

# MORTGAGE LENDING UPDATE

By David Griffin

Past President of Mortgage Bankers Association of Middle Georgia

## Are you a Co-Signer?

One of the questions mortgage lenders ask every potential applicant is if they are a “co-maker or endorser on a note”. That is, has the applicant co-signed for a friend, relative or significant other so that the other person could obtain some type of financing? (This question does not apply to any loans the borrower and co-borrower, usually husband and wife, have obtained jointly.) If the answer to this question is yes, additional documentation from the applicant is required. If the applicant’s contention is that the other party is satisfactorily making payments on their own (and if the applicant’s total debt ratio does not allow the monthly payment of the co-signed debt to be included as an ordinary debt) satisfactory evidence substantiating the facts must be provided.

Satisfactory proof is usually deemed to be copies of the last 12 months cancelled checks or purchased money orders showing the other person faithfully and timely making the payments from their own sources. Cash receipts are not sufficient as it is not possible for a cash receipt to be a paper trail as to the source of the cash. If there has been a late payment (over 30 days late) made on the co-signed loan in the prior 12 month period, the co-signed debt must be included in the applicant’s debt ratios and the applicant must qualify for the new mortgage financing request including that co-signed debt payment. If they don’t qualify for financing with the payment, the co-signed debt must be paid in full for the application to proceed.

Before agreeing to co-sign a debt for a friend or relative, potential co-signers need to understand that if the primary party to the loan fails to make a payment for any reason, the creditor will reflect the derogatory credit history on both credit histories. Furthermore, the co-signer will be contacted to send in the missed payment. Thus, it is highly recommended that serious deliberation be made by the prospective co-signer before agreement is given to such a plan.

The following excerpt comes from nationally syndicated mortgage columnist, Jack M. Guttentag, also known as “The Mortgage Professor” ([www.mtgprofessor.com](http://www.mtgprofessor.com)). Jack is Professor of Finance Emeritus at the Wharton School of the University of Pennsylvania. His website contains a wealth of great information related to mortgage finance.

“Co-signing arises when one party with good credit agrees to be liable for the debt of another party with no or poor credit. Some co-signers have had their lives severely disrupted when the borrower for whom they co-signed stopped paying, leaving it up to the co-signer to make the loan good. Most of the mail I get on the subject is from co-signers in this situation. They now regret they did it, and they invariably ask me how they can get out of it.”

“The answer is that a co-signer can't get out from under his obligation without the permission of the lender, which they cannot get. A lender won't let a co-signer off the hook because the borrower has defaulted. The possibility (or even probability) of default by the borrower is why the lender required a co-signer in the first place.”

“Co-signing fails when the borrower defaults and the co-signer has to make good on his pledge. Why does this happen? Sometimes a responsible borrower draws a bad card from the deck of life, such as illness or job loss. A co-signer can't avoid that risk. The risk they can and should avoid is co-signing for someone who is not responsible.”

“If you are not fully and completely confident that the borrower will make every payment as agreed, you should refuse a request to co-sign an obligation. Yes, it might destroy the relationship, but the relationship will also be destroyed if the borrower defaults. And if that happens, your financial security could be destroyed with it.”

*David Griffin has been financing homes in Macon, Warner Robins and all of Middle Georgia since 1983 and is a member of the Mortgage Bankers Association of Georgia, [mbag.org](http://mbag.org). For an archive of past articles visit [mbag.org/ML\\_Update.htm](http://mbag.org/ML_Update.htm).(10-1-09)*