Borrowing from friends and relatives avoids some of the worst traps in borrowing from a lender. You are unlikely to be charged high interest rates or hit with hidden charges or have to put up your home or car as collateral. There is nothing wrong with asking for and accepting help to get you through a tough period. Of course, if your troubles are of a more long-term nature, both you and your friends or family will have to recognize the money is more likely to be a gift than a loan.

Problems also arise when your friends or relatives face their own financial difficulties and they either request the money back or refuse to loan you anything more when you have counted on their assistance. Debts can also cause tension between you and your friends or relatives.

Some creditors will push you to get a friend or relative to cosign on an account when you are facing financial problems. You should avoid this whenever possible. The person who cosigns will be on the hook with you. Your financial problems become theirs if you cannot afford to pay.

Source: National Consumer Law Center, Surviving Debt [50th NCLC Anniversary Edition], updated at www.nclc.org/library
Source URL: https://library.nclc.org/sd/0502