

Think Twice Before Co-Signing

One huge area of financial vulnerability is co-signing someone else's loan. Co-signing is essentially a quick way to go into debt. People who co-sign feel that they are doing a relative or friend a favor. The potential cost of their signature is usually not explained very carefully to them. When you co-sign a note, you are taking on someone else's debt.

Rarely do you know just how much and what kind of debt that person may have. Debt is an excess of liabilities over assets.

A home, if financed conservatively, may usually be sold for more than is owed by the mortgagor. A car, furniture and almost all other depreciating items purchased on time cannot usually be sold for sufficient money to pay off the lender. This is often the kind of debt for which co-signers are asked to be involved.

There is always the possibility that what you co-sign for could be repossessed, leaving you still on the hook for most of the outstanding loan. Ask any credit union or bank how they come out financially when goods are repossessed. Repossession is usually a financial disaster for both the borrower and the lender.

In a given situation, the co-signer may feel some embarrassment at quizzing the lender about what will happen if his relative or friend does not pay as he has promised.

Understanding Co-signing

What are you doing if you co-sign a note? You need to understand the financial transaction in which you would involve yourself. Here are three factors:

1. You are borrowing the money. The lender has refused to make the loan to the person for whom you are co-signing, based on facts which reveal that the risk is too great to loan the money to your friend or relative.

When you sign the note, the money is really being loaned to you. The reason you have been asked to sign is that your collateral, your character, your credit and your capacity

are sufficient for the loan officer to feel good about the security on the loan. Your signature is the loaner's security.

2. You are loaning the money. You are loaning the money you borrowed to a person who was too great a risk for the professional lender. You are involving yourself in a business transaction that the expert money manager would not touch.

3. You are hoping your friend will pay back the loan. There's a good chance that it will not happen. When your friend or relative defaults, then you have the privilege of paying back the money. Never co-sign a note unless you can afford to give the money away!