



You've thought about it, and you have decided to lend the money at this time. What do you do?

Discuss Terms

Make sure that you clarify the amount being loaned, the interest rate, the repayment schedule, and late fees well in advance of any money changing hands. Immediately getting the terms out in the open reduces the possibility for any future miscommunication or confusion.

Get It In Writing

While a verbal agreement is considered legally binding, it still comes down to your word against someone else's, making it best to put it in writing. A loan agreement will get the terms, timeframe and interest of the loan down in writing. If a repayment plan is specified, the document would also outline what happens if the person misses a payment. Having written details that both parties agreed to by signature is also a great tool to prevent misunderstandings. Should legal action ever become necessary, a written contract will be beneficial.

Practice Worst-Case Scenario

Talking about worst-case scenarios can help to eliminate bad situations in the future. While it might not stop hurt feelings, it should eliminate any surprises if the borrower is unable to make payments. Sit down and talk about what would happen if the borrower makes late payments or doesn't pay you back at all. You need to talk about a plan of action, and may need to develop a couple of different repayment likelihoods to provide for different scenarios. This may include late charges, a collection process, or legal action.

Distance Yourself

Once you have made the official decision to lend money, that money is no longer in your control. Micro managing, worrying or obsessing over how it is spent will only create problems. Separate yourself from the money and focus on repayment, not how it's spent.

Reconcile

Plan to meet on a regular basis to discuss the loan and whether or not it is up-to-date. This may be monthly, semi-annually, or annually, depending on the terms of the loan agreement. This process will make both parties aware of where the loan stands, and allow you to renegotiate any terms and conditions if necessary. It will also help to prevent problems before they occur.