

Indiana Legal Services, Inc

Using the law to fight poverty, empower clients, and improve access to justice.

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Co-signing a Loan for Someone

What are my responsibilities if I co-sign a loan for someone?

If you co-sign a loan for someone else, such as a friend or family member, you are responsible for the debt just as your friend or family member would be. If the other person does not pay the debt, the creditor can come after you for payment of the debt. You need to seriously think about it before you co-sign a loan for someone. Generally, people need a co-signer only if they have credit problems. If they have credit problems, will they be able to pay the debt? If not, will they be able to pay you back if you must pay the debt?

Are there any limits to my liability if I am only the co-signer?

No! You are just as responsible for the debt as the borrower.

What happens if I co-sign a loan for my friend and he does not pay?

If you co-signed and your friend does not pay, the creditor can come after you for payment. The creditor can come after you first without even suing your friend. If the creditor sues you to collect the money, you may have to pay court costs, late fees and/or attorney fees (depending on the terms of the contract). If the creditor sues you and wins, your wages could be garnished or your property taken to pay the debt.

You might have the right to sue your friend to get your money back. However, if your friend did not have the money to pay the creditor, your friend probably will not have the money to pay you either.

What happens if the person I co-signed for files bankruptcy?

In most cases, unless the person agrees to repay the creditor in the Bankruptcy Court, the creditor can collect the debt from you. The other person's bankruptcy may also have a negative effect on your credit rating.

You may have certain rights (especially if the person you co-signed for is a former spouse), and you should seek legal advice immediately after you learn about the bankruptcy.

What should I consider before I agree to co-sign for someone?

1. Once again, remember that if the borrower doesn't pay, you will have to pay. Make sure you can afford to pay the loan. If you are asked to pay and you do not, your credit will be harmed.
2. Ask the creditor to agree, in writing, to notify you if the borrower misses a payment. (The creditor does not have to do this).
3. Your ability to get other credit may be harmed, because banks and other lenders will consider the co-signed loan as your loan. Think about whether you will need to apply for a loan for yourself in the near future.
4. Make sure you get copies of all important papers regarding the loan. You should get the papers either from the borrower or the creditor.

Is it ever okay to co-sign a loan for someone?

Of course. Co-signing a loan can be a big help to another person, and that person may pay off the debt with no problem. Your risk is lowest for co-signing when:

1. You know about all the terms of the contract and agree to all terms of the contract.
2. You can afford to make the payments if the borrower does not.
3. You trust the borrower to follow the terms of the contract.
4. You voluntarily want to help the borrower who cannot get the loan without your help.

Co-signer's notice:

Under federal law, creditors are required to give you a notice that explains your obligations as a co-signer. You should get this before you actually co-sign a contract. The notice should be a separate document from the contract. This notice states:

- You are being asked to guarantee a 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.

What happens if I don't get this notice before I co-sign a loan?

If you don't get this notice before you co-sign the contract, the creditor has violated the law. You have important rights – which may excuse you from paying. But don't just refuse to pay – see a lawyer! A lawyer will help you determine whether you have to pay or not.

I co-signed a loan for a friend. The loan, however, calls me a “co-buyer,” not a co-signer. Should I have received the co-signer disclosure form?


Yes. What the contract calls you does not matter. If you agreed to be obligated on a loan for someone else, and that other person is the one who received the goods or services from the loan, you should have received the co-signer disclosure notice.

What if there is a problem with a loan I have co-signed?

You should contact a lawyer to discuss your options if you are being asked to pay for a loan that you co-signed.

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