FRIENDS AND FAMILY MONEY: DOING IT RIGHT

How to ask, how to structure it as a loan or investment, and how to protect your relationships.

TYPE: GUIDE REVIEWED: NOVEMBER 2026 TIME: 9 MINUTES LEVEL: BEGINNER

AT A GLANCE

- Friends and family are often a founder's first outside money, especially for people without wealthy networks.
- Treat it like **real money from a real investor**: put it in writing, explain the risks, and say whether it's a **gift, a loan or an investment**.
- Only accept money people can **afford to lose**.

WATCH OUT

Taking investment, even from family, can trigger securities laws. Gifts and loans can have tax effects. Talk to a lawyer and a tax professional before you accept money.

Why it matters

Money mixed with relationships can go wrong fast. A cousin who expected monthly payments, or an uncle who thought he owned half the business, can cause lasting family damage. Clear terms protect both the business and the relationship. Later investors will also want to see clean paperwork.

Three ways to structure it

Type	What it means	Good for
Gift	Money with no expectation of repayment or ownership	Close family who want to help with no strings
Loan	Paid back on a schedule, with or without interest	Businesses with steady sales that can make payments
Investment	Ownership in exchange for money, often through a SAFE or shares	Startups that plan to raise more money later

Step by step

1. **Decide how much you need** and what it's for. See **R-25 Use-of-Funds Plan**.
2. **Choose the structure** that fits your business and their wishes.
3. **Explain the risks honestly.** Most new businesses struggle, and they could lose all of it.
4. **Put it in writing.** A promissory note for a loan, or a SAFE or share purchase agreement for an investment.
5. **Have a lawyer review** the documents, especially for investments.
6. **Keep them updated** with short, regular updates. See **R-22 Investor Updates: Keeping Investors in the Loop**.

What to put in writing

- **For a loan:** amount, interest rate (if any), payment schedule, what happens if a payment is missed, and whether it's personally guaranteed.
- **For an investment:** amount, what they get (a share percentage, or a SAFE with its terms), their rights, and what happens if the business is sold or closes.

> EXAMPLE
>
> **Lina's** aunt offered $10,000 for the bakery. They agreed on a loan at 4% interest, repaid monthly over 3 years starting 6 months after opening. A lawyer drafted a simple promissory note. When the bakery had a slow winter, Lina called her aunt early, and they agreed in writing to pause two payments. The relationship stayed strong.

> KEY POINT
>
> Before taking investment from anyone, ask a lawyer whether they need to be an **accredited investor**, generally someone with high income or net worth. Rules about who can invest, and how you can ask, protect both of you.

Common mistakes

- **Handshake deals.**
- **Accepting money people can't afford to lose.**
- **Being vague about whether it's a loan or ownership.**
- **Going silent when things get hard.** Bad news delivered early keeps trust.
- **Giving away too much ownership** too early, at a very low value.

Your checklist

- ☐ Decide the amount and what it's for
- ☐ Choose gift, loan or investment
- ☐ Explain the risk in plain words
- ☐ Put it in writing and get a lawyer's review

☐ Send regular updates

Key words, explained

Word	What it means
Promissory note	A written promise to repay a loan.
Accredited investor	A person who meets income or net worth tests set by securities rules.
Securities laws	Rules about selling investments, meant to protect investors.

Where to go next

- **R-14 SAFEs and Convertible Notes Explained**
- **R-13 Debt vs. Equity: Borrowing vs. Selling Ownership**
- **R-22 Investor Updates: Keeping Investors in the Loop**

IMPORTANT
This guide is general education from the Project Underdogs Founder Library. It is not legal, tax, accounting, immigration or investment advice, and it is not an offer of investment or a promise of funding. Figures are general examples and ranges, not quotes. Rules change and every business is different, so check your situation with a qualified professional. Full terms: LIB-03 Disclaimer and Terms of Use.