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## **Brother, Can you Spare a Dime?**

It's that time of year again when family and friends meet at the holiday table to eat, drink, and be merry. The people around the table this year can probably be divided into two groups – the “have's” and “have not's”. The “have's” have jobs, savings, and enough money to pay their mortgage. The “have not's” may be unemployed with no savings (which means the mortgage may be a few months behind).

As the day wears on and the carbs and alcohol begin to relax people, it would not be unusual for a friend or relative to think about either asking for a loan or volunteering to lend money. Here are some questions that both the givers and receivers should answer before money changes hands.

### Will the loan really help resolve the issue or just prolong the situation?

There is no use throwing good money after bad, so you need to clearly understand whether the loan will actually solve the problem or just delay the inevitable. Giving money to someone who has an out-of-control spending habit probably won't cure their shopping tendencies. This is very different from giving someone a short-term loan until their tax refund arrives. Know beforehand whether the money will really make a difference or if this is just a short-term solution to a long-term problem.

### Why choose a personal loan rather than a bank loan?

For better or worse, the approval process is usually easier at the “Bank of Mom”, which is probably why the loan is being requested in the first place. Borrowing from a family member can be the “loan of last resort”, so be aware that what is really being requested is a “no documentation” loan. We saw how well that worked for the mortgage industry, so make sure both of you know the risks involved.

### Are you willing to put the loan in writing?

The decision for money to change hands is not the only decision to make. Will the loan be interest free? Will the money be due back by a certain date? This is where the rubber meets the road (actually, where the pen meets the paper). If you are really serious about borrowing or lending money, you should not hesitate to formalize the agreement. Putting everything in writing protects both people – the borrower clearly understands what their responsibilities are and the lender has a better understanding when they will be repaid.

### What will happen if the loan isn't paid back?

If you are the person loaning the money, you just became a bank with one borrower and one loan. What will happen if your one borrower defaults on your one loan? As the lender, you need to understand the consequences if you don't get the money back. Will it be something that you are able to brush off or are you putting yourself in a financial crisis? If you are the borrower, realize the long-term consequences you may create if you are not able to pay back money that you promised to return.

How will this affect your ongoing relationship?

Whether you are the borrower or lender, realize that you may have just put your personal relationship at risk. If you are the lender, how will you react if you don't get paid back? If you are the borrower, will you feel guilty every time you see the lender?

Whether you decide to borrow or lend money to a friend or family member, make sure you know what you are asking and receiving. Remember, you want to be able to eat, drink, and be merry at next year's holiday dinner.