



Federal Trade Commission Protecting America's Consumers

Co-signing a Loan

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 federal law, creditors are required to give you a notice that explains your obligations. The cosigner'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. 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.

This notice is not the contract that makes you liable for the debt.

* Depending on your state, this may not apply. If state law forbids a creditor from collecting from a cosigner without first trying to collect from the primary debtor, this sentence may be crossed out or omitted altogether.

Cosigners Often Pay

Studies of certain types of lenders show that for cosigned loans that go into default, as many as three out of four cosigners are asked to repay the loan. When you're asked to cosign, you're being asked to take a risk that a professional lender won't take. If the borrower met the criteria, the lender wouldn't require a cosigner.

In most states, if you cosign 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 Cosign

Despite the

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

Be sure you can afford to pay the loan. If you're asked to pay and can't, you could be sued or your credit rating could be damaged.

Even if you're not asked to repay the debt, your liability for the loan may keep you from getting other credit because creditors will consider the cosigned 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 isn't 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 cosigner 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're cosigning for a purchase. You may need these documents if there's 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 cosigner rights.

For More Information

The FTC works for the consumer to prevent fraudulent, deceptive, and unfair business practices in the marketplace and to provide information to help consumers spot, stop, and avoid them. To file a [complaint](#) or to get [free information on consumer issues](#), visit ftc.gov or call toll-free, 1-877-FTC-HELP (1-877-382-4357); TTY: 1-866-653-4261. The FTC enters consumer complaints into the [Consumer Sentinel Network](#), a secure online database and investigative tool used by hundreds of civil and criminal law enforcement agencies in the U.S. and abroad.