

Mum and Dad's payback: recovering loans to children

Olga Galacho 1st Jun 2017



Tough personal loan criteria, mounting university debt and soaring housing prices are helping the 'Bank of Mum and Dad' do a roaring trade.

RMIT research commissioned by financial software developer Credi has revealed that Australians lend more than \$1.65 billion a year in informal loans and about half of first-time homebuyers ask family for help with a deposit.

And while these loose arrangements may work well for some families, the often-undocumented nature of them risks tearing others apart.

A 2012 [Commonwealth Bank of Australia analysis](#) of lending by family members and friends found that in 49 per cent of such transactions, disagreements arose when it came time for money to be paid back. Factors not foreseen at the start often crop up later to ruin relationships in a way that money matters often do.

Parents' financial circumstances can change radically – one of them may lose a job or a divorce could take place. In such cases, Mum or Dad or both may find they have new pressing expenses. Then there is the likelihood that as parents age, they potentially grow too ill to look after themselves. They may need the money repaid in order to access expensive medical or nursing care.

When the time comes, if the borrower is not in a position to repay or refuses to for other reasons, tension will likely develop.

Fortunately, Credi can come to the rescue before relationships sour. Launched in April 2017, it has developed an online platform to help individuals seamlessly manage loans among each other and hopefully help a family stay united.

Adopting the slogan 'Powering the Bank of Mum and Dad', Credi has, in just over a month, documented \$3 million worth of loans with a further \$6 million pending.

The fintech's inexpensive product enables an individual 'to build, negotiate, share and manage personal loans on one platform'.

Credi chief executive Tim Dean said: "We want to save relationships from the strain of financial dealings by turning informal agreements into credible, manageable and formal ones. We believe that by looking after reminders, calendaring and contracting on behalf of the lender and borrower, we are removing the most fraught aspects of relationship loans."

The software's features include: legally binding, electronically signed contracts; automatic email and SMS messages alerting the borrower of upcoming payments and any request for payment changes; and a platform that can be used by both parties to track the loan.

"Often when adult children ask for money, they think their parents will forget the loan ... but they don't. Or they may try to argue it was a gift not a loan or come up with other flaky excuses to get out of paying it back," Mr Dean told YourLifeChoices. "Our program documents the loan in a non-threatening way and helps to remove the emotional angst both at the start and later when the borrower tries to rewrite stories."

<https://www.yourlifechoices.com.au/finance/seniors-finance/mum-and-dads-payback>