

Why You Shouldn't Co-sign your Grandchild's Student Loans

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With the average cost of higher education ranging from \$25,000 to \$50,000 a year, it is understandable why many grandparents want to help their grandchildren pay for college. In some cases, a would-be college student may ask their grandparent with good credit for help.

Generally, federal student loans do not require co-signers, but private student loans typically do. Sometimes the parents do not have good enough credit or are not willing to co-sign, so a loving grandparent steps in.

While they may have the best intentions, most of the time, grandparents should decline when asked to co-sign a student loan. Here's why:

- The loan will show up on a grandparent's credit report and can have an impact on their ability to borrow money for their own benefit (e.g., re-finance a mortgage, get a loan on a vehicle);
- Late payments can negatively affect the grandparent's credit scores and subject them to collection calls, lawsuits, and potential wage garnishments or liens on bank accounts;
- If the grandparents take over the payments to preserve

their good credit, the strain on their finances can endanger their retirement plans or savings;

- Such strain on their finances can cause grandparents to do without vital services such as prescriptions, medical procedures, and dental care;
- By co-signing for the student loan, the grandparents have made a gift to their grandchild. Such a gift means that the grandparent is ineligible for long-term (nursing home) Medicaid (MassHealth in Massachusetts) for five years following the gift. Thus, their generosity to their grandchild may adversely impact the grandparent should they need long-term care in the future;
- There may be gift tax implications by co-signing on the loan.

Another risk when co-signing for a grandchild is the possible consequences of a co-signing grandparent's death occurring with a remaining loan balance. Some private lenders have a clause in their loan agreement that makes the loan balance due immediately upon the death of a co-signer.

If you are a grandparent weighing the benefits and risks of cosigning, seek advice for a qualified professional before signing any paperwork to make sure that you do not inadvertently put yourself and your grandchild in a difficult position when helping your grandchild begin their adult lives.

Do you have a suggestion for a future article topic for Attorney Walecka? Reach out to him directly with a question or topic you think would be helpful to readers.

The information contained in this article is not intended to make you an expert on estate planning nor is this article intended to replace the need for the advice of a professional. Rather, this article is simply intended to provide a basic

understanding of why estate planning is important for everybody and a basic understanding of some of the more common estate planning tools. This article does not constitute legal advice.