

# Think Twice Before You Co-Sign for a Loan



At some point in your life, you may be asked by a friend or relative to co-sign a loan. This often happens when the

would-be borrower is very young and does not have a credit history. It may also happen when the borrower has a bad credit rating or does not have enough income or assets to demonstrate to the lender that he or she will be able to pay off the loan.

Parents, grandparents, aunts and uncles may be tempted to help younger family members in this way. If all goes well, it is a great way to help a young person get a start in life. But it can turn out badly. In fact, according to the Federal Trade Commission, as many as three out of four co-signers are asked to repay the loan because the primary borrower has gone into default.

It is important not to lose sight of the fact that when you are asked to co-sign, this means the borrower does not meet the standards set by the lender. Lenders are in the business of evaluating risk. It is not surprising that the borrowers they consider too risky so often turn out to be just that:

bad risks.

If you co-sign a loan, federal law requires the creditor to provide you with a notice explaining that you must guarantee the debt. This means that if the borrower does not pay the debt, you will have to do so.

Unfortunately, co-signers are often not aware of the extent of their responsibility. You may expect that the primary borrower is going to be the one who actually makes the payments. What you must realize is that if the borrower does not make the payments, you are fully liable for the debt, just as if you had been the one who took out the loan.

This means you will have to pay all the money that is owed, including late fees and interest. If the loan is in default and the creditor sues to collect, you could even be responsible for attorney fees.

Furthermore, if the loan is in default, the creditor can turn it over to a collection agency, and that debt collector can pursue you by all legal means to collect the debt. It won't do any good to explain that it was your nephew who took out the loan, and you were "just" the co-signer. Legally, it doesn't make any difference.

If you are going to co-sign a loan, be sure you can afford to pay off the debt if you have to. If any of your

assets are used to secure the loan, be aware that if you cannot pay what is owed, you could lose those assets.

Consider also that, even if the debt never goes into default, your ability to obtain credit may be adversely affected by co-signing. Lenders will consider a co-signed loan as part of your total debt load, and this affects your ability to borrow.

If you decide to co-sign, you should be sure to stay in frequent contact with the borrower to ensure that he or she is making payments on the loan. You may also want to ask the lender to notify you if the borrower misses a payment. This will allow you to start making payments for the borrower before the loan goes into default.

You should keep all important documents, such as the loan contract and the Truth-in-Lending Disclosure Statement. You may have to obtain copies of these papers from the borrower, as the lender may not be required to give you these papers.

In the end, the decision to co-sign will ultimately be yours. You will have to ask yourself, "Do I trust the borrower enough to co-sign?" Only you will know the answer to that question.

## POINTS TO REMEMBER

### Co-Signing a Loan

- If the borrower defaults, you will be liable for the debt.
- The default will reflect on your credit record just as if you had borrowed and defaulted on the loan.
- Collection agencies may use all legal means to collect from you.

#### It is illegal for any debt collector to:

- threaten violence
- use profane or obscene language
- falsely accuse the consumer of fraud
- threaten arrest or repossession or other seizure of property without proper court proceedings
- use the telephone to harass debtors by calling anonymously or making repeated or continuous calls
- make collect telephone calls without disclosing the true name of the caller before the charges are accepted

#### To file a complaint against a debt collector:

Office of the Attorney General  
(800) 252-8011  
[www.oag.state.tx.us](http://www.oag.state.tx.us)

Federal Trade Commission  
[www.ftc.gov](http://www.ftc.gov)



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Information on this and other topics is available on the Attorney General's Web Site at [www.oag.state.tx.us](http://www.oag.state.tx.us).