Becoming a Home Mortgage Co-Signer

If a good friend or relative buying a house asks you to be the loan co-signer, there are several things you need to consider. In this case, for your own financial protection, do not worry about hurting the relationship by saying no. Co-signing could have dire consequences on your own resources and credit, if your friend or relative cannot make the payments. You should take careful stock of several items before deciding you are willing to make such a big commitment.

Co-signing means becoming responsible for paying off a debt if the primary borrower cannot afford to. In effect you are becoming the insurance for the mortgage lender that promises she will get her money back if the borrower defaults. You are essentially the “back-up” for paying the mortgage loan.

First, consider why your friend or relative needs a home mortgage co-signer. Basically, it is because they do not meet the standard credit qualifications to qualify for a home loan on their own. That should be a little red flag to you. This means by co-signing you are taking on a huge risk, a risk greater than a mortgage lender is willing to assume. Before you say yes, you should intimately know the financial situation of your friend or relative. Does he have the income and assets to make the monthly payments and the down payment? Is her job stable enough for her to consistently make timely payments? The fact is that if you have doubts about the answers to these questions, you will probably end up paying off the mortgage for him or her in the end.

This is a huge responsibility, and you should make sure you are actually able to afford to do this if necessary. By co-signing you become financially responsible if the first borrower defaults or goes into foreclosure. Mortgage companies will have the authority to go after you for the unpaid sum with the same force they can pursue your friend or relative if they default. This means they can take measures like garnishing your wages, or suing you when they see fit. In some states, mortgage lenders can even try to collect from you before trying to collect from the borrower. Any collections made for this account with you will negatively affect your credit score.

You should also be aware that co-signing for someone else’s mortgage loan is often such a heavy liability that it may prevent you from qualifying for credit with other lenders. To increase your own credit-obtaining chances, and decrease your risk of financial ruin, try to become the co-signer for only part of the liability. For example, you might be able to negotiate with the mortgage lender to allow you to be the co-signer for only the principal of the loan. While this will still be a heavy sum, it could be less than half of the total debt including interest.

If you decide that you do in fact want to take on the co-signing responsibility, make sure you get copies of all the important paperwork for your reference and your lawyers should anything go wrong. Another smart move is to get a written promise from the lender that he or she will notify you if ever your friend or relative is delinquent with a payment. That way you will have time to contact the borrower and find out what is going on and how likely it is that you’ll have to fork out the money yourself.

Co-signing is a risky business, so make sure you know exactly what you are getting into before you sign. Consider not only your relationship obligations, but more importantly your financial obligations before agreeing to the responsibility.