

Weigh the options for family loans

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When people consider borrowing money, they might first think of using lending services found in a financial institution but many people also borrow money from family and friends. Responses to recent U. S. consumer surveys asking “from where have you recently borrowed money” show that loan transactions between family and friends total almost \$90 billion. That number is likely for business *and* personal loans but even so, it represents a viable option for borrowing money. Like any other option, there are always advantages and disadvantages.

What are the advantages and disadvantages of borrowing money from family or friends?

As a financial counselor, my job is to help people consider all the options for dealing with a personal financial decision. When the issue is borrowing money, I will often suggest borrowing from family as an option if, given the situation, it seems to be a *possible* option.

I recently heard another financial counselor remark that it may be more difficult to borrow from family than a banker though because you probably won't see the banker at the next family gathering! *That ongoing face-face contact may be the first and most serious disadvantage to borrowing from family and friends!* Another disadvantage is that when borrowing from family and friends, basic money management guidelines are often overlooked, creating the chance for more difficult situations.

With any borrowing option, I always remind folks of what I call golden rules of borrowing –

1. Know your debt payment limit.
2. Choose a loan with the lowest fees.
3. Re-pay the loan in a timely manner.
4. Stay in contact with the creditor.

I suggest that people assume that even with a loan from family, the debt will probably need to be re-paid. Family situations are always changing and who knows when the money, which may be available now, could be needed in the near future.

The advantage of a family loan is that it will often have fee and repayment terms that could be “more comfortable” than with a lender, but the reality will be apparent -- *you are still in a lending arrangement with a family loan*. “More comfortable” arrangements may include a lower payment, longer terms for repayment, no payment, or more money available to borrow.

If you choose family or friends as your lender, create with them a written document detailing the loan. *This is an advantage because a written agreement will usually help people avoid future misunderstanding*. Another advantage of the written document is that it should include a workable payment plan based on the borrower's spending plan. I suggest the borrower's spending plan show a *manageable* regular payment rather than a future lump sum payback. Lump sum paybacks often just put people in another, usually more difficult, re-finance situation.

A final advantage of the family or friend loan is that if you can't pay it back, there may be more options for *forgiveness* that won't affect your credit rating. Families usually don't report payback information to a credit bureau unless they have entered into an agreement that is affecting *their* financial situation which might also have tax implications.

Stay on a sound path for your financial future -- *weigh the consequences* when you consider any lending situation with lenders, family, or friends.

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