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Marc A. Hebert's 'Money \$ense': When your child asks for a loan, should you say yes?

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IF YOU'RE a parent, you have done so much for your children from the day they were born. If your children have already graduated from school, perhaps they are on their own at this point. But are they truly independent? Everyone needs help sometimes and that includes adult children. If providing financial assistance is within your means, should you help your adult child when they ask?

Your first thought might be to pull out the checkbook. But it might be better to examine the costs first, both financially and emotionally. Here are some of the questions you might want to ask.



Is the money being given for a reasonable purpose? A bank asks a potential borrower what the money is going to be used for and you should, too. If your child constantly borrows money or is a big spender, providing additional lending might not be the best decision you could make. You might be enabling poor financial behavior. If your child is usually great with money, the calculation could be different.

Is the loan within your means? Before giving your child a loan, take some time to consider how it will affect you. Can you really afford to lend money to your child? What will happen if you unexpectedly need the funds? What if your child doesn't pay you back? If you are nearing retirement and counting on the money, it could put your retirement in jeopardy. It might be best to only lend what you can afford to lose.

In keeping with this, how will lending money to your child affect him or her in the long run? If you step in this time, will your child expect help during the next financial struggle? It might be time to give your child the chance to figure out their finances on their own.

Another factor you might want to consider is family tension. If your child cannot pay you back, would this create conflict between you? If your child forgets a payment or can't pay for the month, what will happen? Will you feel obligated to become involved with your child's finances? Does your spouse agree with the lending decision? If you have other children, how would they feel about the loan? The emotional cost of the loan may be greater than the financial cost.

After taking all of this into consideration, let's say you decide to say yes and lend your child money. If this is the case, it is time to become a lender. It's serious business. Put all of the loan terms in writing. Set some expectations. Set interest rates, repayment schedules, payment terms, and collateral. You might even want to set up automatic loan payment transfers from your child's account to yours – you don't want debt collector in your job description.

It also makes sense to treat the loan in a businesslike manner to meet some IRS requirements. Make certain the interest rate is appropriate and at least equal to the applicable federal rate. This could help you avoid having the loan considered a gift with the resulting gift and estate tax consequences. If the money is to be used to purchase a home, make sure the loan meets the requirements so your child can have an interest expense deduction. It could be helpful to discuss the tax consequences of the transaction with a tax adviser.

If you decide that you just cannot lend the money, you might want to offer other help. For example, you could offer to pay a particular bill for a short period of time. In times of struggle, all help is wonderful to have.

Finally, don't feel guilty if you don't lend the money. Your finances are important, too, and your relationship with your child might be better for it.

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