

Co-signing a loan can cost you

If a friend or relative asks you to co-sign for a loan or lease, run, don't walk, in the opposite direction. Co-signing for a loan or lease is one of the surest ways to wreck your credit. Always assume that you may have to pay off the loan – and without much notice. If you default on the loan, your credit could be destroyed and even one late payment could appear on your credit report. According to a spokesperson from Experian, the status of the account is reported for each individual associated with the account.

Another reason not to co-sign? The loan also increases your outstanding debt, which could cause other lenders to think twice before offering you a loan even if you make prompt payments. And getting your name off the loan is nearly impossible.

There are a few things to keep in mind if you're deciding whether or not you're going to co-sign a loan or lease. First, think like a creditor. Does the borrower have the funds to repay? If the answer is no, then you need to say no too. If you still feel like you need to help out, try to protect yourself. Examine the loan terms and notification rules before signing. Also, make sure the borrower provides you with proof of payment each month or gives you access to check the status online. Make sure the lender has your most recent contact information. Once the borrower's credit improves, have him/her apply to refinance the loan or get a new credit card. Then after the old loan or card is closed, check your credit report.

Source: "Are you on the hook?" by Kimberly Lankford, Kiplinger's Personal Finance