

THE CO-SIGNING CONUNDRUM

By Jim Mathis

In difficult economic times, many of us have friends or relatives in need. We want to do whatever we can to help. The easy thing may be to just give them some money. A gift card to the grocery store or paying a utility bill can be a big relief for somebody short on cash. But Jesus said, "It is more blessed to give than receive" (Acts 20:35). One application of this admonition is that the receiver might not be as excited about the gift as you are as the giver – so caution is advised as you respond.

Acts 4:32-35 talks about the early Church, where the first Christians cared deeply about one another. If a person or family had a need, somebody else might sell something to help them out. The Bible says the money was "laid at the apostle's feet," suggesting some sort of discretionary benevolence fund that could be used by anyone in need. Many churches today have a similar system in place.

We might think loaning money is a good idea, but banks are in the business of making loans – and our friend may have already exhausted that possibility. If we make a personal loan to a friend or relative, we are acting as a small bank. We need to do the things a bank would do, such as having a loan document spelling out the amount, interest, and repayment schedule, as well as the consequences of a default.

This is a business transaction, so even if dealing with a friend or family member, we should be firm in how we handle the transaction. We also might want to consider this as a gift, with a debt forgiveness clause. For example, the loan agreement might say the debt will be cancelled if certain things occur – such as losing a job, finishing a college degree, or some other form of incentive or benefit to everyone involved.

The worst form of "help" is to co-sign a note. Ancient wisdom from the Bible's book of Proverbs compares co-signing a note to a bird caught in a snare, warning of its potential dangers: "My son, if you have put up security for a friend's debt or agreed to guarantee the debt of a stranger – if you have trapped yourself by your agreement... swallow your pride; go and beg to have your name erased.... Save yourself like a gazelle escaping from a hunter, like a bird fleeing from a net" (Proverbs 6:1-5).

As it says, if we have unwisely co-signed for someone else's debt, we should free ourselves as quickly as we can. Forty percent of people who co-sign for a friend end up costing themselves money; even worse, 30 percent find it has damaged the relationship. As another proverb warns, "He who puts up security for another will surely suffer, but whoever refuses to strike hands in pledge is safe" (Proverbs 11:15).

Years ago, my dad co-signed an automobile loan for a relative. The relative defaulted on the loan and the car was repossessed. This showed up as a default and repossession on my dad's credit because he had co-signed the note. This made it more difficult for him to get a home mortgage a few years later. If he had chosen instead to be a co-borrower, with his name also on the title, my father could have claimed the car and sold it to pay off the loan and preserved his credit rating.

If we have friends or family members in need, our desire to make an honorable difference should be done in ways that will not embarrass them. We can give them a loan, but only if the money is not needed for our own financial obligations. As the Scriptures advise, never co-sign a loan. There is no upside to co-signing. We can be generous, finding creative and substantial ways to encourage, support and lift up our friends or relatives, while protecting relationships and our own financial future.

© 2022. Jim Mathis is a writer, photographer and small business owner in Overland Park, Kansas. His latest book is The Camel and the Needle, A Christian Looks at Wealth and Money. He formerly was a coffee shop manager and executive director of CBMC in Kansas City,U.S.A.

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Reflection/Discussion Questions

1. Have you ever had someone co-sign a loan for you? If so, how did that work out?
2. On the other hand, have you ever agreed to co-sign for someone else's loan? What was that experience like? While the loan was in force, did it create any tensions or stress on your relationship with them?
3. Do you agree with the conclusion that it is wrong to co-sign a loan for someone, especially a friend or family member? Why or why not? What are the possible benefits – if any – of taking on the responsibility, potentially, for someone else's financial obligations?
4. Why do you think other ways for helping someone in need – such as an outright gift, a personal loan with repayment stipulations, or even a loan with a debt payment incentive – are preferable to co-signing for a loan someone is taking through a financial institution? What biblical principles might guide your thinking as you evaluate possible options?

NOTE: If you have a Bible and would like to read more, consider the following passages:

Proverbs 3:27-28, 17:18, 20:16, 22:26-27; Mark 12:30-31; Galatians 6:9-10