

# COSIGNING A LOAN



prepared by  
MOUNTAIN HOME AFB  
GUNFIGHTER LEGAL OFFICE



## INTRODUCTION

What would you do if a friend or relative asked you to cosign a loan? Before you answer, make sure you understand what cosigning involves. Under a Federal Trade Commission rule, creditors are required to provide a notice to help explain your obligations. The cosigner's notice says:

You are being asked to guarantee this debt. Think carefully before you do. **If the borrower doesn't pay the debt, you will have to.** Be sure you can afford to pay if you have to, and that you want to accept this responsibility.

You may have to pay up to the full amount of the debt if the borrower does not pay. You may also have to pay late fees or collection costs, which increase this amount.

**The creditor can collect this debt from you without first trying to collect from the borrower.** The creditor can use the same collection methods against you that can be used against the borrower, such as suing you, garnishing your wages, etc. If this debt is ever in default, that fact may become a part of your credit record.

## COSIGNERS OFTEN PAY

Some studies of certain types of lenders show that for cosigned loans that go into

default, as many as four out of ten cosigners had to pay all or some of the loan. That statistic should not surprise you. When you are asked to cosign, you are being asked to take a risk that a professional lender will not take. The lender would not require a cosigner if the borrower met the lender's criteria for making the loan.

In most states, if you do cosign and your friend or relative misses a payment, the lender can collect from you immediately without pursuing the borrower first. The amount you owe may be increased -- by late charges or by attorney fees -- if the lender decides to sue to collect. If the lender wins the case, he or she may be able to take your wages or property.

## IF YOU DO COSIGN

Despite the risks, there may be times when you decide to cosign. Perhaps your son or daughter needs a first loan, or a close friend needs help. Following are a few things to consider before you cosign.

- Be sure you can afford to pay the loan. If you are asked to pay and cannot, you could be sued or your credit rating could be damaged.
- Before you cosign a loan, consider that even if you are not asked to repay the debt, your liability for this loan may

keep you from getting other credit you may want.

- Before you pledge property, such as your car or furniture, to secure the loan, make sure you understand the consequences. If the borrower defaults, you could lose these possessions.
- You may want to ask the lender to calculate the specific amount of money you might owe. The lender does not have to do this, but some will if asked.
- You may be able to negotiate the specific terms of your obligation. For example, you might want to have your liability limited to paying the principal balance on the loan, but not late charges, court costs, or attorney fees. In this case, ask the lender to include a statement in the contract like this: “The cosigner will be responsible only for the principal balance on this loan at the time of default.”
- You may want to ask the lender to agree, in writing, to notify you if the borrower misses a payment. In this way, you will have time to deal with the problem or make back payments without having to repay the whole amount immediately.
- Make sure you get copies of all important papers, such as the loan contract, the Truth-in-Lending Disclosure Statement, and any warranties if you are cosigning for a purchase. You may need these if there is a dispute between the borrower and the seller. Because the lender is not

required to give you these papers, you may have to get copies from the borrower.

- If you are cosigning a loan in a state other than Idaho, check the local state law. Some states have laws giving you additional rights as a cosigner.

These tips and additional information on other consumer-related issues are provided by the Federal Trade Commission: [www.ftc.gov](http://www.ftc.gov) or (877) FTC-HELP.

**\*This handout is general in nature. It is not a substitute for legal advice from an attorney regarding individual situations. (August 2021)**

For additional information on this and other legal topics, see the Air Force Legal Assistance Website: <https://aflegalassistance.law.af.mil>