

What are my obligations if I cosign a loan for someone else?

Cosigning a loan is serious business. It means that you are agreeing to pay back someone else's loan if that person does not pay. You may also have to pay late charges and collection fees that have built up. You could be sued and could lose some of your property. You may be told otherwise, but this is what can happen!

In other words, you are taking a big risk when you cosign a loan. You get nothing in return for that risk. And if you think that cosigners rarely are asked to pay the loan, you are wrong! In fact, three out of four cosigners of finance company loans are asked to pay back the loan. So think carefully before you agree to cosign a loan, even for a relative or a friend. But if you do decide to cosign, protect yourself.

- Don't cosign a loan you cannot afford to repay; you may have to!
- Think twice before you put up your property as collateral for the loan. If the loan is not paid, you will probably lose this property.
- Get the lender to agree to notify you if the borrower misses a payment so that you can make the payment and avoid having late charges added or the entire loan accelerated, which means that the whole loan must be paid at once.
- Get copies of all the important papers, including the contract, any warranties for products purchased, and the Truth-in-Lending Disclosure Statement (a paper that federal law requires the lender to give the borrower, telling you in a clear, understandable way what it will cost to get this loan).

Federal law requires that you be given a **Notice to Cosigner** before you cosign for a debt. This notice warns you about what can happen if the debt is not paid. If you are being asked to pay a debt but did not get this notice, you should consult an attorney.

REMEMBER. The law often changes. Each case is different. This pamphlet is meant to give you general information and not to give you specific legal advice.

Please use the information found in this brochure carefully since the law is constantly changing and the information may not accurately reflect any changes in the law that occurred following the creation and publication of the brochure.

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Getting or Cosigning for Credit

Public Information Pamphlet #9

How can I shop for the best credit?

What kinds of credit arrangements should I avoid?

If I have a lot of debts, should I get a consolidation loan?

Is refinancing a good idea?

Should I hire a mortgage broker?

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**Pennsylvania
Legal Aid Network**

The Pennsylvania Legal Aid Network of civil legal aid programs provides help for people who have no place else to turn



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■ **BEING ABLE** to borrow money or buy things on credit is important, but it is also easy to get in over your head. Here are some tips that will help you shop for the best credit and avoid problems.

How can I shop for the best credit?

Before you get a loan or buy something on credit, call several lenders or dealers to find out what rates they offer. Ask about:

- the annual percentage rate (the interest rate per year);
- whether there are loan fees, points, or other charges;
- the monthly payment; and
- whether there is a large payment at the end (a balloon payment).

If the creditor won't give you this information, you should look for credit elsewhere.

Be sure to check with local credit unions, which usually have low rates. A local credit union may allow you to open an account.

Once you have lined up credit, review the final papers carefully before you sign. If the terms are different from what you expected, do not sign. Look for credit elsewhere.

What kinds of credit arrangements should I avoid?

Some creditors charge extremely high rates. Be careful of:

- **Payday lenders.** These lenders are often called "cash advance" or "check advance" companies. They offer to give you money in return for a post-dated check for a larger amount. When the check you write comes due (usually in one to four weeks), you have to either pay the full amount of the check or pay another fee. The interest rate for most payday loans is 300% to 600% a year. Plus, if you can't pay the check, some payday lenders will try to file criminal bad check charges against you.
- **High-cost mortgage loans.** Some lenders try to take advantage of people who own their homes, by offering high-rate loans with lots of fees, points, and charges. Many of these loans have low payments at first, but then a balloon payment—a huge payment that is due after several years. If you get a loan like this and cannot pay it, you are likely to lose your home.

Be very cautious about giving a mortgage on your home. It is almost always a bad idea to get a mortgage loan or a home equity loan to pay off non-mortgage debts such as medical bills and credit cards. If you already have a low-rate first mortgage, do not let a high-rate lender talk you into refinancing it.

- **Rent-to-own companies.** Shop around carefully before buying something from a rent-to-own company. Often their merchandise is very high priced. Plus, the rental fees usually amount to around 100% a year. Before you buy from a rent-to-own company, check the credit terms that other sellers offer, and compare the total amount you will have to pay. If you really need furniture or appliances and do

not have good credit, think about buying at an auction or yard sale. Or consider a lay away plan at a reputable store.

If I have a lot of debts, should I get a consolidation loan?

Be very cautious about getting a consolidation loan. You should consider a consolidation loan only if the interest rate will be lower than your existing debts and you do not have to pay any loan fees, origination fees, points, brokers fees, or other charges. Do not let debt collectors pressure you into getting a consolidation loan.

Most consolidation loans will require you to give a mortgage on your home. This is generally a bad idea, especially when your existing debt is not secured by a mortgage. If you have lots of debts, ask for the separate brochures *Overwhelmed by Debt?* and *Bankruptcy*.

Is refinancing a good idea?

Be careful about refinancing. Some creditors, especially consumer discount companies (finance companies), add lots of fees and hidden charges when you refinance. You should also pay close attention to the interest rate after refinancing. Your debt gets higher and higher, and you have to pay for longer and longer.

If you are behind on your mortgage, be suspicious of any sales pitch suggesting that you can borrow your way out of trouble. Refinancing will probably only make your problems worse.

Should I hire a mortgage broker?

This is usually not a good idea. Brokers charge high fees, often a percentage of the loan. Sometimes they get additional money from the lender as a reward for getting you to agree to an overly expensive loan.