

The Dangers of Co-signing On a Home Loan

Every so often you run across a situation involving credit and finances that may have a huge impact on your life. Sure, perhaps the purchase of that car you really should not have bought and are now working two jobs for so that you will be making the payments on time is a small example, but after about five or six years, this financial misstep is usually cured and you will be able to continue on with your life and hopefully learn from the experience. Yet there are some financial steps that are so fundamentally far reaching, that they may affect your entire life for up to thirty years! Co-signing on a home loan for someone else is one such step.

If you are a parent it is tempting to help your grown child purchase her or his first home. If there are grandkids involved, it is easy to rationalize that these kids need to have a house with a yard to play in and thus it only makes sense to co-sign on that home loan. Conversely, it might be your best girlfriend – with whom you made pinky promises in elementary school and who was your college roommate for four gruelling years – who is asking for help. Either way, signing on the various dotted lines is a tempting idea; you are really not losing anything, or are you?

As a matter of fact, you might be losing a lot more than you bargained for! If your grown child or best girlfriend needs a co-signer for a home loan, the odds are that their credit is not what it should be. Additionally, if their credit is not bad, then perhaps the house they want to buy is more house than they can afford. Either way, there is a reason why in today's liberal lending atmosphere the lenders are hesitant to finance them. This is a warning flag that should deter you from co-signing this home loan! Furthermore, should your grown child suddenly lose a job, or your best girlfriend be laid off, they will not have the money to make the loan payment – which does not worry the lender, because they will come to you for repayment. If you co-sign, you will be completely liable for the home loan.

In addition to the foregoing, the co-signed home loan may show up on your credit report and even if it is paid on time it may make some lenders think twice, since they see a potential liability on your record. Of course, if the borrower defaults and the lenders are suddenly coming after you for payment, this will most certainly show up on your credit report – especially if you are unable to make the payments as well. Family ties and lifelong friendships have been torn apart and ruined by co-signing on a home loan, and it is the wise parent or friend who will offer different options to the person in search of a co-signer rather than helping them to purchase a house they cannot afford.

About the Author

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