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HOW TO LEND MONEY WITHOUT RUINING YOUR RELATIONSHIP: 6 QUESTIONS TO ASK YOURSELF



While the [labor force continues to grow](#) [<https://www.bankrate.com/banking/savings/financial-security-0318/>], [Bankrate's most recent Financial Security Index](#) [<https://www.bankrate.com/banking/savings/financial-security-0118/>] survey reveals that the savings rate Americans continues to trend downward. In January, only 39% of people surveyed said they had enough in their savings account to cover an unplanned expense of \$1,000 (this was especially true for those making less than \$30,000 per year). While 32% said they would cover the expense with a credit card or by reducing other spending, another 12% speculated they would borrow what they needed from family or friends.

Certainly, not all folks who ask for a loan are untrustworthy. Even people with the foresight to set aside the [recommended 3 to 6 months of emergency savings](#) [<https://safetynet.com/blog/how-much-emergency-savings-need/>], can fall upon financial hard times, especially given that the average [American is already buried in debt](#) [<https://www.newyorkfed.org/newsevents/news/research/2017/rp170815>]. While the prospect of lending money to a close friend or relative can look like a valid short-term solution, however, saving your friend from sinking further into debt may not be worth the strain on your relationship in the long run.

If you're concerned lending money to a friend or family member could ruin your relationship, ask yourself these 6 questions before pulling out the checkbook.

1. What's your personal policy about lending to friends and family?

Oh, you don't have one? Well, now's the time. [A standard lending policy](#) [<https://www.moneytalksnews.com/tired-loaning-money-friends-and-family-heres-how-stop/>], can keep you from having to make spur-of-the-moment decisions under pressure. What's more, consistency will keep your decision and/or the terms of the loan from feeling personal.



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- the repayment terms (for example, monthly installments or one lump sum)
- whether or not you will charge compound [<https://www.investopedia.com/terms/c/compounding.asp>], or simple interest [https://www.investopedia.com/terms/s/simple_interest.asp], (which you may then need to claim on your taxes [<http://www.businessinsider.com/charge-interest-on-loans-to-family-2016-11>])
- and the consequences (late fees or legal proceedings) if your friend / family member fails to meet them.

If any of these concepts sound foreign to you, you'll want to brush up on your own financial literacy [<https://safetynet.com/blog/national-financial-literacy-month-2017/>], first.

2. Can you risk never seeing this money again?

If you can't afford to lose the cash without finding yourself in financial jeopardy, you aren't in a position to lend it. Period.

3. Are you willing to just gift the money?

If so, be clear about it. A gift is only a gift if the recipient feels free of any lingering sense of obligation. Then look into whether or not your gift can be excluded from the IRS's gift tax [<https://www.irs.gov/newsroom/inflation-adjustments-under-recently-enacted-tax-law>]. (For 2018, the annual exclusion for gifts has been raised to \$15,000.)

4. Are you comfortable putting the agreement in writing?

No matter how close and trusting your relationship, you should feel comfortable writing down the loan agreement [<https://www.rocketlawyer.com/form/loan-agreement.rtf>], including repayment terms, on a piece of paper and asking both of you to sign it. If that feels too awkward for you, you risk having much more awkward misunderstandings and disappointments when those expectations go unmet. If the recipient has every intention of paying you back, then a promissory note [<https://www.investopedia.com/terms/p/promissorynote.asp>], should cause no tension. If it is, don't lend.

5. Are you prepared to take your relation or friend to court?

If the loan is enough money that would merit legal action on your part, decide in advance if you are willing to go there. If you are, be clear about that and put it in writing [<https://www.lifehacker.com.au/2015/11/is-it-legal-to-sue-someone-close-over-unpaid-loans/>]. If you're not the type to head to court, be clear about that with *yourself*. Otherwise you risk resenting the recipient down the line for something you really had no intention of doing.

6. Can you find alternative ways of helping?

Particularly if the recipient is chronically financially unstable, your loan will only treat the symptom and not the person's underlying financial problem. If you want to help without feeling like you are tossing your money into a bottomless pit, ask if you might prepay some of their utility bills until they get back on their feet or see if they might earn the cash by doing odd jobs around your or an associate's property. If you would feel better spending the money to help your loved one lay the groundwork for a more stable financial future, consider offering to pay for a session or two with a financial coach [<https://safetynet.com/blog/ga-financial-coach-peggy-olive/>], or counselor [<https://safetynet.com/blog/what-to-do-tax-refund/>], or contributing to a Health Savings Account [<https://safetynet.com/blog/health-savings-accounts-7-things-to-know-about-hsas/>], or income insurance [<https://safetynet.com/blog/how-safetynet-works-income-insurance/>], in their name.

loan. Keep in mind, however, that the best thing for your relationship may not also be the best thing for their wallet—and that's okay. Yes, the traditional options for high-interest debt or even bankruptcy will be costly for your loved one, but maintaining a trusting and respectful relationship is priceless.

JUNE 15, 2018 | BY CHRIS SONNENBURG

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