

## Thinking About Borrowing from Family or Friends? Do It The Right Way.

### LEAD IN:

Coming up in “Focus on Your Finances”, Certified Financial Planner, Rick Van Der Noord talks about how to borrow from family and friends without becoming enemies.

### SEGMENT:

Good morning and welcome to “Focus on Your Finances. Whether it’s for a business, a home or a new car, there’s something very attractive about the idea of asking friends or family for a loan. Nobody’s worried about a credit check or other lengthy documentation and you can still hang out with your lenders at the holidays.

In 2005, the National Association of Realtors reported that about 9 percent of first-time homebuyers made their purchase with help from a friend or relative. That’s up from 5 percent in 1999. And overall about 25 percent of new homebuyers get money from a relative or friend.

Private loans have both good and bad aspects. The good news first:

First, Terms can be significantly friendlier than a borrower would qualify for in the open market. For example, the rate charged on the loan can be higher than the lender would receive in a deposit account but lower than the borrower would pay a commercial lender.

Second, A private loan can be structured to require little or no collateral.

Third, It’s a way to keep money in the family.

Fourth, It’s a way for a borrower to be able to buy a home, a car or other critical assets even if they have a poor credit rating.

And finally, There is no loss of tax benefits to the borrower or lender if an agreement in the case of a mortgage loan is structured and reported properly.

So what about the bad news?

The most common complaints about private loans are...

First, An unclear agreement can lead to missed payments or default.

Second, If the borrower dies suddenly, the lender’s investment may be lost.

Third, Jealous relatives could say they weren’t treated fairly.

And the grand daddy of them all is that Disagreements between borrower and lender could kill an important relationship.

The best arrangements are formal. An agreement written in proper legal language, properly notarized and properly recorded if the loan involves real estate goes a long way to making a private loan a successful experience. A financial adviser can talk to both parties about what such loans – particularly real estate loans – can mean for their respective finances. It also makes sense for both parties to visit their respective tax professionals to make sure they know the correct ways to document the loan transaction over time for tax purposes.

To a large extent a properly crafted agreement requires the help of an attorney. A little expense to address all contingencies and to protect each party could save a ton of problems down the road.

Basically what I’m saying is this, When two people who are close to each other enter into such an arrangement, the most valuable thing really isn’t the money. It’s the relationship

THE VOICE: To have your questions answered on the air or to get more information about today’s topic, send an e-mail to [focusonyourfinances@WBSC.com](mailto:focusonyourfinances@WBSC.com).

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