



Q&A: Should I Lend Money To a Friend?



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*Unlike **personal loans from licensed moneylenders in Singapore**, a loan to a friend rarely attracts an interest rate. As a result, you need to be careful about who you lend money to avoid challenges down the road. Before we proceed and look at some of the frequently asked questions about lending money to friends, it is essential to note that research shows approximately three-quarters of people who borrow money from friends never repay fully.*

Is it Bad to Lend Money to a Friend?

Based on the statistic discussed above that shows most friends do not repay money borrowed from friends in full, it is not a good idea to lend money to friends. If the friend fails to repay you, you will have lost the money, a friend, or both!

To avoid such a scenario, it is wise to give them a manageable portion of the money they need based on your budget and financial obligations. In addition, if you are married or in a committed relationship, consult your spouse about the loan to avoid disagreements down the road.



Can you Legally Lend Someone Money



The first thing that you need to note is that **Singapore Moneylenders Act** prohibits unlicensed moneylending businesses. However, the Act does not prohibit moneylending. Giving loans to a friend or family member does not mean that you do so for profit or business gain unless there is continuity about the transactions or if you (the moneylender) lent others money readily and freely.

Concisely, loans to family and friends do not require a license. It is also legal to charge an interest rate on a loan that you give to a friend or family member provided you are not carrying on the business of moneylending. On the same point, IOUs are legal.

What is an IOU?

An IOU is a simple contract that highlights the terms of the loan. Unknown to most people is that an IOU is different from promissory notes that are controlled/governed by the formal requirements listed in the Bills of Exchange Act.



How Do I Refuse to Lend Money to a Friend?

One of the hardest things to do is to look at a family member or friend who needs financial help in the eye and say NO. The decision not to lend money to a friend could cushion you from a financial turmoil down the road, especially if you are not financially stable.

Here are some tips on how to refuse to lend money to a friend diplomatically.

- ✓ Make it your policy
- ✓ Be direct and brief
- ✓ Offer to help in other non-monetary ways
- ✓ Do not disclose financial details or reasons why you cannot loan them money



Can you afford to Give the Loan?

As mentioned earlier, make sure that you consider your current financial status and budget before you give a loan to a friend. Ideally, you should be able to meet your financial obligations comfortably before helping your friend or family member. Consider where you will get the cash from and come up with a contingency plan of recovering if the friend fails to repay you.

Will the Friend be Able to Repay you Back?



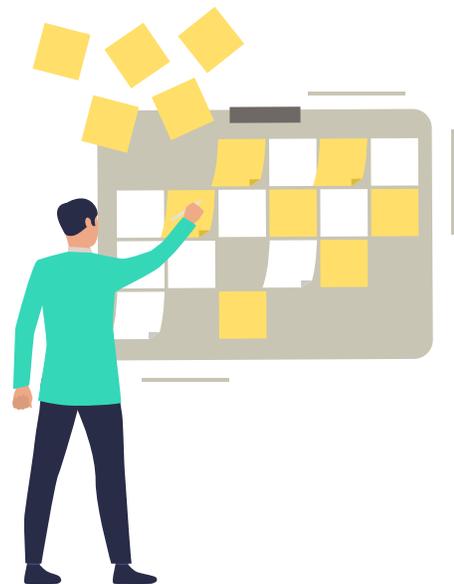
We all hope that our family members or friends will pay back the loan in full. But, unforeseen incidents could hinder them from repaying you within the agreed timeframe. Before you give them the money, organise a meeting to discuss how they are going to reimburse you the money.

Ask them how much time they will need to repay you. If the friend is known to take months to repay or fails to pay back loans, you should tread carefully. If not, be at ease with the idea that you might not get your money back.

What Happens if I Never Get the Money Back?

There is no guarantee that the friend or family member will give the cash back to you within the agreed period. How will such an incident affect you financially? Your friendship will likely be affected negatively if they fail to repay you.

Concisely, if not getting your money back will plunge you in a financial turmoil, strongly consider not lending the money to the friend. On the other hand, if you are comfortable with the fact that you will still be able to meet your financial needs even if you don't get your money back, then go ahead and lend them the money.



The point we are trying to put across is that, you need to cover all loose ends and anticipate for the worst as you hope for the best.

Why Do They Need the Money?

The purpose of requesting the money from you is equally important. Borrowing money to clear medical bills or pay school fees is different from borrowing money to go on a vacation. If you have decided to go ahead and give your friend the money, you need to be unbothered by how they are going to spend it. After all, money is a sensitive topic.



What are the Alternatives?

If by now, you are convinced that you cannot afford to lend money to your friend, consider other options available such as applying for a loan from a legally accredited moneylender in Singapore. You could also float the idea of selling some of the valuables they no longer use to pawn shops.

Closing Remarks

Lending money to a friend is not easy, especially if you know that the chances of getting your money back are low. Take the time to consider all the factors before making your financial decisions to avoid regrets later. More importantly, consider discussing the various **legal personal loan** options available with your friend.



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