

The Record

# Business

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## ASK THE EXPERTS

# Get advice on the best collateral for a loan

**Q. I am thinking of lending money to a business associate. What kind of collateral can I get?**

There are two types of loans a person can make, an unsecured loan and a secured loan.

An unsecured loan is a loan not secured by any specific collateral. The decision to make the loan is based simply on the financial ability of the borrower to repay the debt.

A secured loan is a loan backed by specific collateral of the borrower. The decision of whether or not to make the loan is based not only on the borrower's financial ability to repay the loan, but also on the value of the assets that can be pledged as collateral for the loan in the event the borrower is unable or unwilling to make the loan payments when due.

The collateral that can be pledged as security for the loan can take a variety of

forms. For instance, you can get a security interest in the assets of a business, a personal guarantee from the owners of a business or other individuals, a mortgage on real property or a pledge of the ownership interest in a company that operates a business.

One thing to consider, however, is that while you may determine that your loan is adequately secured at the time that the loan is made, the collateral may lose value over time. Accordingly, there

is no guarantee the value of the collateral would be sufficient to satisfy the outstanding balance of the loan in the event the borrower defaults.

Since each form of collateral has its own benefits, risks and requirements to "perfect" the security interest, you should contact an attorney to discuss which form of collateral may best secure your loan.

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