

What happens when you loan money to a friend & he files bankruptcy?

By: MCDOWELL RIGA POSTERNOCK

<http://bankruptcysouthjersey.com/>

There is a saying that you should never loan money to friends or family, but the reality is that most of us will do it at some point. If you decide to loan money to a friend, relative, or coworker, you should take time to do the paperwork if you expect to be paid back. It is especially important if your friend or relative may file for [bankruptcy protection](#).

What kind of paperwork is needed? At the most basic level, you need something that evidences the loan and the expectation that you be paid back. If you loan money to your friend to buy a motorcycle, you need a promissory note and a security agreement to place a lien on the motorcycle as collateral for the loan. You will also need to record your lien on the certificate of title for the motorcycle. This will protect your loan and the ability to be repaid, even if your friend files for bankruptcy protection.

If you are worried that putting your loan on paper will somehow harm your friend, rest assured that having the loan properly documented could actually help your friend. In a bankruptcy filing, having a properly recorded lien against the motorcycle will likely make it evident to the trustee that there is insufficient equity to sell if for the benefit of the creditors. This means your friend will be able to keep the motorcycle.

The saying should be rephrased that you should only loan money to friends and family if you properly document it. This is especially true if a bankruptcy filing is a possibility in the future.

If you need assistance documenting a loan transaction or if you are considering filing a bankruptcy case, contact [Ellen McDowell or Elissa Smith](#) at [McDowell Riga Posternock PC](#) for assistance.

If you are interested in learning more about Chapter 7, Chapter 11, or Chapter 13 bankruptcy, contact [McDowell Riga Posternock PC](#) at [856-528-3389](tel:856-528-3389) [begin of the skype highlighting 856-528-3389 end of the skype highlighting](#). Bankruptcy is designed to give people who are in financial difficulty a "fresh start." Thus, if your debts are causing you undue stress, you should call us for a free initial consultation to discuss whether bankruptcy is the right option for you. Our New Jersey offices are located in Moorestown, Maple Shade, and Willingboro. Our Pennsylvania offices are located in Bryn Mawr and Philadelphia.