



## MAKING CENTS

### CO-SIGNING A LOAN CAN HAVE SERIOUS IMPLICATIONS

-John P. Napolitano, CFP®, CPA, PFS, MST



Here's the set up: A relative or close friend asks you to co-sign a loan, vowing that he will repay the note in full and on time. The assurances continue as your buddy promises you will never be put in the position of taking over the loan due to default. You're just about to sign but that word "default" has you concerned - and you have every right to be. There are several risks you need to know about co-signing a loan and measures to take for protection should that pal renege on promises.

Co-signing a loan amounts to your agreeing to guarantee a debt. If the borrower doesn't make payments, then guess who has to take on the financial responsibility? You. Before you commit to co-signing a loan make sure you can afford to repay not only the debt but attached late fees or collection costs. A creditor can collect a debt from you without first trying to get payment from the borrower. A creditor can also use the same collection measures against you - and that includes suing you and garnishing your wages.

How do you think those actions will look on your credit record? Keep in mind that even if you are not asked to repay the debt, your liability for the loan could prevent you from obtaining other credit. One more thing: You could

lose any property you pledged against the loan.

I know, you're thinking that you won't be left holding the bag, but - and this is directly from the Better Business Bureau - some studies indicate that as many as three out of four co-signers are asked to repay a loan. Your relative or friend may have every good intention of making good on the loan, but intentions can fall short.

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If you do agree to be a co-signer, take a few measures for protection. Try to get the lender to agree in writing that in the event of default on the borrower's part, you will be responsible for

the principal balance of the loan only. This will protect you against any legal fees if the lender ends up suing for payment. You can also ask the lender to notify you if the borrower is late with payments.

You'll also want to have copies of all loan paperwork. If you can't get the documents from the lender, have the borrower make you copies. Before you co-sign a loan, make sure you know the type of loan, its purpose and, perhaps most importantly, its terms.

Certainly, there are circumstances when co-signing a loan makes sense, such as establishing credit for your children. But even then, you must be sure you can afford to pay the loan.