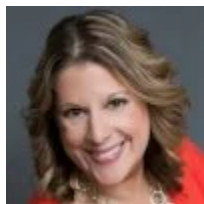


# How to Navigate the Tricky Business of Lending Money to Family

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by Tiffani Sherman

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Often, the bank of family and friends is the place many people turn to when they need money.

It is difficult and often demoralizing to ask family for financial help — and asking for or lending money can often lead to strained relationships and damaged finances.

But it doesn't have to be that way. Some simple tips from experts can keep things from turning sour.

## The Strain of Asking For Money

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The reasons people ask for money vary and often include starting a business, buying a house or paying bills. Sometimes the request is driven by hardship, and during the COVID-19 pandemic times are tough for many people.

In Ameriprise's Financial Comebacks Study completed earlier this year, 73% of those surveyed reported suffering a financial setback, while 89% said they have either made a financial comeback or are on their way toward recovery. The survey of 3,042 adults with at least \$100,000 in investable assets was done in January of 2020.

“When we dug into what were some of the things that caused that setback, financially, providing support for a friend or family member or a loved one was one of the major causes,” said Marcy Keckler, VP of Financial Advice Strategy at Ameriprise. “In fact, 45% of respondents said that was something they had done, and so I think that tells us it's pretty common.”

Money changes relationships, and asking for or giving a loan or gift most certainly will change the dynamic.

“The thing about finances and relationships is sometimes it’s about money, but oftentimes money becomes kind of a symbol or a proxy by which we are working other stuff out,” said Kathryn Summers, a psychotherapist in Durham, N.C. “If you’ve been mad at somebody for 30 years and you’re saying that it’s because they owed you 20 bucks 30 years ago, chances are that’s not really what you’re mad about.”

Saying no when someone you care about asks for money also isn’t easy.

“There’s a sense of responsibility that if you don’t want them to be hurting, you have to step in and help,” Summers said.

## Before Giving Money

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Since the pressure to say yes to loaning money can be intense, there are several things you should think about before opening your wallet.

Keckler says making sure you can afford to provide the help is the most critical.

“It’s always important if you’re considering providing financial support to family members that you make sure that it isn’t going to throw your own financial situation into a challenging circumstance yourself,” she said.

Another major thing to think about: the likelihood you will get the money back. That means only loaning money you can afford to lose.

“If you are considering providing financial support to someone in your life, it’s so important to think about whether it is in fact a gift or whether it’s a loan and making that clear between both the person giving the financial support but also the person receiving it,” Keckler said.

On the relationship side, Summers suggests thinking about the importance of the relationship compared to the money.

“The real question is, is this relationship going to be okay if I never see this money again,” she said. “If you’re not willing to let the money go, then it’s probably not a good idea to say yes unless the relationship feels like it’s expendable.”

## Questions to Ask and Terms

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Choosing to give money is a big decision and it’s OK to ask a few questions. Banks request a lot of information, so why shouldn’t personal lenders? It’s difficult, but think about this as a business decision, not a personal one.

Some questions to ask:

- **How are you planning to use the funds?** Is it to start a business? Buy a house? If the money is to pay bills, Keckler says some budgeting and money management advice may be in order, but be careful to avoid coming across as condescending.
- **How do you plan to pay it back?** Think about payment terms and avoid saying, “pay it back when you can.” Said Keckler: “Get even a little bit more specific, like ‘we hope you’ll be able to pay us back in X amount of time’.”
- **Are there any tax consequences?** If you are planning to make the money a gift and not a loan, make sure you are within the IRS gifting guidelines, which allow taxpayers to gift up to \$15,000 per person, per year without any tax consequences.

Make sure to discuss any plans to loan or give money with your spouse or partner.

“Secrets are always toxic to relationships and that certainly holds true for loans or giving to friends or family,” Summers said. “That’s just adding an extra burden to the burden of the money exchange.”

## Put It in Writing

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When Pennsylvania high school teacher and retired attorney Allison Stern loaned money to a cousin, she asked for some information and created a simple loan agreement to outline terms.

“It’s so that the expectations of each side are known so nobody feels like they’re hurt,” she said. “The problem is that if it’s not written, signed, dated, etc., you don’t have something that can be deemed a legal document and you have a difficult time proving what the actual agreement was.”

Stern suggested including the following in the agreement:

- The amount of the loan.
- The parties entering into the agreement with signatures.
- The date you are entering into the agreement.
- How the money will be paid (lump sum, installments, paying bills directly).
- Any interest rate and if so, how it will be calculated.
- Realistic repayment terms including due dates.
- What happens if the money goes unpaid.

Stern says nothing needs to be filed with a court and you don’t need an attorney to draw up anything official. The important thing is making sure both parties are on the same page.

“I don’t care if they include in there that they have to run naked through a football game in the event that one of the parties doesn’t hold up their end of the agreement,” she said. “But it should be understood by both parties what the recourse should be and how they should go about getting what they expected.”

If you don't want to give cash but still want to help someone who asks, consider paying their bills directly or giving gift cards. This way, you can have more control over where the money is going.

## How to Say No

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It's okay to say you need some time to think about a request for money and maybe run some numbers.

"I think the mistake would be saying yes quickly and not being willing to really think about your own feelings about it to begin with," Summers said.

Summers says to take time to ask yourself hard questions, like whether you would be okay if you never saw this money again and how angry you would be if something went south.

If in the end, if you do decide to say no, Summers suggests being open and honest and sticking to statements about yourself and your own feelings:

"I think you say, 'I appreciate that you felt able to ask me, but I have to tell you that I'm just feeling uncomfortable about it. I value this relationship so much and I don't want anything to hurt it.'"

*Tiffani Sherman is a Florida-based freelance reporter with more than 25 years of experience writing about finance, health, travel and other topics.*

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