

Things to Consider Before Getting a Loan or Investment from Friends and Family

Borrowing money from friends and family is often the easiest and cheapest way to get financing for your business. This is because your friends and family will not usually require all the documents you would need for a bank or MFI loan, and usually they won't require collateral. However, if not done right it can cause problems with the relationship because of unmet expectations. If you are going to borrow money from friends and family then below are some key points to consider:

1. Do you have a business plan and cashflow forecast?

Even though your friends or family may not require this, by showing them you have this not only will it increase their confidence it is good business practice and will increase the chance of business success.

2. Be Clear about expectations

Loan	If they are loaning you money, be sure both parties know the terms, interest rates (if any), and be clear about what happens if you miss a payment.
	Discuss together: What happens if you cannot pay back the loan because your business fails? Make sure that everyone understands this risk.
Investment (Equity)	If they are investing in your business then it is important to know how much of the business they will get in return (e.g. 20%, 40%, etc.)
	How will they get their money back? Profits? Sale of the business? If its profits, what are their expectations?
	Are they clear about the risk? What happens if the business fails?
	Will they be involved in the business or a silent partner?
	What reporting will they require?

3. Put it in writing

Why?	Although this may not seem necessary, having it in writing protects you and your friends or family. You can always refer back to the agreement if there are any disagreements.
How?	Write a Shareholders Agreement (an example template is here)
	Make sure you have the agreement written down, and all parties sign the original copy. It is best to have a 3 rd or 4 th person (ideally a neutral person or even a lawyer, if you can afford this).
	Make sure everyone has their own copy of the agreement.
	Keep a digital (scanned) copy of the signed agreement in case you lose the original hard copy.