



OFFICE OF THE STAFF JUDGE ADVOCATE
101ST AIRBORNE DIVISION (AIR ASSAULT) AND FORT CAMPBELL
CLIENT SERVICES
(270) 798-4432



CO-SIGNING A LOAN

What would you do if a friend or relative asked you to co-sign a loan? Before you answer, make sure you understand what co-signing involves. Under federal law, creditors are required to give you a notice that explains your obligations. The co-signer's notice states:

- You are being asked to guarantee this debt. Think carefully before you do. If the borrower does not pay the debt, you will have to pay it. Be sure you can afford to pay it if you must, 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.
- In some states, 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.
- This notice is not the contract that makes you liable for the debt.

Co-signers Often Pay.

Studies of certain types of lenders show that for co-signed loans that go into default, as many as three out of four co-signers are asked to repay the loan. When you're asked to co-sign, you are being asked to take a risk that a professional lender will not take. If the borrower met the criteria, the lender would not require a co-signer. In most states, if you co-sign and your friend or relative misses a payment, the lender can immediately collect from you without first pursuing the borrower. In addition, the amount you owe may be increased — by late charges or by attorneys' fees — if the lender decides to sue to collect. If the lender wins the case, your wages and property may be taken.

If You Do Co-sign

Despite the risks, there may be times when you want to co-sign. Your child may need a first loan, or a close friend may need help. Before you co-sign, consider this information:

- Be sure you can afford to pay the loan. If you are asked to pay and can't, you could be sued or your credit rating could be damaged.
- Even if you are not asked to repay the debt, your liability for the loan may keep you from getting other credit because creditors will consider the co-signed loan as one of your obligations.
- Before you pledge property to secure the loan, such as your car or furniture, make sure you understand the consequences. If the borrower defaults, you could lose these items.
- Ask the lender to calculate the amount of money you might owe. The lender is not required

to do this, but may if asked. You also may be able to negotiate the specific terms of your obligation. For example, you may want to limit your liability to the principal on the loan, and not include late charges, court costs, or attorneys' fees. In this case, ask the lender to include a statement in the contract similar to: "The co-signer will be responsible only for the principal balance on this loan at the time of default."

- Ask the lender to agree, in writing, to notify you if the borrower misses a payment. That will give you time to deal with the problem or make back payments without having to repay the entire amount immediately.

- Make sure you get copies of all important papers, such as the loan contract, the Truth-in-Lending Disclosure Statement, and warranties if you are co-signing for a purchase. You may need these documents if there is a dispute between the borrower and the seller. The lender is not required to give you these papers; you may have to get copies from the borrower.

- Check your state law for additional co-signer rights.

For more information and assistance, you may contact the Fort Campbell Client Services Office, Building 2765 Tennessee Ave., across from the Military Courthouse, (270) 798-4432.