



When is it okay to borrow money?

A loan needs to be paid back

Borrowing money with terms

Borrowing money with interest

HELPING KIDS LEARN HOW TO BORROW MONEY

The “can I have some money” question can become overwhelming, especially if boundaries are not set, communicated, and stuck to. If you’re like a lot of us at Sente, it probably feels like the ‘Bank of Mom & Dad’ is always open for business. But allowing kids to borrow money with set rules can create opportunities to turn your kids into better money managers.

If your kids are 10 or older, there are 3 principles they are ready to learn.

- 1. Loans need to be paid back** When you get the “can I have” question, rather than yes or no, ask “when can you pay it back?” Make clear the difference between a loan and a gift, and make sure you enforce the repayment.
- 2. When, How, and How Much to Borrow** It is important to make sure allowance expectations are clear. Developing a repayment schedule and strategy together empowers kids to learn about a process that will be increasingly present as they get older. If your kids ask for additional money, consider using this as an opportunity to teach them about borrowing. For example, if your child has spent their weekly allowance and they want an additional \$20 to go out with friends, plan with them to borrow and repay the money. For example, you could set up a plan for them to repay the loan over several weekly increments.
- 3. Borrowing Money with Interest** Once your child understands the concept of paying a loan back, try adding interest to the mix. Explain that when you borrow money from a bank or when you use a credit card, you not only have to pay back the amount that you owe, you also pay interest for the privilege of using someone else’s money. Using the example above, if they paid the money back in weekly installments, you could charge them \$1 interest in addition to each payment. Helping a child understand these basic money borrowing principles will help lay the foundation for a solid financial future.