

## Loans and Family; Do they mix?

**My father in law is willing to loan us money to start our business and wants to charge us interest. Is this fair?**

Yes, it is fair to charge interest unless the rate is unreasonable. Hopefully the cost is similar to what he could have earned if he kept this money in the bank in a CD or money market. Believe it or not, he is being kind and generous to loan you the money, and he really doesn't have to since this is his money and he can spend it as he wishes. Your father in law was not obligated to gift you this money. Chances are that you probably went to him since you could not obtain a loan from the bank, maybe the interest rate was too high, or the terms of the loan seemed unreasonable to you.

Be sure to get the terms of this loan in writing to preserve your relationship with your father in law and your money as well. It seems that when loaning money, our memory may be different than the other party as time goes by. Also, if your father in law should pass away, will this be a gift or does this reduce your inheritance? What if your business fails, do you still owe the money? (I would say yes). A written agreement is fairly simple:

- Write down the amount of money being borrowed.
- When (an actual date) should this loan be paid back?
- What interest rate is being charged?
- What payments are expected on a monthly basis?

If you are not charged interest, just say so. If you are being loaned money "until your business picks up" I suggest you put an actual year on the contract or write "to be paid in the next 7 years". Both of you should sign this agreement and get a copy. When the loan is paid off, have your father in law write "paid" across your agreement (or in a letter), then sign and date it. Keep a running tab and receipts in a folder just to keep track of your status of the loan. My concern is that you keep a close loving relationship with your father in law. Remember, banks are in business to loan money, not relatives!

**Around 8 years ago, I was in my first real job, had student loans, and was financially strapped. My mom gave me \$10,000 and I signed a note for her that stated that I borrowed the money. No interest rate, payment schedule, or any other information was mentioned. Mom just wanted me to sign the note in case she fell on hard times. Recently, my mom mentioned the loan and said she would like to be paid back? I suspect my brother found out about the loan and he convinced my mom to say this? What do you think?**

I think you borrowed the money and it was interest free for the last 7 years. Since she asked you to sign a note stating that this was a loan, indeed, it was a loan. The tough part here is that I can't tell if

your mom intended for you to pay back this loan and she is just coming up with the courage to say something, or did something happen and she really needs the money? I'm sure it would be hard for both of you to recall what actually was said 7 years ago. Misunderstandings and money go hand in hand. I do think it would be nice if your mom could explain the reason she has asked you for this money after such silence for the last 7 years. I suggest you come up with a payment plan, don't hold a grudge, and realize that this relationship may be more important than money.

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