



Cosigning is Serious Business

Cosigning a loan for someone else may be one of the toughest decisions you'll make in your financial life.

A cosigner agrees to be a second party to a debt by guaranteeing that it will be paid. If the signer doesn't pay the debt, the cosigner becomes responsible for it. You may need a cosigner if you are establishing credit for the first time or re-establishing credit for some reason. There are times when cosigning is a good thing to do, but there are some important considerations.

You might consider cosigning for a child to buy a car to help the child establish credit. It may be a good way to teach fiscal responsibility as long as you are sure that the child can afford the payments. You might decide that it's an acceptable risk.

You may have a family member or friend who is trying to re-establish credit. Much of your decision has to do with the comfort level you have with the person you're helping out. Consider how the person you are signing for will pay for the debt. If the signer doesn't make the payments, you will be stuck with making the payments.

In addition to considering the positive aspects for the person you are cosigning for, be sure to determine the possible negative implications to yourself when deciding to cosign. Even though you know a person very well and everything looks bright, situations change and everyone at some point is faced with challenges. You might be caught up in someone else's challenges that you had no control over.

Think about what happens to your credit after cosigning. If you don't have the capacity to make the loan payments yourself, and the signer misses payments, your credit will be negatively affected. In addition, when you cosign, you may appear to be overextended when you apply for a loan yourself. The cosigned loan shows on your credit report because of joint responsibility. If you need to borrow money, the cosigned debt may be used by your financial institution as part of the loan decision process.

Maybe you don't have a lot of debt and you have your car paid off. Maybe your house is paid off and you want to help a child, relative or friend purchase a car. As long as you're comfortable understanding that you have a responsibility if the person defaults on the loan, there's no reason not to help someone out.

Overall, cosigning can be a good idea but it's not something you should do without thinking seriously about it.