It can cost tens of thousands of dollars to start even a small business, and raising that kind of startup capital is challenging to someone with little savings, a blemished or nonexistent credit history or a loan rejection from a bank. If that someone is a relative, there’s a good chance you’ll be approached for a loan.

If you have the means, it’s hard to refuse such a request — especially if you believe your family member has the potential to build a successful, profitable business.

The trick to lending money to a relative is to approach it as a business deal — with generosity and encouragement but also a sober, unemotional understanding of the financial and personal risks involved and a firm set of expectations. In this way, you can protect the family relationship and your investment.

Don’t do it if you can’t afford to lose the money: Lending money is a calculated risk, and you might never see the cash again. Unlike a traditional lender, however, you can look at the loan as a gift to someone you know and care about and whose ambitions you want to support.

Don’t hold your breath waiting for repayment: When repayment obligations are relatively casual and relaxed, as they sometimes are with an in-family loan, borrowers often feel less pressure about paying the money back on time. Some take the debt seriously because they value the personal relationships involved, but others take advantage of the arrangement to pay when they can rather than when they should.

Terms of endearment: To allay many of the problems associated with financially helping a relative's business goals, play the role of venture capitalist or investor. Ask what the money will be used for and be firm about your terms and expectations. Ask to see a business plan, just as a traditional lender would, for evidence that your family member has researched the market and estimated the potential profitability. Request collateral if you have doubts or a stake in the business if the plan sounds solid. Formalize the arrangement with a contract that specifies how the money will be used and how progress will be measured — especially if you've been offered a stake in the venture in lieu of collateral.

Consider the tax implications: The Internal Revenue Service allows tax-free monetary gifts of $14,000 each year, but you'll be responsible for paying taxes on any monetary gift above that amount that isn't structured as an interest-bearing loan. If you can't afford the tax liability, make a counterproposal: Instead of a huge outlay of cash at the start, offer to provide what the borrower needs to reach a measurable milestone. If all payments and obligations are honored, offer another loan for the next phase of growth.

OTHER OPTIONS

If the risk of a fractured family relationship is greater than the anticipated reward, you can refer your relative to a nonprofit community development financial institution. The Loan Fund, Accion and WESST specialize in helping businesses access capital and they provide consulting services along the way.

If the business or idea needs more than money, your relative can get help from WESST or the Small Business Development Center network. Besides loans, WESST provides workshops, training and mentoring from its offices in Albuquerque, Las Cruces, Roswell, Farmington, Santa Fe and Rio Rancho. The SBDC offers workshops and counseling from its 20 offices located across the state.

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Finance New Mexico assists individuals and businesses with obtaining skills and funding resources for their business or idea.