

Never co-sign for anyone. You will regret it.

By Tim C. Lee

I remember a long time ago when I was dating this young lady that I was "crazy in love" with. In February of 2007, I decided to trade in my 2004 Ford Expedition XLT; which was not paid for, to buy a brand new 2007 Ford Expedition Eddie Bauer EL version.

Even though I was upside down in my trade of about \$12,000, I still wanted to do the deal. If you think that was stupid, on the same day, I co-signed for my girlfriend to buy a brand new 2008 Ford Escape; which we thought was impressive...buying a 2008 model in 2007. Our monthly payments were outrageously high, and my girlfriend had a habit of making her monthly payments late. For many months, I had to pay her car note just to avoid my credit from being destroyed.

Eventually, we parted ways, but it took about two years of her making plenty more late payments, me paying more car notes for her, and a lot of convincing and pleading, to finally get her to refinance her vehicle out of my name.

The reason a person needs a co-signer in the first place is because when they applied for the loan, the creditor considers them not creditworthy and too risky as a borrower.

This decision is mostly based on the fact that the borrower has a history of not paying their bills on time, their credit is horrible, and/or they have too much debt and financial obligations causing their debt-to-income ratio to be unacceptable. All of these factors can play a part in getting a loan approved by yourself without the need of a co-signer.

Creditors make their money by approving loans. In making their decision to approve

or deny an application, they rely on several factors including; credit history, current and outstanding debt, and income.



If you are denied, some lenders will require a co-signer to have the loan approved. The co-signer will have to be someone that they consider creditworthy.

Despite the fact that the lender has labeled the borrower high risk and not creditworthy, co-signers for some reason, feel differently about the individual. The co-signer feels so different, that they believe they know the borrower's "paying back" intentions better than what the credit reports and lenders are suggesting.

In many cases, a co-signer feels honored and privileged that they can co-sign for someone. It makes them feel financially smarter, important, and needed. I have actually heard individuals boast about being the "go to person" for families and friends when they need a co-signer. I should know, I was the "go to person" and I had this same attitude.

According to the Federal Trade Commission (FTC), over 75% of all loans with co-signers go into default. Also, in the majority of these cases, the loan is ultimately repaid by the co-signer and not the original borrower.

When you co-sign for someone and the loan goes into default, the lender will pursue the

co-signer before the borrower. They know the borrower does not value their creditworthiness as much as the co-signer. So lenders know they have a greater chance in getting the loan paid by the co-signer versus the borrower.

When you co-sign for someone, the item will appear on your credit report, as well as, the borrower. This will play a decision factor when you apply for credit. This new item will also be used to calculate your debt-

to-income ratio. In addition, if the borrower dies while there is a balance on the loan, you are still held liable.

I know it might be tempting to help a family, friend, or loved one if you are asked to co-sign a loan for them, but I ask you, “Do you really want to make the payments on a loan that you did not benefit from at all?” If you answered, “No” to this question, then do not ever co-sign for anyone. Trust me, you will regret it. I know I did.

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