

What to do if you've cosigned "*a loan gone bad*"

Let's say you cosigned on a loan for a friend or family member. A few months later, or a few years later, you are contacted by a debt collector or by the creditor because that friend or family member missed a payment or never paid. When you cosigned for the loan, you agreed to guarantee the debt. This means that you promised to pay back the loan if the actual borrower failed to. This also means that the creditor can do things such as sue you if the loan remains unpaid and even try to garnish your wages or bank account once they have a judgment against you. What can you do?

If at all possible, try to contact the person you cosigned for. Can you reach them? If so, do they disagree with the creditor's stance on what remains to be paid or what has already been paid? Do they still have the item(s), if any, involved in the loan (for instance, if they borrowed to buy an automobile or a motorcycle)? Are they able to pay the loan? If it will be a hardship for you to pay anything, tell them. Such information will help you decide on your options during your consultation with an attorney.

If you can afford to pay the amounts due, rather easily, and you think the amounts due are correct, you can negotiate a deal with the creditor, sometimes at a discount. You might want to consider getting a promissory note (an I.O.U. of sorts) from the person you originally helped by cosigning in the first place before paying off the creditor. (Although they are probably broke now, or the creditor would not be chasing you, it's possible they will have money at a later time.) Even if you can afford to pay the debt it might be prudent to see an attorney first to make sure you are truly obligated on the debt. You don't want to "throw good money after bad."

If you cannot afford to cover the debt at all, the first best thing you can do is contact your attorney immediately. There are not very many legal ways of getting around the obligation of repaying. However, an attorney will be able to look at your specific situation to determine if there are any defenses to the underlying loan or the manner in which you became involved as a cosigner. An attorney may be able to find one of the few options that would eliminate your obligation to pay.

An attorney will also be able to determine if the debt collector is following federal and state regulations regarding debt collection. Also, an attorney may be able to determine you are essentially "judgment proof" and communicate that to the creditor. Sometimes creditors "back off" if the cosigner is judgment proof.

The next time you are asked to cosign a loan, remember the risk you are being asked to take. Besides having to repay the loan, you are putting your own credit and financial future at risk. For more information on cosigner obligations please visit the Federal Trade Commission (FTC) website at <http://www.ftc.gov>. Just type in "cosigning" in the search window. You may also call the FTC at 1-877-FTC-HELP.