



THE WHITE PAPER

Strategies for Managing Your Assets

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Blood Money: Managing Business Loans Between Relatives

Sometimes a family member is the most obvious source of start-up capital for a new business venture. And despite the potential strain such a transaction could put on family ties, it needn't be a negative experience. If both parties focus on the rational, business aspects of the deal, there is a greater chance that the personal -- and financial -- relationships involved will emerge intact. Here are some tips for both borrowers and lenders to consider.

- **Borrower:** Don't pressure the lender to say "yes."
- **Lender:** If you don't want to lend money, say so directly and then stand your ground.
- **Lender:** Put everything in writing in the form of a legal contract. That way, the borrower will be reminded that the money is a loan -- not a gift.
- **Lender:** Let the contract be your guide when it comes to handling late payments (and assessing late fees).
- **Borrower:** Volunteer full disclosure, including a business plan, financial statements, etc. A family member may feel uncomfortable asking for these documents.
- **Lender:** Apply the same scrutiny to this information as you would to any other financial transaction.
- **Both parties:** Recognize the potential consequences to the family relationship if something goes wrong and the loan goes unpaid.
- **Both parties:** The loan may or may not give the lender a voice in the running of the business. Come to an agreement on that point up front and respect the decision.

To learn more about extending loans or lines of credit to a family member, contact your business banker or a trusted financial advisor.

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