



Your son Jimmy has asked you to co-sign a loan. He wants to build a new garage and requires \$20,000. Your gut tells you that this is a lot of money for Jimmy to spend on a garage, and you are not certain if he can afford it. Before you make your decision, you remind yourself of the following:

You are 100 percent liable on the loan.

If Jimmy fails to pay on the loan, the lender will come after you for the entire balance. Could you afford to pay back \$20,000? What type of financial situation would that leave you in?

Your credit rating could be affected.

Even though the loan is made for the benefit of Jimmy, if that debt doesn't get paid, a negative entry may be added to your credit report. This means that Jimmy's behaviour will directly impact your ability to access money.

Co-signing could make approval of a loan you might need impossible.

Will you need to use your credit anytime soon? If you help Jimmy with his bank loan, and then turn around and need a new car, will you be able to get the money you need? If you have too much credit in your name, the lender could deny your application. You must consider that in the future, someone might need to use that excellent credit: you.

You'll be making that payment if Jimmy doesn't.

If Jimmy gets laid off this winter and fails to make a loan payment, you need to be prepared to make the loan payment. To protect your credit rating, take the monthly payment and put it into a savings account and then keep it there. Once you have 12 monthly payments saved, you can stop saving. This will allow you to be prepared for the worst-case scenario that you have to make the payment.

You have to be organized enough to keep track of the payments.

Keeping track of all your bills and payments can be complicated. If you co-sign, you'll also need to keep track of Jimmy's bills and payments. This will mean checking each month, either online or by calling customer service to make sure the payment has been made. You can't blindly believe Jimmy when he says all payments will be made. Don't wait until some collector calls you saying payments have not been made in six months. By then, your credit will already have been negatively impacted.

Co-signing can destroy a friendship or family relationship.

Once you have co-signed for Jimmy, you need to make sure he makes the required payments and makes those payments on time. Monitoring those payments can cause you stress, especially if you have to call Jimmy to ask why payments were not made. Plus, if he stops paying completely, it can cause extreme strife on your relationship and your finances.

Tips

- Get copies of all the loan paperwork.
- Be sure you understand the terms fully before agreeing.
- Know whom to contact regarding the loan.
- Know what you'll be responsible for paying.
- If you're unsure get advice from a professional.
- Ask the lender in writing to keep you informed in writing of all activity on the loan.

Rule of Thumb: If you can't afford and are not willing to give that money away as a gift, DON'T co-sign for it!

Source: (<http://www.bankrate.com/finance/debt/reasons-not-to-co-sign-loan.aspx#ixzz3EiVfhHK>)