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FINANCING THROUGH FAMILY AND FRIENDS

DO

- Understand that failed business dealings can have an adverse impact on family relationships (family holidays can be very awkward!)
- Try to avoid taking family funding
  - Creates opportunities for family conflict if repayment is not timely made
  - Creates an environment where the lending family member may make unwanted input into the life and business of the borrowing family member
  - Can undermine the independence of the borrowing family member and the ability of the borrowing family member to say they "made it on their own"
  - Most new businesses fail!
  - Alternative sources of funding include personal funds of business owner, bank loans, angel investors, business and personal credit cards, bootstrapping (i.e. make money consulting to fund the development of a product), and the company's customers
- Make full disclosure of the nature of the business and the risks and rewards associated with it
- Provide formal financial statements so that the lender understands the situation
- Talk openly about the possibility that the business will fail and the loan will not be repaid
- Decide ahead of time what role, if any, the lender will play in the business
- Decide ahead of time what upside, if any, the relative will gain if the business is very successful
- Put all agreements in a signed writing

DON'T

- Pressure your relatives into giving you money
- Take money that family members need to provide basic needs
- Take money that family members cannot afford to lose – money saved for:
  - retirement
  - children's education
  - emergencies
- Take money if it will harm the relationship between the borrower and the lender
- Take money if it will cause jealousy or difficulties with other family members not directly involved with the transaction (such as siblings of the borrower who may be concerned about their inheritance or the well being of a parent lending money)