

PARENTS LENDING MONEY TO THEIR ADULT CHILDREN

Parents are frequently asked by their adult children to lend them money, for such things as a down payment on a house.

Most of these situations start off with the best of intentions on both sides.

The adult child, conditioned since childhood to think that his parents own a money tree, asks for a “loan”.

The parents, biologically conditioned to rarely be able to say “no” to their child, downplay their own financial fears and needs and, with much inward reluctance, agree. Nothing is put in writing.

As time goes by, the adult child “forgets” that it was a loan.

He starts assuming his parents really intended it as a gift. The parents feel too guilty and stressed to say or do anything about it.

The rights of all of the other creditors of the adult child soon take priority over the parents’ claim in any event. The parents sometimes become very uneasy, as do the brothers and sisters of the adult child, when they find out about it.

The solution for the parents who are on the verge of being dragged into this no-win situation is to treat the loan to the adult child as much as possible as a banker would treat a loan to his customer.

In particular, parents should take the following steps before they advance any funds to the adult child:

1. consult their lawyer and instruct him to properly document the loan;
2. take a mortgage on the adult child’s house to secure the loan, if at all possible;

Being mortgage holders ensures that the parents always remain in control of the situation and that their rights and feelings are always respected. It also preserves peace with the rest of the family, who now see that no one is getting any preferential treatment.