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REACH

The perils of cosigning a mortgage loan

Decade-high mortgage interest rates and a steady rise in home prices in many regions of the country have made it more difficult for young people to take the first step on the housing ladder. Relatively high-earning couples in cities and regions that have experienced a rapid run-up in housing prices may even find themselves shut out of the marketplace. Some would-be first-time buyers can find it hard to come up with a down payment or only qualify for a mortgage that's insufficient to buy the type of home they want. Other potential homeowners might find it hard to qualify for a mortgage because of a less-than-stellar credit history.

Parents who are financially comfortable may consider helping their child qualify for a mortgage by cosigning a mortgage loan. If you are thinking of helping out a child by cosigning a mortgage loan, you should dig deep into the pluses and minuses of this approach.

Can you afford it?

If you are approaching retirement and plan on living on a fixed income during retirement, cosigning a loan may put your future retirement lifestyle at risk. Even if you are in relatively good financial shape, you do not want the expense of making payments on another house if your child loses their job or becomes unable to work. Before signing on the dotted line, take the time to look closely at your own finances and your current debts to be sure that you can afford to assume the mortgage payments in a worst-case scenario.

Understand the dangers

Know that when you cosign a mortgage loan with your child, you are liable for the payments as they come due and can be sued by the lender for nonpayment if the loan becomes delinquent. That could happen if your child defaults because of an illness or some other external event and cannot afford the monthly mortgage payment.

If you decide to be a cosigner

If you are absolutely certain that you can assume the risk of cosigning a mortgage with a family member, keep it business-like and draw up a written loan agreement that specifies the terms of the loan. Both lender and borrower should sign and date this agreement. By putting the loan provisions in writing, you avoid the potential for misunderstanding or ambiguity and possible intra-family strife.

Don't be afraid to say "no"

Be careful not to let family bonds blind you to certain realities. For example, if making the loan will strain your budget, now or in the future, then you simply have to decline. If you have doubts about the likelihood of a family member repaying the loan, then say no.

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If you need assistance with how best to handle a request for a large loan or help on any other financial matters, consider contacting a financial professional for an objective analysis of the issue.



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