

Should I Use a Co-Signer?

If your credit history is poor, limited or non-existent, you may want to think about getting a co-signer for a credit card, mortgage or auto loan application.

You'll have a much easier time getting approved for credit if someone else with a proven financial history signs onto the loan with you. The creditor knows it will have someone who can pay the bill if you don't – the co-signer is on the hook for the entire loan amount, and the bank can legally come after him or her for the money. A co-signer can be a family member or friend. But keep in mind, you're asking for a pretty big favor. When you sign up together, you're linking your credit with your co-signer. If you do miss a payment, you'll be tanking his or her credit along with your own. Your friend's credit history will show that she missed that payment, and her credit score will tumble. If for any reason you find you're unable to pay the bill on your loan, make sure to tell your co-signer (before the payment is due) so she can make the payments and protect her credit.

Consider what happened to Jerome and Lisa: Jerome wanted to buy a used car for his commute to a new job. He didn't have any credit cards and had never taken out a loan before. Without any credit history to support his promise to pay back the car loan, the bank wasn't willing to give Jerome a loan by himself. Jerome's sister, Lisa, agreed to co-sign the loan so he could get the car.

Unfortunately, Jerome was laid off from his job after six months and couldn't make the car payments. Now Lisa is stuck with the car payments because she doesn't want late payments or unpaid bills to show up on her credit report.

When deciding who to ask to co-sign your loan, pick someone with whom you are willing to be honest with about your credit history and problems. This person may ask to see your credit report to determine just how risky a proposition it is to co-sign for you. Before choosing a co-signer, ask yourself what kind of a co-borrower this friend or family member is going to be. Will he harp on you constantly about paying your bills or trust you to make the payments? Will he ask you to provide him with an accounting of your on-time payments?