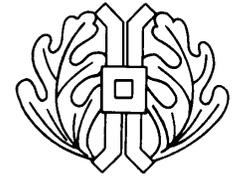


# PREVENTIVE LAW SERIES

## CO-SIGNING A LOAN



Prepared by:  
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### WHAT DOES COSIGNING MEAN?

Think carefully before cosigning a loan for another person. Under federal law, a creditor must provide a notice that explains your obligations as a cosigner. The notice says:

1. You are guaranteeing the other person's debt. If they do not pay, for whatever reason, you will have to!! Always make sure that you can afford to pay if you have to and that you are willing to accept that responsibility.
2. You will be liable for the entire amount of the 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. This can include suing you and garnishing your pay or property. If the loan is not paid, it can also be placed on your credit report.

### DOES THAT REALLY HAPPEN?

Yes! Studies have shown that when loans go into default by the original borrower, about 3 out of 4 cosigners are asked to repay the debt. Remember, when someone asks you to cosign, they are asking you to take a risk that a professional lender or bank will not take. If the borrower satisfied the lender's criteria, they wouldn't need a cosigner.

### IF YOU DECIDE TO COSIGN:

There are times when you may want to cosign, such as for a child's first loan or a close friend. If you decide to cosign, consider this:

1. Can you afford to repay the loan? If you are asked to pay and cannot, your credit can 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, that 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 are liable for!! Although the lender is not required to do so, ask the lender to include a clause limiting your liability to the principal amount of the debt. That way, you will not be forced to pay attorneys 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. That will give you time to work things out without having to repay the whole amount immediately.
6. Check with an attorney about your state's cosigning laws!!!!

### LEGAL ASSISTANCE APPOINTMENTS:

For an appointment to see a legal assistance attorney, please contact the Legal Assistance Office, located in Building 610, Naval Air Station North Island, by telephone at (619) 545-6278.

### RESOURCES:

Federal Trade Commission (Consumer Response Center) (202) FTC-HELP  
[www.ftc.gov](http://www.ftc.gov)