How to talk to your children about loans and Good and Bad Debt!

Children gain their understanding of money from observing their parents. Do you talk to your children about money? This can be an uncomfortable conversation. However, it is extremely important.

Loans:

Do you give your kids an allowance for helping around the house? If so, provide your child with the opportunity to divi up the allowance into "savings", "spending", and "charity" money. When you go out shopping and your child sees something they want but cannot afford with the amount of cash allocated to spending. Give them the amount needed for the purchase and explain to them that this is not a gift. Explain to your child that they must pay it back and you could even include that they must pay back a little extra for interest. It is better your child learn about interest now before racking up a hefty credit card bill with a 25% interest rate.

Good Debt VS Bad Debt:

Simply explaining the loan process wouldn't be enough information. Give your children the knowledge of good VS bad debt. For example, tell them about your home. A mortgage is a huge loan that takes many years to payoff. However, explain to them that as you pay off the loan, the home can increase in value. Similarly, to a student loan, higher education is extremely important because it provides a passageway to higher earnings which will allow you to afford more later in life.

Enforcing this way of thinking in your children from an early age will prepare your children for success. As your children grow up explain more key financial concepts to them and as always, teach as you go. If you are shopping, explain your purchasing decisions.
Ashley is saving up for something big. Color the picture below to find out where she is keeping most of her allowance.