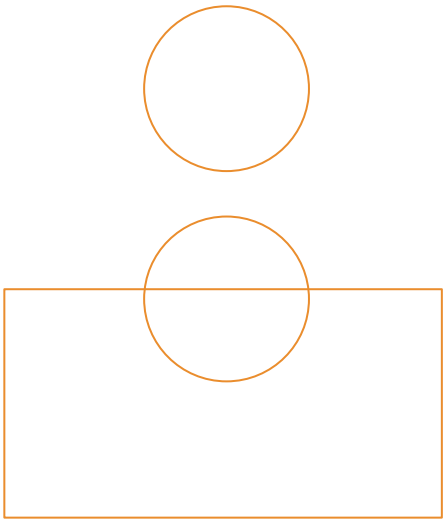
7 things to consider when lending money to friends & family



Lending money to a friend or family member often results in issues like late payments or accusations of non-payment. Nonetheless, there may come a time when you are asked to give a loan to a friend or family member, so here are seven key points to consider as the lender, to help you safeguard your interests and those of the borrower.

1. The purpose of the loan

The reason for the loan will typically determine whether or not you decide to lend. Most people won't ask for a large sum of money without a valid reason, but if, for example, the loan is to fund a business venture, first explore the other options available to the prospective borrower.

Remember, a loan between friends or family members should always be entered into with caution, so explore all other avenues before agreeing to a loan.

2. Will your loan be repaid?

While it may seem unnecessary, it's always best to clarify whether the borrower is asking for a loan (which must be repaid) or for a gift, as these options carry different legal and tax implications for both the borrower and lender.

For example, if the government regards the transfer of funds as a gift, the borrower may be taxed on it.

3. Written contracts

Documentation is critical for loans, as this prevents any possible misunderstandings. Whether in the form of a written contract or a promissory note, the document should always be drafted by a solicitor, outlining the conditions of the loan and its repayment in clear, unambiguous terms. Importantly, this documentation can also be used to back any claims on the part of the lender should the borrower default on the payments.

4. Security

You may feel more comfortable giving a loan if you know it's backed by security, whether in the form of property, shares, or a written personal guarantee. You may also wish to consider securing the repayment of the loan with a fixed or floating charge. As providing for security can make matters even more complex, a qualified solicitor should always be consulted when drafting the loan agreement.

5. Repayment terms

The repayment terms of the loan must be clear and specific, particularly with respect to issues such as interest or charges for early repayment.

Not only should the repayment terms be time-bound, with all details on interest clearly outlined, but the terms should also be feasible so that the borrower can avoid repayment issues.

6. If things go wrong

If the borrower fails to repay the loan, a written loan agreement prepared by a solicitor will give you the backing you need to take legal action. Before seeking legal recourse, however, work with the borrower to find alternative solutions, like revising the repayment terms so they're more achievable.

7. Third party support

Involving a third party, like a solicitor, right from the get-go will ensure that the loan is treated seriously, and that the borrower doesn't take his repayment obligations for granted. It also means that the lender won't need to have unpleasant conversations about loan repayments, and that all repayments will be properly documented, avoiding possible disputes over the outstanding loan balance.

For expert legal advice on lending to friends and family, or for advice on any other personal or professional legal issues, call us on +44 (0)20 3475 6751 or via email at info@carterbond.co.uk

"I would just like to recommend Carter Bond Solicitors and Reena Popat and her team. In particular Howard Lewis Nunn who was dealing with my case, top barrister, highly knowledgable, prompt and quick with responses and letters sent out and an all around really nice humble guy. He resolved the matter quickly and is highly experienced."

Gita Ragone

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