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How to write a letter of loan agreement

Requesting the withdrawal of funds for a loan is a matter that must be approached with care, whether you are appealing to a bank, a group of lenders or an individual. If you must request a loan for your business, you will need to prepare a business proposal, complete with a marketing plan and a description of collateral. This proposal must be accompanied by a well-written cover letter that briefly summarizes your situation and "sells" the idea of the loan to the recipient. Greet the recipient by name rather than using a generic salutation (i.e., "Dear Mr. Roberts" rather than "Dear Sir or Madam"). Write the introductory paragraph, which should explain why you are writing. Get to the subject right away; indicate that you are contacting the recipient to request a loan, and explain in one to two sentences who or what the loan is for and why it is needed. Write the body of the cover letter. Because this accompanies your proposal, it is ideal to keep your cover letter to one page; therefore, one to two paragraphs will suffice. Expand on how the loan will be specifically used, explaining your plan and highlighting the strongest points. If you can offer strong collateral, mention it in this section of the letter. Include information about an exit plan, payback and going public if the cover letter and proposal are for venture capital. (In this case, it is acceptable for your cover letter to include another paragraph or so and take up two pages.) Write a concluding paragraph and indicate how you will next be in touch with the recipient to discuss the loan. Thank the recipient for his time and for considering your loan request. Anyone can run into a financial crunch from time to time and need a loan to bridge the cash-flow gap. Even if the person who needs the loan is a close friend, you should always draft a loan agreement to protect yourself from problems in the future. If the friendship sours before you collect, the loan agreement serves as the legal proof you need that the money you provided was not a gift and your friend intended to repay the funds. Without a loan agreement, people can find themselves on the short end of the collection stick. Construct the first sentence to identify yourself as the lender and your friend as the borrower. Include the amount of money you are lending and the date the loan was made. For example, "John Smith made a loan to Sally Fields on May 5, 2010, in the amount of \$1,200." Write the interest rate for the loan into the document and the method you will use to compute interest due on the loan. If you do not intend to charge interest on the loan, make that clear in the loan agreement. Spell out the repayment terms of the loan in detail. If your friend will repay the loan in lump sum after a financial event occurs, such as a tax refund or lawsuit settlement, make sure you include specifics on the inciting event that will trigger the loan as due. If your friend will make payments, provide a detailed description of the payment plan, including the date payments will begin, the amount of the payment due on each pay date and the date of the final payment. Sign and date the document, along with your friend and a third-party witness. If possible, the third-party witness should be someone who does not have a close relationship to either party of the loan. For example, an employee at your financial institution is a good choice for a third-party witness as he has no vested interest in the loan or the loan collection. You can also have the document notarized by a notary public to serve as a third-party witness to the document. Tips Never lend money to a friend if you suspect that person will never repay you. If you wish to remain friends and want to help, consider gifting the money rather than loaning it, assuming you can afford to do so. If a loan to a friend goes unpaid, it can be the unspoken issue that eventually makes it too uncomfortable to remain friends. The cost of a good education is beyond what most people can pay out of pocket on their own. Many students seek loans to cover the cost, along with scholarships and grants if available. However, financial stability is not entirely predictable, particularly for those who are just out of college and have little work experience and who may be hopping from job to job trying to find a good fit. When loan payments are beyond your financial reach, temporary forbearance may help. People usually request forbearance through lender forms or, alternately, via a request letter. Write your full name, left justified. Put your contact information, including your email address, under your name. Double return and use the same format for the lender. Skip two lines. Write "RE: Student loan forbearance request." Skip another two lines and write "DATE:" followed by the date. Skip two lines one more time and write your formal salutation. Follow the salutation with a colon and skip two lines before beginning your letter. Follow the double return rule between all subsequent paragraphs. Indicate you are writing to request forbearance for your student loans. Indicate any identifying information that will help the lender look up your account, such as the loan number or the date the loan was issued. Explain why you cannot afford to make your monthly loan payments in full. Provide details about your income, monthly expenditures and any other debts you currently owe. Refer the recipient to any enclosures you'll include with your letter that may validate your claims. Quote from the lender's policy on forbearance to strengthen your argument that you qualify. Detail what you would like in terms of the forbearance. For example, tell the recipient what you could afford to pay and how long you need the loan to be in forbearance. Be specific about whether you can pay monthly interest -- if you opt not to pay, the interest will be due at the end of the forbearance period. Invite the recipient to contact you with concerns or questions. Write your formal closing, such as "Thanking you in advance," followed by a comma. Skip a minimum of four lines to leave room for your signature. Double return and, if there are any enclosures, write "Enclosures:", followed by the number of enclosures in parentheses. Tips Call the lender ahead of time and ask for the name of the person to whom you should address the letter. Do not use "To Whom It May Concern," as some lenders have specific individuals who deal with forbearance, deferment and similar requests. Using a specific name shows you are serious enough about the request to get this basic information. When you are a payroll manager, human resources supervisor or office manager, employees may approach you for assistance when they apply for mortgages, financial aid or another type of loan. Some banks and lenders require a letter from the applicant's employer verifying employment and income. While you want to assist your staff member, you do not want to dole out inappropriate or unnecessary information. Learn what should be included in a verification letter to help you help your employees.

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