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## 'Tis the season to borrow money from family and friends...Ugh!

By Lisa Spiwak

For most people, it is hard enough to make ends meet during the year with all of their normal expenses.

During the holidays, when people need to buy gifts, plane tickets to travel home and find themselves eating out more frequently, they often run short on cash. The quickest and easiest source of extra money for most people is their family and friends.

However, this is a relationship minefield, because it is the No. 1 source of conflict between people and may actually destroy a relationship in the long run.

Because we love our family and friends, we want to loan them money and help them out of their jam. However, we also want to be repaid. There are steps you should take to get paid back and avoid hurt feelings.

The worst thing you can do is lend someone money that you cannot afford to lose. This is because despite everyone's best efforts, there is always a risk that you will

not get paid back. You do not want to jeopardize your financial well-being for someone else's, regardless of how much you care about them.

The relationship will not survive it.

If you decide to go forward with the loan, it is essential to put the loan in writing. It does not need to be a formal contract drafted by lawyers, but it should be a written IOU with the amount that was borrowed, the date it was borrowed and the date it will be repaid, and it should be signed by both parties. If the money is to be repaid with a payment plan, then the dates of each of those payments should be specified in the IOU.

It is essential to specify the repayment schedule so there is no misunderstanding about when the loan will be repaid. Without this, the borrowing family member or friend may be in no rush to start paying the money back.

Years ago I loaned \$5,000 to a friend and made the aw-

ful mistake of not getting a repayment plan in writing. After I lent her the money, I stopped hearing from her, I think because she was embarrassed.

### Perspective

A few months later, I was shopping and ran into her at the mall. Her hands were full of packages. I became furious she obviously had plenty of money to shop with but had not made any effort to start paying me back. This resulted in all sorts of hard feelings, and our friendship ended.

Another way to motivate the borrower to actively repay the loan is to charge interest. This is beneficial in two ways. First, it makes the person loaning the money feel better about the loan. They are not losing the interest they would have gotten from leaving their money where it was in the first place.

However, the second — and more important — reason to charge interest on the borrowed funds is because it motivates the borrower to

repay the loan as quickly as possible and avoid further interest. The amount of interest to charge is up to you. The best thing to do is charge a competitive rate comparable to a traditional lender.

Lastly, it is always easier to make smaller, frequent payments on something than to make larger, infrequent ones. If the borrower knows that they have to write a check to you every two weeks, they can budget for that better than if they only had to write a quarterly check to you.

Frequent payments also keep you in constant communication with each other, which is extremely important to keeping the relationship and the repayment plan on track.

If you follow these steps, you will be able to help your family and friends in their time of need without losing them in the process. God luck and happy holidays.

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