



Cosigning a Loan

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What would you do if a friend or relative asked you to cosign a loan? Before you say yes, think about the obligations involved and how they may affect your own finances and credit.

Your Responsibilities as a Cosigner

When you cosign a loan, you have the following obligations:

1. You guarantee to pay the debt. This means that you are responsible for the unpaid loan amount if the borrower defaults.
2. You may owe more than just the debt. If the borrower defaults, you may also have to pay late fees, legal charges, or collection costs.
3. The lender can collect from you without first trying to collect from the borrower. The lender can use the same collection methods against you as they can use against the borrower including suing you. If the lender sues you and wins, they may be able to take your wages and property.

What to Consider Before You Cosign

Despite the risks, there may be circumstances when you want to cosign a loan. Be sure to consider the following:

1. Can you afford to pay the loan? While you may be confident that the borrower will not default on the loan, make sure you consider that possibility. Consider the unexpected – people lose their jobs, become ill or disabled, or die unexpectedly. If you are asked to pay the debt and cannot, you could be sued and your credit rating could be damaged.
2. Even if the borrower does not default on the loan, your liability for the loan may prevent you from getting other credit since the loan will be considered one of your obligations.
3. Consider carefully before you pledge your property, automobile, furniture, or jewelry to secure the loan. If the borrower defaults, you may lose these items. If you cosign for an automobile loan, some loan companies require a vehicle's title and registration be in both the owner and cosigner's names. If your name is on the Arizona title, you must make sure there is Arizona Mandatory Insurance coverage as well. If the primary owner fails to maintain automobile insurance, you may be responsible for this insurance violation. In Arizona, titled owners may have their driver's license, registration, and license plates suspended until proper proof of insurance coverage is demonstrated.
4. Ask the lender to establish in writing the specific amount of money you would owe if the borrower defaults. While a lender is not required to provide this information, some will

if asked. You may also be able to negotiate the specific terms of your debt. For example, you may limit your potential liability on the loan by agreeing to pay only the principal balance on the loan, excluding late fees, legal charges, or collection costs.

5. Ask the lender to agree in writing to notify you if the borrower misses a payment. Notification should occur before a late charge is added or before the loan is accelerated (when the entire loan amount must be repaid at once). Doing so will allow you time to handle the problem, speak with the borrower, or make back payments without having to repay the full amount at once.
6. Secure copies of all important loan papers signed by the borrower including the loan contract, the Truth in Lending Disclosure Statement, and any product warranties, if the sale is on credit. The lender does not have to give you copies of these documents. If they do not, make sure you get copies from the borrower.

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