

Co-signing for a Student Loan – Pro's and Con's

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What Are Private Student Loans?

Private student loans are issued based on credit. This means two things for those applying for a private student loan.

- The loan will be based on the borrowers credit score
- Normally, the better the credit score, the better the interest rate

What this means to you

Some students benefit by applying for a private student loan. The borrower must remember though, if he/she has a cosigner, the cosigner is just as responsible for repayment of the loan as the borrower is. By cosigning your name a loan, you're guaranteeing that you will repay the loan should the borrower fail to make payments.

A lower interest rate can mean that the borrower will have lower monthly payments. It can also mean the loan can be paid back quicker.

Who needs a cosigner?

Generally there are two circumstances when a cosigner is needed, even if the borrower has some credit.

One of those times is when the borrower does not have an established credit history which leads to a low credit score. Having a cosigner when applying for private student loans, such as a Sallie Mae Smart Option Loan or a Tuition Answer Loan, may increase your odds of being approved.

The second circumstance to use a cosigner would be to obtain a loan with a *lower interest* rate. The difference in monthly payments on a \$10,000 loan can be \$50 or more when comparing a 8% interest rate and a 12% interest rate. Also the difference in the accrued interest rate could be as much as \$4900 over the life of the loan. Certainly something to give thought to!

Pitfalls To Look Out For

Having a cosigner can be a win-win situation, but it can also have its drawbacks. Here are some things to consider before cosigning for a private student loan.

- Make sure if the borrower does fail to repay, that you can make the payments yourself.
- Make sure the person you're cosigning for is trustworthy. Cosigning between girlfriends/boyfriends is never a good idea. If the romance goes South, the other one could be left holding the bag. Cosigning for a bum who won't work or flunks out of school can be a hard pill to swallow also.
- If you do cosign, make sure you get copies of all the papers. Remember, those with the best paper trails win.
- Get an agreement, in writing and notarized, that the borrower will repay you all fees incurred including the monthly payments, should they fail to repay the loan and you're forced to. You don't want to wind up years down the road and the borrower tells a Judge that you volunteered to repay the loan as a gift.

Now that you have this information, if you cosign for a loan, make sure you do it right! Cosigning for a private student loan has its pros and cons, just make sure you know what they are before signing on the dotted line.

Source: EzineArticles.com.