WHEN ADULT KIDS ARE BROKE ...

FATHER KNOWS BEST

By Heidi Stevens
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To Ken Kaye's mind, the relationship between parent and adult child should be one of harmony, respect and, at long last, fun.

"With young children," Kaye says, "it's a hell of a lot of work and not as much worry—you know where your child is all the time. As they get older, it becomes less work, but the real worry starts—they're out in a car, you don't know where they are. That's why the end of adolescence—the 20-somethings—is really the best period. It can be this fabulous relationship of not much work and not much worry."

Unless, of course, money trouble rears its ugly head.

College seniors graduate with an average of $4,100 in credit card debt, according to a new study by Sallie Mae, the popular name for college loan provider SLM Corp. Meanwhile, unemployment for people ages 20 to 24 is at 14 percent, the highest in 25 years. Student loan debt also is at a record high, averaging $22,000 for undergraduates and $42,000 for grad students. The default rate is the highest in a decade.

Not exactly the stuff of harmony.

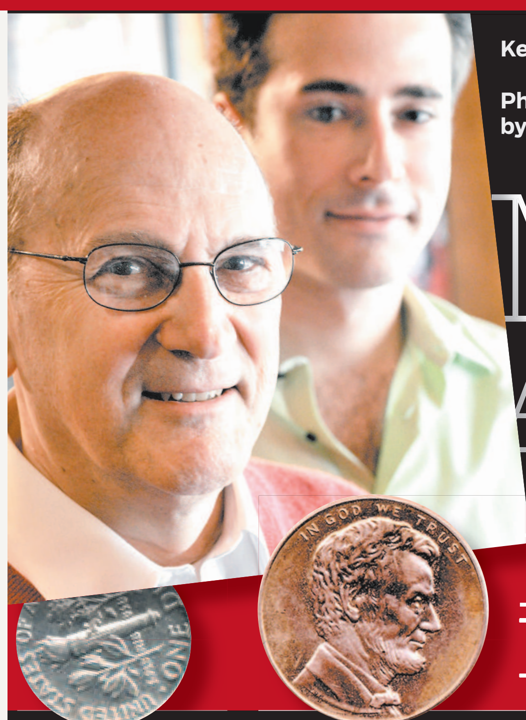
Kaye, 63, a Harvard-educated family psychologist and father of four, knows what those statistics do to families. His second-oldest, Nick, has struggled for years with rising debt, reckless spending and run-ins with scam artists.

"You take it very personally," Kaye says of his son's struggle. "Responsibility was at the top of my list of priorities in raising them. The relationship reverts back to, 'I'm the parent, you're the child. I'm smart, you're dumb.' It spoils what should be a really joyous time."

In helping his son regain his footing, though, Kaye discovered that the process can bring families closer.

The Kayes turned their experience into a book, "Trust Me: Helping Our Young Adults Financially" (iUniverse Inc., $20.95), to teach other families how to tackle money issues and keep their relationships intact.

"Writing the book was quite cathartic for my relationship with my father," says Nick Kaye, 26, who lives in New York. "If me sharing openly whatever pain I caused and all the mistakes and idiotic things I did over the years, if that helps someone, then I'm really, really happy."



Ken Kaye, left, and his son Nick.

Photo for Tribune Newspapers by Josh Reynolds

MAKE A DEAL

LET THEM MOVE HOME

DON'T BE A DUMB BORROWER

DON'T BUDGET

MEET TWICE A MONTH

5 ways to help kids in debt

Unless an addiction (drugs, gambling, etc.) is at the root of the troubles, parents should bail their kids out. "Rising debt doesn't teach a lesson," author of "Trust Me" Ken Kaye says. "It doesn't recede like floodwaters from the basement. It just rises and rises until it carries away your house." Strings should be firmly attached, however.

1 MAKE A DEAL

Establish a clear, enforceable, written deal. To come up with a deal, discuss:

- Your concerns: Insufficient earnings? Overspending? Neglecting to pay bills?
- Your role as mentor: They only get the monetary help if they accept your mentoring.
- Your boundaries: You pledge to stay out of other parts of their life, provided they are honoring the deal.
- The conditions: What you're offering, what you expect in return, length of the deal.

If your son has racked up $6,000 in credit card debt, the book suggests this deal:

Parents will: Pay off card. Give son two years before he has to begin paying them. Charge 2 percent interest. Mentor son.

Son will: Only use a debit card. Stop borrowing. Accept mentoring. Complete online banking and credit tutorials.

Completed when: Son has positive cash flow and no bank penalties for a year.

2 LET THEM MOVE HOME

There's nothing wrong with adult kids moving back in with the folks, the elder Kaye maintains.

"It's only a problem if there's no clarity: You move into my house and treat it as a dorm room where you have parties and keep me up, or you're earning some money finally but not paying down your credit card debt. There has to be a quid pro quo."

Establish—in writing—what services you'll provide and what you won't (utilities, Internet, cable, food, laundry, cleaning, use of vehicle, etc.). Then establish what contributions you expect in return.

"If not in money, then in work," Kaye writes. "Not to do so would be treating your would-be adult like a little child or an invalid."

3 DON'T BE A DUMB BORROWER

Borrowing is wise only if you're certain you can make the scheduled payments and if the money will be used to:

- increase your future earning power.
- provide for genuine needs (e.g., housing) that can be met only if financed this way.
- acquire assets that will appreciate in value.

Borrowing is dumb if it meets none of those criteria. Teach (and learn) this lesson, and you're inoculating yourselves against the "buy now, pay later" epidemic that has plummeted so much of the nation—young and old—into crippling debt.

4 DON'T BUDGET

"Every logical thing says a budget should work," says Nick Kaye, "but nobody with my problems is capable of logging every transaction on a cell phone or whatever."

Chapter 7, "Banking 101: Budgets Don't Work," goes into detail on paying bills, monitoring cash flow and understanding earning/spending ratios. Which some people would call budgeting. But the Kayes urge readers to establish their own systems, based on the knowledge they glean from tracking their income and expenses over time.

For Nick, that means approaching his finances daily. After bills and monthly needs, he could afford to spend $35 a day any way he chooses, so that's how much cash he carries. When the cash runs out, he stops spending. If he has cash in his pocket at the end of the day, he can roll it over to the following day.

5 MEET BIMONTHLY

Set up a time, twice a month, to talk with your child in person or over the phone. With bank statements at the ready, check the month's cash flow, discuss its trend over recent months and pay the upcoming bills. Discuss outstanding debts and how those are being reduced.

Eventually, your child will be able to tackle these tasks without you, but not until the conditions of your original deal are met.

In the meantime, the book says, you're "teaching them to fish rather than merely handing them a wad of fish."

—Heidi Stevens