

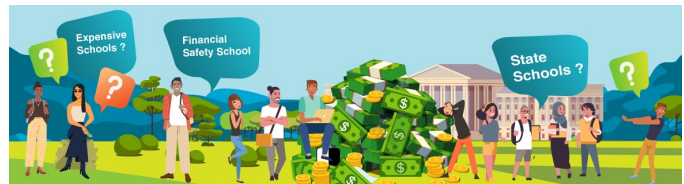
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Insights and info from College Money Matters – a non-profit organization dedicated to helping high school students and their families make informed decisions about applying, choosing and paying for college.



What every parent or relative should know about co-signing a student loan

When you co-sign on a loan, you're agreeing to make any payments the student receiving the loan doesn't make. Before you make that commitment, take a look through this month's newsletter. It's designed to help you gain a clear picture of what it means to put your name down as a co-signer.



Co-Signing Questions and Answers

If someone in your family needs a loan to help pay for college, you may find you're being asked to be a co-signer. That's a major financial responsibility, so it's important that you know what's involved before deciding to co-sign. Likewise, the student you're helping needs to understand what could happen to you if they don't make their payments.

With those ideas in mind, College Money Matters has put together this list of the most commonly-asked questions about co-signing, along with some straightforward answers.

1. What does it mean to co-sign on a loan?

When you co-sign on a loan, you're saying you agree to make any payments which the

person who's receiving the loan doesn't make, including paying it off altogether. Basically, you're saying you'll be responsible for the loan. As you read through the following questions, you'll get a good idea of what that can mean.

2. What type of student loans might require a co-signer?

Not all student loans require a co-signer. For example, student loans given by the US Government are only made directly with the student. Co-signing comes into play with loans made by financial businesses, like credit companies or lending corporations.

3. Why might you be asked to co-sign on a loan?

It's not surprising that most college-age students don't have the credit history or financial resources to qualify for a loan on their own. So, they need to show a lender that someone with a good credit record will be responsible for assuring the loan gets paid back, in case the student can't. Also, having a qualified co-signer on a loan might serve to lower the interest rate.

4. How much of a loan could a co-signer be responsible for?

The short answer is "whatever the student doesn't pay." This means you're not only responsible for making sure the original loan amount and interest is paid back, you're also responsible for any additional late penalties, collection fees and other fees that can be charged if the student doesn't make their payments on time.

5. What can happen if the person I'm co-signing for doesn't make their loan payments on schedule?

If the student misses payments or sends them in late, here are some ways that you, as a co-signer, can feel the pain:

- Your credit rating can go down
- Your future credit needs may be restricted or limited
- You may get calls from collection agencies
- You may be required to pay back all the remaining loan amount, plus any interest and fees, including any penalties for late or missed payments.

6. Really? Co-signing someone else's loan can affect *my* credit rating?

Yes. As a co-signer, you are a co-owner of the loan. So any late or missed payments will show up on your credit report. That could affect your credit rating and your own ability to borrow.

7. How can I be sure the borrower will pay back their loan?

The bottom line is you can't be sure. So even though you may care very deeply about the person you're co-signing for, and know they would never deliberately do anything that could harm you, here are some important questions to consider:

- How sure are you that the student will be able to make every payment for the life of the loan?
- Have you looked at the total amount the student plans to borrow?
- Will the student's choice of a career support paying the monthly loan amount for years to come?
- Does it make economic sense for you and the student to take out this loan?
- According to the online article, [How Student Loan Debt Can Impact Your Life](#), most student loans start out with a payback schedule of ten years, but the average student loan actually takes 21 years to repay.

8. Is co-signing on a loan in the best interests of the student?

Your agreement to co-sign may make it easier or cheaper for the student to get a loan upfront, but they still have to pay it back. So do your best to make sure they can afford the payments. Here are some common problems faced by young people who borrow:

- The need to make enough money to repay the loan could lead to them rushing into a job that might not be good for their future
- Carrying student loan debt could limit their ability to buy a home or car, get credit cards; and sometimes even rent apartments

- Missed loan payments can lower their credit score

9. What if I have other loans to pay back?

The student loan on which you're co-signing may not be your only obligation. Will you be co-signing on other loans for other students? Or maybe for this student's next several years in college? Are you already borrowing under a Parent Plus or other type of college loan? The numbers can add up. Unfortunately, a large number of co-signers have had to delay retirement to pay back a student loan.

10. If things turn out bad, can I declare bankruptcy?

In most cases, student loan debt cannot be discharged in a bankruptcy. So, even with all the other credit issues that bankruptcy may create, it probably won't resolve any payment problems on a student loan.



How to help protect yourself when co-signing a student loan

When you agree to co-sign on a student loan, you're giving more than your authorization. You're actually signing a contract that says you're responsible for making any payments the student doesn't make, including all interest and fees. Here are some steps you can take to help protect yourself, recommended by the Federal Trade Commission:

Ask the student to show you how they'll repay the loan. Have them make a budget or work one out with you. Make sure the monthly loan payments are affordable — for both of you.

If, after college, the student loses their job or has a change in finances, are you confident you'll be able to afford the loan payments you'll make for them?

Ask the company making the loan to tell you the total amount you might owe if the student defaults. The creditor doesn't have to do this. But if you ask, they might.

IMPORTANT: You may not know if any loan payments are missed or late unless the borrower or lender lets you know. So be sure to ask to be notified.

Ask the lending company to send you monthly statements, or to agree in writing that they'll notify you if either the borrower misses a payment or the terms of the loan change. If the lender will send you the statements, this will alert you if the borrower missed any payments. If the lender won't send the statements but will agree to notify you of any issues, that can give you time to deal with the problem.

Be mindful of marketing

Being asked to co-sign on a student loan can be a very emotional situation. You want to help the student who's asking, but you also need to consider the financial implications for you. Lenders know this, which is why it's good to be aware of how the idea of co-signing may be marketed to you.

Take a look at the examples here and ask yourself: What “buttons” are they trying to press in order to get you to respond emotionally, instead of thinking things through?



Parents, you can help your student by co-signing a loan

If you co-sign your student's undergraduate loan application, their chances of being approved may increase! A co-signer is usually a parent, but can be any adult with good credit.



Heading to college? You may qualify for a lower interest rate on your student loan.

Applying with a creditworthy co-signer may improve your likelihood for loan approval and you may receive a lower interest rate.

Watch for our next issue, where the topic will be Parent PLUS Loans.

College Money Matters

No interest but yours

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Your contribution will help more families take a more affordable approach to college.

Click here to donate now.

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