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Should You Cosign for Your Child?

Before putting your autograph on a loan, credit card, or lease, you'd better weigh the risks. *by* LINDA STERN



YOU'VE TRIED TO GIVE your kids every leg up, paying for their ballet lessons, braces, bursar bills, and more. But as they approach adulthood, they may "need" something more precious than your money: your signature.

Most students under 21 can't get a credit card without an adult cosigning, thanks to recent legislation. And young people without credit histories or well-paying jobs often can't rent an apartment or borrow money without

a parent's help. Even when they can get loans on their own, the rates they qualify for may be prohibitively high.

So should you offer your John Hancock to guarantee a child's credit card, apartment, or first car? Only if you're prepared for the risks: The Federal Trade Commission estimates that three out of four cosigners are asked to repay loans because the primary borrower has defaulted. Here's how to decide where to draw the line and when to sign on it.

PRETEND YOU'RE THE LENDER You may know your child to be trustworthy, but that doesn't mean he's not a default risk. Find out why he's

required to have a cosigner. Then ask the same questions the lender or landlord will: Can your kid afford this obligation? How much of his pay will it represent? How does he plan to cover the bills if he loses his job? Before signing a credit card agreement, know how your child will use the plastic. For an apartment lease, consider whether your kid can control his friends—you'll be responsible for damages if, say, a party gets out of hand, notes Carmen Dellutri, a Fort Myers, Fla., bankruptcy attorney.

UNDERSTAND THE RISKS

Forget the notion that you're secondary when you cosign: Creditors and landlords *will* come after you if your child fails to pay the bills. So don't agree unless you can afford the payments yourself, warns Rapid City, S.D., financial adviser Rick Kahler. Know, too, that the FICO credit scoring formula treats credit card or loan co-borrowers no differently than primary account holders—which means your score could dip if junior is delinquent and dive if he defaults. Planning to apply for credit soon yourself? That's reason enough to deny a loan guarantee request. A cosigned loan is reported as outstanding debt on your credit file, thus crimping your ability to borrow.

LIMIT YOUR EXPOSURE

If you do decide to cosign, take precautions to curtail losses. Make sure the limit on your child's credit card stays low—\$500 to \$1,000. On a lease, get the parents of your child's roommates to cosign with you. That way, it's less likely you'll have to foot the bill for someone else's kid. Helping your child borrow for a car? Put the title in both your names. (If he stops paying, you can sell the vehicle.) Once the debt is paid, you can have your name removed and celebrate with a family outing—at which you'll likely have to pick up the check. ■