

Co-signing

By Patrick Ritchie

When you co-sign on a loan you are equally liable (along with the primary borrower) to repay the loan. A common co-signing situation is when a parent helps out a child by co-signing in order for a loan to be approved. Keep in mind that this debt will appear on the credit report and will have the same ramifications as if it were your debt exclusively. If you have co-signed for someone and they are 30 days late on the payment, it will hurt both of your credit scores. I have had many shocked and surprised parents in my office that cannot believe little Johnny or Sally was late on a loan they co-signed for.

Another cause for concern is co-signing on a credit card. Not only is there the risk of a late payment, but there should also be major concern for the balance on the card. If the card is maxed out, there will be a negative impact on credit scores. There is a certain unknown anytime you co-sign with someone. The only true precaution that can be taken (other than declining to co-sign) is to pay the bill yourself each month. It is a good thing to help your children get established in the world of credit. However, it is equally important to protect yourself.

If you do decide to co-sign, take the risk out of it by collecting the payment from the party that needed you in the first place and pay it yourself. The best way to do this is to have them write a check out directly to the lender and you mail it out yourself. This is especially helpful when you are trying to qualify for a new mortgage. If you can prove that full payment for the debt is coming from the other party's checking account, you may be able to exclude the monthly debt when qualifying for a mortgage. Depending on the size of the debt it could make a difference. Whereas if you receive the payment from the other party and then write a check yourself then it would appear that the other party is not solely responsible for the payment of the debt. By making sure the payment is going out each month you can rest assured there will not be a surprise the next time you are sitting in a lender's office applying for a loan. The only risk you would run at this point would be if the check were to bounce. At least under those circumstances you would still be well within 30 days of the due date to make the payment yourself if the other party was unable to make payment. When it comes to protecting our credit, co-signing is one of the biggest breaches of our security out there. We assume the other person is making the payments when they are due, but can you really be sure?

It is one thing to co-sign for someone because they have no credit. It is an entirely different thing to co-sign for someone because they have bad credit. If you are asked to co-sign for someone because their credit is less than favorable, BEWARE. History often repeats itself. This is a situation where you would absolutely want to send the payments out yourself each month.

In making the payments it is important to make sure it is paid by personal check. This gives you the best evidence in showing the payment was made by the other party, from their account. Paying by cash or money order does not provide a history to call upon if

needed. It also does not show when the funds were received by the lender. If an issue came up regarding when the payment was received, personal checks show the date it was deposited by the lender. This may seem petty, but cancelled checks have been the key to many approvals over the years. Whether it was from allowing a debt to be excluded in qualifying, or it was evidence of when a lender received payment. Cancelled checks can be a great source of evidence for various reasons.

Patrick Ritchie is the author of "The Credit Road Map," a practical guide to navigating the world of credit. The book can be purchased at www.TheCreditRoadMap.com or on www.Amazon.com. Copyright © 2006 Success Road Map Press, reprinted with permission.