

you apply for your own loan. This is because your credit score is partly a function of how much credit you actually use relative to the amount of credit you could be using. These days, credit scores play a big role in the cost of the funds you are able to borrow. A lower credit score may result in higher interest rates if you want to apply for a loan or refinance your home mortgage—higher rates mean more money coming out of your pocket.

If there are any late payments on the account for which you co-signed, that can also negatively impact your credit score. According to the [Consumer Finance Protection Bureau](#), late payments may even affect your ability to land that next job.

Another hidden danger is that, provided the borrower is over 21, the credit card company can increase the amount of available credit on the card without his or her, or your, permission (co-signers for borrowers under the age of 21 are required to be notified). If the borrower is under 21, you still have to be careful: once the borrower turns 21, the credit card company no longer needs to notify the existing co-signer of any credit increase; at that point the credit limit—and the amount you are on the hook for—can skyrocket!

As with most business transactions, it is better not to be emotional. If you are being asked to co-sign by someone who is a student, don't be a softie just because he or she is a good kid who is studying hard. Simply being a student doesn't mean that a co-signer is needed to get a loan. Students, who are working and can show an income source, usually can get their own loan or credit card.

If you do co-sign for a credit card, as any banker or lender should tell you, it is critical to determine your exit strategy. What arrangements have you put in place to get this card paid off in a few years? What assurances do you have that this revolving line of credit can someday be paid off? How can you close the account unilaterally or at least find out how to stop future charges? Will you be given notice of any line-of-credit increases or interest rate increases? These questions should all be answered prior to co-signing. And be sure to get online account access, or at least make sure paper copies of statements will be mailed to you, so you can monitor activity on the account.

As you can probably tell, I am not a fan of co-signing for a credit card, so here are some alternative ideas:

1. Have your friend or relative get a debit card—usage is limited to whatever amount is in the linked deposit account.
2. Apply for a secured card with a set credit limit—the amount of the loan is a set amount.
3. Add your friend or relative as an authorized user on your card where you closely monitor and limit activity—you can remove them if things are getting dicey.
4. Lend them money directly—you know the amount of your total risk, and you can closely monitor the repayment plan.

Considering everything that can go wrong with co-signing a credit card, it might be better instead to give your friend or relative a direct loan. Calculate an amount that you are willing to lose and offer a personal loan in that amount. With a personal loan, you can structure a repayment program and have a ceiling on the amount of your potential loss. Conversely, with a credit card, you risk increases to a credit line, damage to your credit rating, and an inability to control the amount of borrowing on the card. Never forget Shakespeare's warning about how loans can put stress on relationships with loved ones—that can end up being the biggest cost of all.

Contributor's Bio

Mark Avallone is the author of *Countdown To Financial Freedom*, and founder and President of Potomac Wealth Advisors, LLC a financial advisory firm serving clients through holistic financial planning and wealth management. Avallone writes on a variety of financial topics, and his contributions have appeared in the *Wall Street Journal* as well as in *Forbes* where he is a regular contributor. He has appeared on CNBC and has been a repeat guest on the Fox Business Network. His insights have also appeared in *USA Today*, *U.S. News & World Report*, *The Washington Post*, and other leading publications.

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