check title transfers.** Removing one spouse from the home's title involves a quitclaim deed. If not properly executed, the paperwork could delay the refinance for months, says Rafael Castellanos, managing partner of New York-based Expert Title. Issues range from removing liens placed on the property to even finding a spouse who has moved away, he adds. Homeowners can protect themselves by obtaining a title insurance policy and checking that a change in ownership has been recorded by the county clerk's office by phone or online.

• **Preapprove pre-divorce.** Before signing a divorce settlement that requires a spouse to refinance, ask a lender to run a credit check, Ms. Humphrey says. Anticipating challenges early gives a borrower time to negotiate changes that can improve the chances of getting mortgage-approved, she adds.

• **Don't go it alone.** A financial adviser can give a borrower a big-picture view of how income and assets will look post-divorce. That keeps the focus on pragmatic solutions, helping both spouses prepare for the next chapter, Ms. Humphrey says. "A lot of emotional decisions go on with divorces," she adds.