PREVENTIVE LAW SERIES

CO-SIGNING A LOAN

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WHAT DOES CO-SIGNING MEAN?
When someone asks you to co-sign, he or she is asking you to obligate yourself and take a risk that a professional lender or bank will not take. Think carefully before co-signing a loan for another person. Under federal law, a creditor must provide a notice that explains your obligations as a cosigner (*see* 12 C.F.R. 706.3). The notice says:

1. You are guaranteeing the other person's debt. Therefore, if he or she does not pay, for whatever reason, you will have to pay instead. Always make sure that you can afford to pay and that you are willing to accept the responsibility.

2. You will be liable for the entire amount of remaining debt if the borrower does not pay, as well as late fees and collection costs.

3. In some states, the creditor can come after you for payment without first trying to collect from the original borrower. Collection may include suing you and garnishing your pay or property. If the loan is not paid, it may also be placed on your credit report.

DOES THAT REALLY HAPPEN?
Yes. Think about it; the reason that creditors require a co-signor on certain loans is because they believe it is likely that the particular person taking out the loan will not be able to pay it back on their own. Additionally, many lenders will not notify a co-signer if the original borrower is missing payments until the loan is in default. At that point, it may be too late to save the co-signer’s credit.

IF YOU DECIDE TO CO-SIGN
There are times when you may want to co-sign, such as for a child's first loan or a close friend. Before you decide to co-sign, however, consider these factors:

1. Can you afford to repay the loan? If you are asked to pay and cannot, your credit may be damaged.

2. Even if you are never asked to repay the loan, it will show up as an obligation on your credit report. Depending on your financial situation, it may keep you from obtaining credit or loans of your own.

3. If you agree to secure the loan by pledging your property, such as your car, remember that, if the borrower defaults, you could lose that property.

4. Know how much you will be liable for if the original borrow defaults on the loan. Although the lender is not required to do so, ask him/her to include a clause limiting your liability to the principal amount of the debt so you will not be forced to pay attorney’s fees, collection costs, or late fees if the borrower defaults.

5. Ask the lender to notify you immediately in writing if the borrower misses a payment so that you have time to work things out without having to repay the whole amount immediately.

6. Check with an attorney about your state's co-signing laws.

FEDERAL TRADE COMMISSION

The Federal Trade Commission (FTC) provides education to consumers, and investigates and pursues allegations of illegal business practices. You can file a formal complaint against a business or person on their website, which may lead to detection of patterns of fraud and abuse, an investigation, and ultimately eliminate unfair business practices. The FTC does not resolve individual complaints, but can provide information about what next steps to take. Their website offers information on a wide variety of consumer issues, including but not limited to mortgages, employment, health and fitness, credit, privacy, and identity.

RESOURCES

Federal Trade Commission: (877) FTC-HELP; www.consumer.ftc.gov/features/feature-0009-military-families

- Consumer Information: www.consumer.ftc.gov; (877) FTC-HELP
- File a Consumer Complaint: www.ftccomplaintassistant.gov