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What protection do I need for becoming a guarantor of payment?

BY SANDY J. ALARCO



Left to right: Patsy Gould, Denise Papa, Kristin Walsh, Tim Brenneman, Brenda Zaykowski, Emily Mott, Sandy Alarco, Chi Urban

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CEO of the Disability Opportunity Fund, told me of his own children, "I wanted to help them get started in their next stage of life, establish credit and gain responsibility."

What exactly does it mean to be a guarantor of payments? According to the *Business Dictionary*, a guarantor is a "Person or firm that endorses a three-party agreement to guarantee that promises made by the first party (the principal) to the second party

the actual damages.

The solution? First, never sign off until the agreement has been reviewed with an attorney and the legal ramifications surrounding your responsibilities as guarantor are fully understood. Second, make sure proper insurance has been put in place, and confirm that it is active and paid to date. Third, if the agreement in place does create a liability exposure, be sure that the location is added for underly-

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hat was your big dream as a kid finishing college? To quote my nephew Daniel Simons, "After college, I will hopefully have secured a job in my career and will relocate to wherever I can be of best use to my future employer."

In other words, like so many other college students these days, Daniel doesn't quite know how he is going to find that dream job or a new place to live. This type of financial uncertainty has become commonplace for recent college graduates.

But, to make the transition a little easier, it's become common practice for parents to sign on as a guarantor of payments for their child's first apartment or new car. Extended family and even friends often lend a helping hand, as well. As Charles Hammerman, president and

(client or lender) will be fulfilled, and assumes liability if the principal fails to fulfill them (defaults). The definition continues: "In case of a default, the guarantor must compensate the lender or client, and usually acquires an immediate right of action against the principal for payments made under the guarantee."

So much for the legal jargon. To most people, a guarantor agreement just works out to: If the kids don't pay their rent on time or miss a lease payment, I'm going to be asked to pay the bill; that's it, right?

Unfortunately, however, being financially responsible isn't always the end of the story. It all depends on the agreement in place and the specific terminology used. Sometimes, a guarantor can be sued for an injury that occurs to a third party, or for damages to the unit or even the whole building where the principal (the child) resides.

Parents could also end up being held responsible for damages and injuries that occur as a result of a car accident. What if the child fails to maintain proper insurance? Then the guarantor could end up being legally liable for the attorney's fees as well as

ing and excess liability coverages, to protect your legal obligations in the event of a lawsuit.

If an automobile is the exposure in question, ask that the vehicle be added to the excess liability policy and make sure that the primary auto insurance policy carried on the car has the right amount of coverage and that the guarantor's name is listed as "additional insured."

With any complicated insurance issue, the best advice we can give is to contact a knowledgeable broker or agent in advance of taking on any new exposure and to evaluate whether coverage is already in place or whether additional coverage is needed to properly mitigate the risk. ●

¹ *Business Dictionary*, <http://www.businessdictionary.com/definition/guarantor.html>

ABOUT US

SANDY ALARCO IS A PRIVATE CLIENT ACCOUNT MANAGER AT COOK MARAN & ASSOCIATES IN MELVILLE, NY. Sandy, who has over 10 years of insurance experience, specializes in managing the needs of a high net worth clientele. Her strong advocacy and consistent diligent effort have earned the trust of her clients and their advisors. Sandy holds a Bachelor of Science degree from St. John's University in Queens, New York, and is currently completing a professional designation for Chartered Private Risk and Insurance Advisor. She continues to live on Long Island with her husband and their three sons. ●



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