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### Advice on borrowing money from parents

#### If you borrow, be clear about the terms

Carolyn Bigda Getting started

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Whenever a story is written about adult children borrowing money from parents, the advice usually is geared toward mom and dad.

But what if you're the child, in your 20s or 30s, without a job and with too much credit card debt? What should you do if you need a financial lifeline from your parents?

It's a common situation. According to a recent survey by CreditCards.com, 42 percent of parents have paid the debt of an adult child.

Financial planners and others who specialize in family wealth have these tips:

#### *Don't assume they'll help*

"Parents have to first ask themselves if they can afford to help without jeopardizing their own financial stability if the loan is not repaid," said Linda Patchett, a financial planner in Chapel Hill, N.C.

So if your parents decide a loan is not an option, do not take it personally.

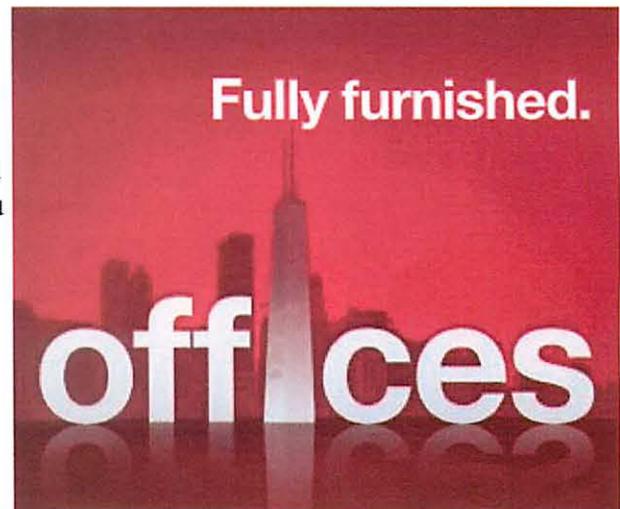
Consider alternatives.

You could, for example, move in with your folks temporarily to focus on making debt payments.

Or, "We recommend that the parents refer the child to the National Foundation for Credit Counseling," said Jon Gallo, who with his wife, Eileen, wrote "Silver Spoon Kids." The nonprofit foundation helps consumers consolidate and repay debt ([www.nfcc.org](http://www.nfcc.org)).

Alternatively, your parents may offer to pay for a session with a financial planner. For a few hundred dollars, a planner can help you create a strategy for repaying what you owe, as well as provide pointers on budgeting and saving.

"Not every adviser will take on a small client, but if the parent already has a relationship with an adviser, he or she may be willing to do some coaching with the adult children," said Brenda Knox, a financial planner in Rolling Meadows, Ill.



With a financial plan, you may learn how to pay off your debt and stay out of the red in the future, said Rand Spero, a financial planner in Lexington, Mass. And "it may encourage a more mature relationship between parents and their adult children," he said.

### *Have clear expectations*

If your parents do offer to wipe out your debt, be clear about the terms of their generosity.

Is the money a gift? Or do you have to repay the sum? With interest?

"Parents may feel like they have more say in the child's spending habits if they lend them money," Knox said.

Ask your parents why they are offering the money. Is it because you face an emergency? After making the loan, will your parents expect to have control over your finances?

It's also a good idea to keep siblings informed about the terms of the gift or loan.

"Certainly, tension can develop if the siblings view the loan as helping a child who did not or would not help himself," said Bonnie Hughes, a financial planner in Reston, Va., and Miami.

### *Make it official*

Once the details are determined, write them down. By creating a "contract," you'll avoid problems later.

If it's a loan, outline the repayment schedule, the interest rate and consequences if a payment is late or the loan is not repaid in full. You may also want to speak with an accountant about reporting interest to the IRS.

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