בס"ד

The Path to Financial Stability

Mesila's Financial Literacy Course

Table of Contents

Unit 5:

Spending and Credit

Goals:

1) To examine the various methods of payment and learn how to use each one optimally
2) To examine the positive and negative aspects of consumerism
3) To understand the importance of credit and how to build a good credit history
4) To illustrate the advantages and pitfalls of credit cards

1 Payment methods – pros and cons

See Handout #1 – ***Payment Methods chart***

2 Consumerism

A. Consumerism: Great for the economy

   a. Consumerism – definition: The theory that increasing consumption is economically beneficial

   b. Increased consumption and spending leads to higher standard of living, improved quality of life and greater national wealth.

   c. In other words: Shopping, buying, owning, acquiring are great for the economy, and therefore have been actively encouraged in the past century.

   d. A healthy economy is dependent upon the movement of currency. When you buy groceries, the grocery owner can pay his tuition, and then the teachers and principals can buy food in the grocery. It's a cycle – money moves from hand to hand, benefiting everyone. When money doesn't move, and people don't spend, that results in a recession or depression.

e. This concept is supported in Torah sources as well:

Source:
Berachos 3b

ולמה נקרא שמם זוזין? שזזים מזה ונותנין לזה

Why is [money] called "zuzin"? Because it moves ["zaz"] from one and is given to another (Bamidbar Rabbah 22:7).

f. Because spending has the power to create prosperity, people are encouraged to support local stores and businesses. This, too, is a Torah value:

Source:
Berachos 3b

נכנסו חכמי ישראל אצלו, אמרו לו: אדונינו המלך, עמך ישראל צריכין פרנסה.
אמר להם: לכו והתפרנסו זה מזה.

The Sages of Israel came to [Dovid Hamelech] and said to him, "Our master, the king, your nation Israel needs sustenance!" He said to them, "Go and earn a living from one another."

g. Better than giving charity is giving people money in a dignified way, by employing them or patronizing their businesses.

B) **Consumerism: Great for the economy, but what about for me?**

a. Spending stimulates the economy, but at what cost to the individual?

b. The spending cycle – economically:

1. People are encouraged to spend money to stimulate the economy
2. People spend money, rather than conserve it
3. People start to need more because they have accustomed themselves to more
    i. People run out of money and don't have savings to dip into
    ii. People can't afford the things the things they are accustomed to
    iii. People borrow money in order to pay for what they need and want
4. People fall into debt, which causes financial stress

5. Inability to maintain the standard of living that one has become accustomed to results in stress and reduced quality of life

c. The impact of consumerism on people's values

1. People spend money, encouraged by advertising

2. The more they have the more they need; consumerism is based on creating needs where none existed before

Example: *"The Lorax" by Dr. Seuss* – See Handout #2

3. People become busier with spending

4. Advertising trains people to fill voids with spending

i. People busy themselves with things instead of ideas

ii. Relationships become shallow

iii. Aspirations become materialistic and technical rather than value-based

iv. People identify themselves with what they have and how they look rather than with their actions and character

v. People fill voids in their life by acquisitions and shopping rather than introspection and growth

vi. People are left feeling empty – and then they go spend more

C) The Torah view of consumerism: Acquisition is not a value, but rather a tool toward reaching higher goals. Shopping and acquiring possessions is NOT a positive, constructive activity in and of itself, but rather a necessary one.

D) Discussion: Shopping as retail therapy?

a. People often go shopping as a form of leisure or to fill an emotional void. Is shopping a valid form of therapy or recreation? In what ways can this become a detrimental habit?

b. ***Am I a Shopaholic?*** – See Handout #3

E) Supplementary material: Downsize to Upgrade – The Art of Living with Less (See article in Mesila Student Guide to Budgeting)

3 Understanding credit

A) **Credit** – definition: The ability to pay later for goods or services

B) **Credit history** – definition: The record of one's past borrowing and repayment patterns, including information about late payments and bankruptcy

C) **Why does credit history matter?** Because when you apply for any sort of loan, mortgage, credit card, or financing, the lender will check your credit history to see whether you repaid previous commitments and whether you repaid them in a timely manner. If you have a bad credit history, or even if you don't have any credit history, you will have a very hard time convincing a bank or any company to lend you money or issue you a credit card.

D) **Credit rating** – definition: A score assigned to a person or business based on their credit history by which lenders can assess their likelihood to repay.

E) **How do you establish a good credit history and credit rating?**
A few tips:

a. By obtaining and using credit

1. It's important to apply for a credit card and use it in order to start your credit history. 15% of your credit rating is determined by how long you've been borrowing.
2. As you develop a good credit history, you can slowly apply for an increasingly higher credit limit so that you become a more "credit-worthy" consumer.
3. Although you need to use some of the credit extended to you in order to establish credit history, you should not use a high percentage of your credit limit, because that makes you a credit risk.
4. Too many inquiries into your credit history will damage your credit rating

Note: The purpose of using credit is not to borrow money to pay for purchases you can't afford; it's to establish yourself as a worthy borrower so that you can obtain credit in the future for big-ticket items such as mortgage or auto financing.

b. By making sure to pay your bills on time, whether it's your bill at the dentist or electric bill

c. By paying your credit card statement in full every month, on time, and never missing a minimum payment

4 Credit cards: Pros and cons

A) **Advantages**

a. Convenient and available
b. Insurance against theft
c. Easy to cancel in the event of loss
d. Payment can be made by telephone or online
e. Can be used anywhere in the world
f. Can be used by all members of the family

g. Easy to track
h. Credit limits make it impossible to spend more than a certain amount.
i. Payment can be made in installments.
j. Earn air miles and rewards

B) **Pitfalls**

a. Credit cards deceive people into thinking that they have money when they really do not.
b. People spend more because it is convenient and because they do not feel the pain of parting with their money.
c. Multiple credit cards can lead to chaos.
d. Missing a minimum payment can lead interest rates to skyrocket.
e. Carrying a balance from month to month (which over 60% of users do)
f. Sky-high interest rates: The difference between a low interest rate and a high interest rate can be enormous:

Someone with an $8,000 credit card balance who makes minimum monthly payments of 2.5% of the balance:

Amount of Loan	What's the interest rate?	How long will it take to pay off?	How much interest will be paid in total?
$8,000	18%	30 years	$11,615.32
$8,000	12%	20 years, 1 month	$5,180.13
$8,000	9%	18 years, 2 months	$3,334.52
$8,000	5.9%	16 years, 1 month	$1,907.18

C) ***Climbing the Mountain of Credit Card Debt*** – See Handout #4

D) Supplementary material:

PowerPoint presentation –
The ABCs of Credit Card Finance

Note: *Unit 5 is intended to be supplemented by material from chapters 6-8 in the textbook, Personal Finance (see note on page 4).*

Payment Methods

CASH

PROS

- People know whether they have money to spend.
- The money is tangible, not an abstract number on a bank or credit card statement. This creates greater psychological resistance to parting with it, and leads people to think more about spending it.
- From the standpoint of financial responsibility and restraint, many of the disadvantages of cash are actually advantages.

CONS

- People often don't have cash readily available, and obtaining cash can be a hassle.
- Obtaining cash may involve bank fees.
- There is no recourse in the event of loss or theft.
- Once payment is made, the money cannot be retrieved. (Unlike a check or credit card payment that can be stopped.)
- Payment has to be made in person; it cannot be made by telephone, by mail or online.
- Cash transactions are difficult to track or keep records of.
- Possibility of counterfeit bills.

CHECK

PROS

- Payment can be made by mail.
- Can be used when there is no cash available.
- Can be post-dated to delay payment.
- Can be stopped in the event of loss, theft, or a payment dispute.
- Convenient as a deposit on a purchase or as a form of guarantee.
- Payment can be made in advance, on any date in the future.

CONS

- Check payments are difficult to track because it is uncertain when the checks will be deposited.
- When more than one person is writing checks on an account, it can lead to chaos.
- Bounced checks, or checks that have mistakes or other technical problems can lead to inconvenience, embarrassment and hefty charges.
- Possibility of fraud.
- Ease of delaying payment may cause people to go into debt.

CREDIT CARD

PROS

- Convenient and available.
- Insurance against theft.
- Easy to cancel in the event of loss.
- Payment can be made by telephone or online.
- Can be used anywhere in the world.
- Can be used by all members of the family.
- Easy to track.
- Credit limits make it impossible to spend more than a certain amount.
- Payment can be made in installments.
- Earn air miles and rewards.

CONS

- People spend more (30% more, studies show) because it is convenient and because they do not feel the pain of parting with their money.
- Multiple credit cards can lead to chaos.
- Paying in installments can lead to exceeding budgetary limits.
- Credit option can be halachically problematic.
- Credit cards deceive people into thinking that they have money when they really do not.
- Incurs high interest if paid late.

Dr. Seuss on Consumerism

Consumerism is based on creating needs where none existed before.
In The Lorax, by Dr. Seuss, a fellow opens a factory for a new type of garment called a "Thneed," and a creature named the Lorax ridicules him for creating this useless item. To which the fellow responds:

"A Thneed's a fine something that all people need!
It's a shirt. It's a sock. It's a glove. It's a hat.
But it has other uses. Yes, far beyond that.
You can use it for carpets. For pillows! For sheets!
Or curtains! Or covers for bicycle seats!"

The Lorax said, "Sir! You are crazy with greed.
There is no one on earth
who would buy that fool Thneed!"
But the very next minute I proved he was wrong.
For, just at that minute, a chap came along,
and he thought that the Thneed I had knitted was great.
He happily bought it for three ninety-eight.

I laughed at the Lorax, "You poor stupid guy!
You never can tell what some people will buy."

AM I A SHOPAHOLIC?

Q. Shopping has been my favorite pastime ever since I've been a teenager. I love to buy things – groceries, clothing, household items, you name it. I often find myself heading out to a store in the evenings when I have nothing else to do. I've noticed a pattern in which I'll go into a store on the spur of the moment and buy a few things, only to go back to that store a few days later to return some items, at which point I'll inevitably find something else to purchase. My family members and friends comment about my spending habits, calling me a "shopaholic" and telling me that I spend too much. How do I know if I really have a spending problem? And if I do have a spending problem, how can I overcome it?

A. Not knowing the details of your lifestyle and spending habits, we cannot tell you whether you have a spending problem. But we can tell you that your willingness to confront the issue is a very good first step in overcoming your spending problem, if indeed you have one.

When does spending become a problem? Any type of behavior or characteristic taken to an extreme is problematic, and spending is no different. The Rambam teaches us that the middle road is the golden path, and the ability to strike a balance between the two extremes in every middah is the hallmark of healthy behavior.

Spending problems come in two varieties – stinginess and extravagance, representing the two polar extremes of the spending spectrum. Our goal is to find a middle road that allows us to spend enough to meet our needs and obligations, but not so much that we squander money needlessly.

The terms "stinginess" and "extravagance" are quite subjective, because the size of a person's budget is a major factor in determining whether the person spends too much or too little. But how much money a person has is by no means the only factor in determining whether he or she has a spending problem. Spending problems are as a much a behavioral issue as a financial issue. There are poor people who are miserly, and there are rich people who are miserly. There are poor people who overspend, and there are rich people who overspend.

The sign of a stinginess problem is when a person has difficulty spending money on items that he and his family clearly require – not because he doesn't have the money, but because he cannot bring himself to spend it. This creates an atmosphere of deprivation and penny-pinching in the home,

The sign of a stinginess problem is when a person has difficulty spending money on items that he and his family clearly require – not because he doesn't have the money, but because he cannot bring himself to spend it.

which is often accompanied by a fixation with money and prices.

When does overspending become a problem? For every person, the line between healthy spending and overspending will be drawn in a different place, but we can identify four general parameters that can help you to determine whether you are overspending.

1. **You spend more than you can afford.** There are three ways to assess whether you are spending more than you can afford. One, if you consistently spend more than you earn, and you either accumulate debt or eat away at your savings as a result. Two, if your income is reasonable but you are nevertheless unable to put aside any money for the future. And three, if you spend money on luxury or non-essential items and you are then unable to pay for basic or essential items.

2. **You spend money to fill an emotional void.** While shopping can be a pleasurable experience and can provide some measure of stress relief, it should not be used consistently as an outlet for negative feelings such as sadness, inadequacy, boredom, guilt, fear, anger, or nervousness. Spending money is not a healthy response to negative feelings, because the act of swiping a credit card and walking away with a shopping bag does nothing to dispel the source of those feelings. Any feeling of emotional relief that shopping provides is therefore short-lived and superficial.

3. **You buy things that you do not need and never use.** If your closet is full of items that still have price tags, if you often wonder what possessed you to buy a particular item that you have no use for, or if you frequently make excuses for – or worse, lie about – your purchases and how much they cost, then it is likely that your spending is problematic.

4. **Your spending is adversely affecting other areas of your life.** Even if you and your family are not suffering financially because of your spending habits, your spending might be harmful to you or to your loved ones in other ways. Do you have frequent arguments with your family members about your spending habits? Are your children being neglected because you are out shopping too much? Has your marriage been reduced to a collection of shared things, instead of shared goals and shared communication? Does your life revolve around material acquisition, to the point that you are desensitized to the pleasures of spirituality and meaningful relationships?

Severe Overspending

In extreme cases, people can actually develop an addiction to shopping – known scientifically as oniomania, or colloquially as "shopaholism" – if they get used to spending money in order to squelch negative feelings. These people might buy ten items when they really need only one, or they might pay outrageous amounts of money for things they have little or no use for.

Shopping addicts experience a rush of endorphins when they spend money, which gives them a brief but exhilarating escape from life's painful realities. As soon as that feeling of euphoria subsides, they begin to crave the pleasurable sensation they associate with shopping, and they feel an uncontrollable urge to spend money again. Between spending episodes, shopping addicts are typically plagued by anxiety, shame, and guilt, and think about money excessively. This cycle is typical of addictive behavior, and professional intervention is usually required in order to break the cycle.

Overcoming the Problem

If your spending has reached out-of-control proportions, to the point where it can be classified as compulsive or addictive,

> ***Spending money is not a healthy response to negative feelings, because the act of swiping a credit card and walking away with a shopping bag does nothing to dispel the source of those feelings.***

then you will need to seek professional help. But if you still have some measure of control over your spending, we will offer several suggestions for reining it in to a point where it is no longer problematic.

› Don't carry your wallet with you when you don't need it. If you don't have money or a credit card with you, then you will have to come back later if you want to buy an item that you see. This is a good way to test whether you really need or want the item, and can help to reduce impulse purchases.

› Get rid of your credit cards. When used properly, credit cards can be a very convenient and useful tool. But if you have a tendency to overspend, you should avoid credit cards completely. Credit cards make it dangerously easy to spend money, since they eliminate the pain you experience when you have to part with your money. The pain of parting with money is actually a healthy pain, because it ensures that you item you are spending money on justifies the pain involved.

› Shop when you are not sad, stressed, excited, or in a rush. People tend to spend more, and buy things they don't need, when they are feeling down, or when they are under pressure. People who are very happy, excited, or on an emotional high also tend to spend more. And the less time people have, the more money they tend to spend.

› Avoid temptation. Stay away from the stores you tend to spend money in. If you have a particular friend who spends a lot, don't go shopping with her.

› Develop constructive emotional outlets. There are many constructive ways to relieve negative feelings, but spending money is not one of them. If you are feeling down, talk to a friend, pick up a Tehillim, or go for a walk, instead of heading instinctively for the mall. Keep in mind that "retail therapy" is therapeutic for retailers, not for customers.

› Find alternative recreational activities. You don't have to buy anything in order to have a good time. Instead of associating shopping with leisure and relaxation, condition yourself to see shopping primarily as a functional and task-oriented activity, and plan leisure activities that do not involve any purchases.

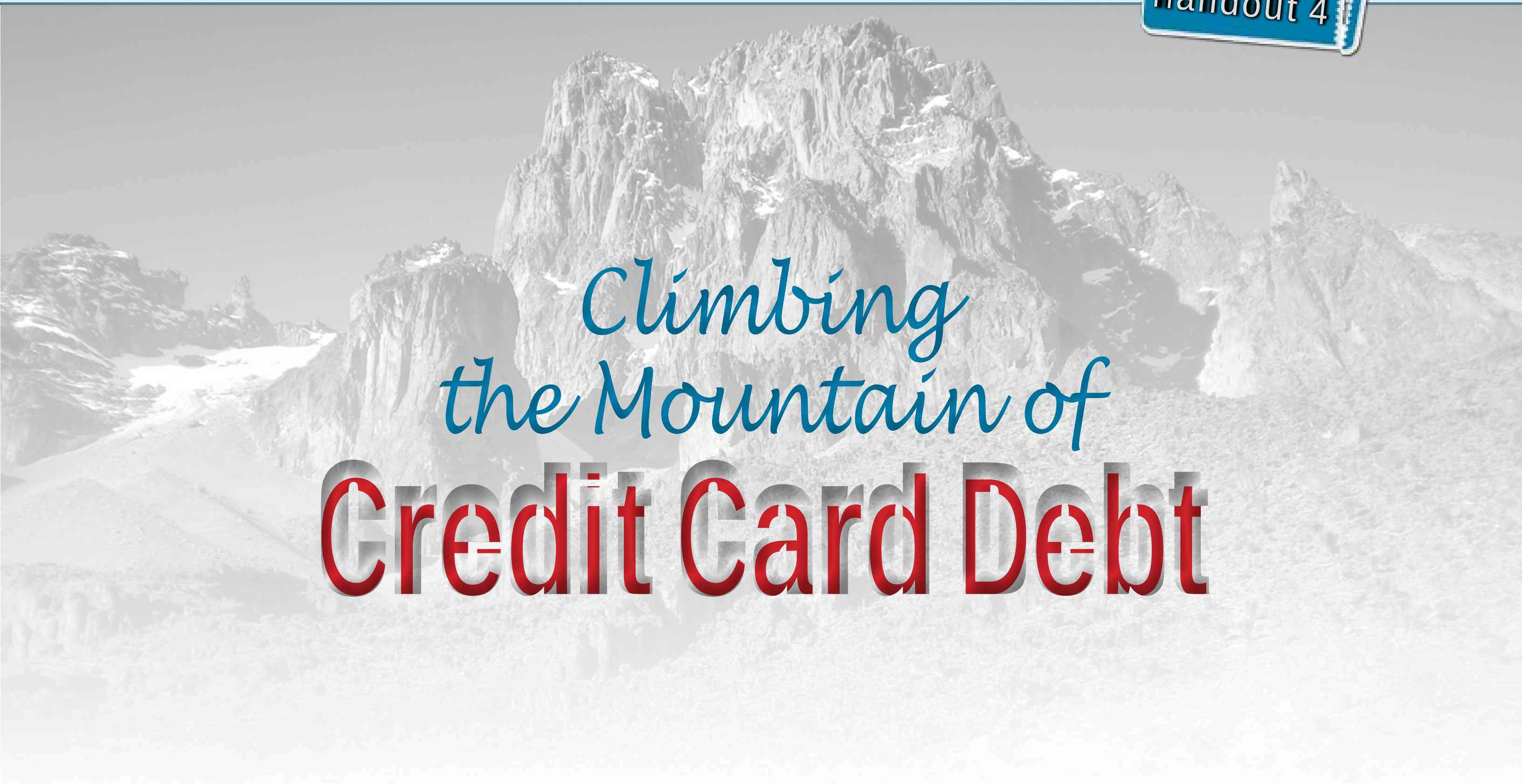
› Learn to express love and gratitude in non-tangible ways. People who enjoy buying things often ascribe disproportionate value or importance to tangible objects and resort to gift-giving in order to express love and gratitude. But emotions like these are best expressed in words, whether spoken or written. Tangible gifts should be reserved for special occasions; otherwise, they lose their value in the eye of the recipient. Even when you do decide to buy a gift, remember that a gift is only as meaningful as the sentiment underlying it, and the amount of money you spend on a gift does not determine its value.

› Build a budget that includes an allowance for discretionary spending. If you tend to overspend, then it is doubly important for you to have a clearly defined budget that governs the amount you spend on variable expenditures such as food, clothing, gifts, and household items. But in order for you to succeed in sticking to your budget, it is also important that you give yourself some breathing room and allocate some money towards non-essential or impulse purchases. This way, you will not feel stifled by your budget and you will not be tempted to abandon it any time you succumb to the temptation to buy something that is not absolutely necessary. To make sure that you remain accountable to your budget, you should build it together with your spouse or a close friend or relative, and review it together with that person on a regular basis.

We welcome readers' suggestions for other ways to kick the overspending habit, and we wish you much hatzlachah.

Learn to express love and gratitude in non-tangible ways.

Reprinted from *Your Money and Your Life: Mesila's Down-to-Earth, Torah-Based Strategies for Managing Your Finances*, by M. Heimowitz



Climbing the Mountain of Credit Card Debt

QUESTION: *I know that Mesila is against using credit cards, but I have found that it is difficult for me to keep the right amounts of cash on hand, and I often resort to using my credit card. As a result, I've built up a bit of a balance on my credit card – or cards, I should say – and I'm wondering if you have any advice how I can pay it off.*

A. Mesila is not, in principle, opposed to credit cards, nor do we consider cash the preferred payment method in all situations. One of Mesila's guiding principles is to promote financial management principles and attitudes that are universally relevant, while avoiding specific tips and suggestions. So rather than issuing a blanket statement regarding whether you should be using credit cards or not, we will share several general guidelines that should help you decide for yourself.

Credit cards can be a very useful and convenient tool, when used correctly. The trouble is that many people misuse their credit cards by charging more than they can afford each month. Credit card companies actually *rely* on people misusing their cards; in fact, interest charged on outstanding balances represents the primary way in which credit card companies generate revenue. In 2007, people in the U.S. who carried a monthly balance paid $18.1 billion in penalty fees. With annual earnings of about $30 billion, the credit card industry is the most profitable one in the United States.

There are many advantages to using credit cards. You never run of out money. You are generally insured against theft, and you can easily cancel the card if you lose it. In contrast, cash that is lost or stolen is usually gone forever. You can use your credit card to pay for purchases by telephone or online, rather than mailing a check or paying by cash in person. Most credit cards can be used anywhere in the world, regardless of the local currency, and you can order cards for all of your family members. Depending on the card issuer's policy, purchases made using the card may be protected against theft, loss, or accidental damage that occurs within a certain period of time.

Credit card statements make it relatively straightforward to track your purchases on a monthly basis and keep a record of how your money is being spent. Cash, on the other hand, has no paper trail, and it is difficult to remember exactly where the money in your wallet went.

We will point out that all of these advantages are available through bank or debit cards as well, although purchase protection may not be offered on certain debit cards. The big difference, however, is that these cards draw on money that is already in your bank account, rather than creating a de facto debt that has to be paid at the end of the billing cycle. The only feature that credit cards offer that debit cards do not usually have is the possibility of earning rewards, in the form of airline miles, cash-back offers, or other perks.

So much for the advantages of using credit cards. Now let's talk about the drawbacks. Drawback number one is that they make it deceptively easy to spend money, whether you have the money or you don't. The act of swiping a credit card is not nearly as painful as taking actual money out of your wallet, and the psychological deterrent to parting with your money is therefore lessened considerably when paying with a credit card. Studies show that people spend about 30% more when paying by credit card than when paying with cash, and we think it is fair to assume that the extra 30% is money that could have been put to better use.

The other major drawback of credit cards is that they are a form of loan. When you take a loan, you borrow money and commit to repaying it at a later date. When you use a credit card, you also borrow money – but without realizing it. Mesila's philosophy is that a loan in which you realize that you are borrowing money is preferable to a loan in which you do not realize that you are borrowing money, simply because you are less likely to borrow, and more likely to repay, when the decision to take the loan was a conscious one.

Credit card debt is one of the worst forms of debt, for two reasons. One, it usually carries very high interest rates. Two, there is no repayment deadline for the debt. As long as you keep making minimum payments, credit card companies are quite happy to keep tacking interest onto your balance and let your debt swell to ever-greater proportions. Unpleasant as it may be to have creditors breathing down your back, it is a far healthier situation when a debt is collected at the end of its term than when a debt is allowed to balloon endlessly.

Not only do credit cards charge high interest rates, but there is very little limit as to how much they can raise your rate. Credit card companies are legally allowed to monitor your credit report, and should you make a late payment on a loan, a different credit card, or a utility bill, your interest rates can be increased dramatically, even if you have never missed a payment on that particular card. There are a number of other reasons you may see your rates spike. These include bouncing a check, exceeding your credit limit, having too much debt or credit, getting a new credit card, and applying for an auto loan or mortgage.

Because credit card debt is so dangerous, our advice is that the only people who should use credit cards are those who (a) can rein in their spending despite the painless convenience of plastic and (b) pay their balance in full every month consistently. People who swipe their cards without giving it the same thought that they would when spending cash should rather spend cash, unless they are paying for something that they cannot possibly be spending more for by using a credit card (dental work, for instance, or a utility bill). And people who carry over a balance on their credit cards, even occasionally, should probably avoid using credit cards completely.

Mesila is not, in principle, opposed to credit cards. The trouble is that many people misuse their credit cards.

If you are able to use a credit card correctly, there are a few things we recommend:

› *Choose the right card.*

Make sure that your card provides a grace period of at least 20 days from the date of purchase until payment is due. Without a grace period, you'll be charged interest before you even get your bill. There are cards that offer airline miles, cash back on purchases, and points for rewards programs, and if you are using a credit card, you might as well get something in return. However, if there is an annual fee associated with your rewards card, make sure the benefits outweigh the cost.

› *Don't have too many cards.*

Keeping track of even one credit card can be quite a challenge. When keeping track of two or more cards, mistakes (such as missed payments or forgetting to cancel the card before annual fees kick in) are more likely to go by unnoticed. Unless you have a very good reason for keeping a second or third credit card, get rid of it.

But what if you have already fallen into credit card debt? Here are some suggestions for climbing out of the morass.

› *Ask for clemency.*

If you missed only one payment, you can call your credit card company and ask them to waive interest and late fees. Credit card companies will waive these fees on occasion, if you generally pay on time.

› *Stop using your credit cards.*

If you're already behind on your monthly payments, don't aggravate the situation by accumulating more credit card debt. Although this may seem obvious, it is actually the opposite of how people generally work. The tendency is that once people owe money, they lose a major psychological deterrent towards borrowing, and they let their debt slowly inflate. ("What's the difference if I owe $600 or $900?" "If I already owe $60,000, another $5,000 won't make any difference.") Cut your losses *now*, and don't allow yourself to charge even one additional item.

› *Take out a loan to pay off your credit card debt.*

Almost any type of loan is preferable to credit card debt because interest rates are generally much lower and there is a specific repayment timeframe. With a loan, you can work out repayment terms that reflect your ability to repay, which helps you discipline yourself to put aside a fixed sum every month for debt repayment. With credit card debt, there is no such discipline, since there is no obligation to repay anything more than the minimum payment.

› *Do a balance transfer to another card.*

While you will pay a fee, transferring your outstanding balance to a card with a lower interest rate will decrease the amount you carry from month to month. By doing a balance transfer instead of allowing interest fees to build up, you give yourself some breathing room to pay off your debt. But beware – this is a very stopgap measure. You can't keep doing balance transfers for very long since there are only so many transfers credit card companies will allow you to do, and besides, multiple balance transfers will cause your finances to become chaotic.

› *Find a card with a low interest rate.*

Some credit cards offer relatively low interest rates. Shopping around for a better rate than the

Studies show that people spend about 30% more when paying by credit card than when paying with cash.

one you currently have can save you hundreds or even thousands of dollars a month (that is, if your credit rating is good enough for you to be eligible for these offers). Look out, however, for introductory offers that end after several months or exclusions that limit the low rate to new purchases only.

› *Negotiate a better interest rate.*

You might have to spend a long time on the phone with your credit card company, but it's worth it to get your interest rate reduced by even a few points. If possible, ask your company to match another company's offer. If your company is unwilling to cooperate, you can mention that you may be forced to declare personal bankruptcy, if that is really an option. This gets the companies scared, because they are the ones who stand to lose from a bankruptcy.

› *Never, ever miss a minimum payment.*

Missing minimum payments is a big no-no, and can severely damage your credit rating. Having a good credit rating is important, because many types of creditors besides credit card companies – including utilities, hospitals, landlords, insurance companies, and banks – can report delinquent payments to credit bureaus, as well as access your credit history. Since credit card companies are among those monitoring and contributing to customers' credit reports, a late or missed payment on one charge account could cause your rates and fees to increase on a completely separate account – even your car insurance premiums.

Pay off credit card balances from smallest to largest.

The smallest debts are the easiest to pay off, and clearing them out of the way helps you make the fastest progress towards getting your finances in order. The fewer debts you have to pay back, the easier it will be to see the light at the end of the tunnel, and the more motivated you will be to tackle the larger, scarier debts.

› *Make micro-payments.*

In addition to the minimum payments, send in whatever small amounts you can to gradually pay off your balance.

› *Get professional debt counseling assistance.*

Climbing a mountain of credit card debt can be a very tough task to tackle alone. If there is a Mesila branch in your community, we encourage you to apply for our family counseling program. If there is no Mesila branch in your community, seek the guidance of a qualified debt counselor.

Reprinted from *Your Money and Your Life: Mesila's Down-to-Earth, Torah-Based Strategies for Managing Your Finances*, by M. Heimowitz

Assignment #1: Priorities and Spending Attitudes

Objective:

To examine the differing needs and wants among people from different generations, societies, or backgrounds.

Instructions:

1. Choose two interviewees who come from different backgrounds. (Note: The more different your interviewees, the easier this assignment will be for you.)
2. Develop interview questions (8-10) pertaining to spending attitudes and habits, as well as their decision-making process in their purchases. You may use some or all of the sample questions below, but you must also develop some of your own.
   a. What do you consider a need that others might consider a want? What luxuries can you live without that others might consider a necessity?
   b. How did the society you grew up in shape your personal needs and wants?
   c. What did you lack growing up that you wish until this day that you had had? What did you lack growing up that you feel made you into a better person?
   d. Was there ever a time that you lacked something that you absolutely needed? How did you manage?
   e. What's the biggest mistake you think people make when it comes to spending money?
   f. Can you think of a time that you decided not to buy something even though you had the money for it and it was something you could have used?
   g. What do you think is the best advice a parent can give their child about spending?

3. Write an essay (2-3 pages) on one of the following topics.
   a. Topic #1: Compare and contrast the answers of your two interviewees. How did their differing backgrounds impact their spending and decision-making habits?
   b. Topic #2: "Our luxuries become our children's necessities." Explain this statement, and state whether you agree or disagree with it, using examples from your two interviewees.

Assignment #2: Creating a Business Plan

Objective:

To learn how to develop a rudimentary business plan.

Planning is an essential step in earning and enhancing your income. In this assignment, you will develop a plan for starting a new business.

Directions:

Develop an idea for a new business in your community that you think would be profitable. Then, write a plan for taking your business idea from concept to reality, using the questions in the following sections as a guide. Each section should be clearly labeled with the appropriate section name and written in paragraph format (1-3 paragraphs per section).

Note: Not every question will be relevant to every type of business. You may choose to address a minimum of 5 out of the following 10 sections.

1. **Products & Services:** List all of your major products or services. What benefits will they bring your customers? What needs are you filling?
2. **Customers:** Who are your potential customers? For each customer group, construct what is called a demographic profile, including characteristics such as: age, gender, location, income level, education, and industry-specific factors.
3. **Competition:** Who are your direct competitors? What are their strengths and weaknesses (prices, location, service etc.) compared to you (go & visit them!)?
4. **Differentiation:** What is special or unique about what you are offering? What is your niche, your unique corner of the market? What differentiates you from your competitors? Why should customers buy your products or services rather than those of your competitors?
5. **Distribution:** How do you plan to distribute your products or services? Will you sell directly to the customers or sell through agents or retailers (stores) etc.?
6. **Marketing & Promotion:** How will your customers know about you? Which media will you use for advertising, and why specifically those? What image do you want to project? How do you want customers to see you? What's your busy season? Your dry season? How will you weather the dry seasons? What marketing strategies can you employ to drum up business during the dry spells?

7. **Location:** What is the ideal location for your business? Take into account financial realities (prime real estate is expensive) as well as your need for visibility to your customers. (A pizza shop or clothing has to be located on a main street to attract walk-in traffic; a travel agency or shipping company does not.)

8. **Management:** Which skills and personality traits do you possess that make you qualified to start and manage this business? Which aspects of this business will you find challenging, considering your unique personality and skill set? What education or training will you need to get your business started?

9. **Personnel:** What type of employees will you need and for which functions? Which responsibilities will you handle yourself and which responsibilities will you delegate to employees? (e.g., sales, bookkeeping, maintenance, secretarial duties, etc.)?

10. **Halachic & Ethical Issues:** What halachic or ethical issues do you anticipate arising in the planning or running of your business? How will you deal with these issues?

11.* **Financial:** (Note: This section is more technical and complex than the others and should be used or omitted at the teacher's discretion. Before assigning this section, all terms should be explained and the relevant calculations demonstrated.)

   a. Investment budget: How much money will you need to start up your business? This figure should include all your startup costs (such as licenses, equipment, inventory, etc.) plus operating costs for your first three months. How will you finance these initial costs?
   b. Profit & loss budget: How much of your product or service will you have to sell each month in order to cover costs? (This is known as your "break-even point.") In order to calculate this, answer the following questions:

      How much will the product cost you to produce or purchase? How much will you be selling it for? What is your profit margin (selling price minus cost to produce or purchase)? What fixed costs (known as overhead) will you have (electricity, rent, etc.)?
   c. Cash flow budget: How much money do you foresee coming in (revenues) and how much money do foresee going out (payments) during the first three months of your business?

This assignment was prepared in conjunction with the Mesila Business Division.

Assignment #3:
Summer Camp Budget

Objective:

To research the costs associated with summer camp and develop a comprehensive yet reasonable summer budget for a camper.

Directions:

Going to summer camp can entail many expenses, both before and during the camp season.

1. Camp fees: How much does the camp charge for one month?
2. Shopping for camp: What items will the camper need to buy before camp starts? How many of each item? Be as specific as possible (for example, write "sleeping bag, mosquito repellant, flashlight," rather than "camping gear"). How much will each of these items cost?
3. Camp expenses: Which expenses will there be while the camper is at camp? How much will each of these expenses be?
4. What is the total amount the camper will require in order to meet all of the above expenses comfortably?
5. Suggest four ways to bring down the cost of camp significantly without severely compromising the summer experience. Your suggestions should relate to each of the three expense categories discussed in questions 1-3. (For example: Are the camp fees flexible?)
6. Which of the changes you suggested will be easiest to implement? Which will be the most difficult? Why?
7. How does your camping budget incorporate the rule of "Everything you need and some of what you want"? Give specific examples.
8. Using Mesila's budgeting forms as a guide (see the Mesila Student Guide to Budgeting), create a budget table of camp expenses for your camper.

Assignment #4:
Banking Procedures & Services

Objective:

In chart form, compare the banking procedures and services of two banks.

Directions:

Choose two types of accounts (checking/ savings/ CDs) and compare at least three procedures and services offered, and the fees incurred (transfer/ reporting/ receive alerts/ place stop payment / etc.). Create a chart for each bank of your choice.

For example:

City Bank

	Checking Account	Savings Account	Certificate of Deposit
Transfer funds - Possible?			
Transfer funds - Fee?			
Monthly reports - Possible?			
Monthly reports - Fee?			
Receive alerts - Possible?			
Receive alerts - Fee?			

Assignment #5:
You be the Financial Advisor

Mesila's Common Sense Rules for Investors

1. If something sounds too good to be true, it probably is.
2. People who try to get rich quick often lose a lot of money quick.
3. If someone is pressuring you to invest and telling you that the opportunity can't wait, you'd better wait.
4. High returns = high risk. The more money you stand to make, the more money you stand to lose. (If the risks would be low, they wouldn't have to offer such high returns in order to entice people to invest with them.)
5. Bank investments (savings accounts, CDs, etc.) are considered risk-free. Any investment that pays higher returns than the bank is not risk free. But without any risk, you cannot earn more than the bank offers.
6. For every person, there is an appropriate level of risk, depending on how much they can afford to lose. You can take risks only if you are prepared and able to deal with the worst-case scenario (which might mean losing your entire investment, part of it, or having your money tied up for an extended period).
7. "Buy the rumor, sell the news": A hot stock tip that's already public knowledge or is being advertised in the paper is not likely to bring any meaningful returns.
8. Sometimes, a seemingly good investment may be overpriced, which means that you are unlikely to realize any significant returns. A good investment is one that is worth the money you are investing; a bad investment is one for which you overpay.
9. Investments that are based on loopholes or wheeler-dealer schemes are usually not stable investments. Stable investments generally provide some product or service that advances people's needs in some way.
10. Good businessmen and seasoned investors do not need yeshiva students (or the like) to recruit capital for them, and solid investment opportunities are usually snapped up long before they reach the doors of a yeshiva. The types of business deals and investment opportunities that make it through the doors of yeshivos are often the types that are suited to gullible people only.
11. You have more to lose when investing with a friend or relative than with a stranger. With a stranger, all you can lose is money – with a friend, you can lose a friendship as well.

12. Before investing, do your due diligence. That means carefully investigating the opportunity and consulting with professionals and financial advisors regarding the particular opportunity so that you fully understand the risks involved and are equipped to make informed decisions.

This is a situation that a fellow named Sruli presented to Mesila (details have been changed):

Moish, an old friend of mine, recently approached me at the yeshiva where I learn with a very exciting investment opportunity. Moish's father owns an apartment building that is currently being rented to low-income tenants. He wants to renovate the apartments so that he can rent them out to higher-income tenants for double the rent. "Whatever money you invest with my father will triple in under five years," Moish promises. "But you need to hurry! The bank approved financing for this project, but my father needs investors to sign up within 48 hours – otherwise, the financing will fall through."

When I asked Moish whether the plan had any possible risks, he looked hurt. "This is a foolproof plan," he assured me. "Anyone with a little business sense would understand that in a minute. We just need to make sure that we can get rid of all the old tenants and get the building back up to 95% occupancy within six months. But that should be a cinch."

I know Moish well, and he is a reliable person and a capable businessman. Would you recommend that I invest with him?

Part 1.

Analyze the pros and cons of this investment opportunity. Think ahead. What difficulties may Moish and his father encounter with their plan? Does the plan involve any legal or ethical issues or potential pitfalls?

Part 2.

Referring to Mesila's Ten Common Sense Rules for Investors, which rules would Sruli be following were he to invest with Moish? Which rules would he be breaking?

Part 3.

Using your answers to parts 1 & 2, write a response to Sruli's query advising him whether to invest with Moish. (1-2 pages)

This assignment was prepared in conjunction with Mesila's investment advisors.

Assignment #6:
Making Informed Credit Card Choices

Assignment: You be the Financial Advisor

Getting a credit card offer in the mail can be exciting. Credit card companies think so, apparently – why else would they send out eight billion offers a year? (That's more than the number of people on the planet.)

But not all offers are created equal. Many people have fallen into the credit card trap and found themselves paying fees they never knew existed. That's why Senator Charles Schumer introduced into law a page of clearly stated disclosures and policies for every credit card. This "Schumer's Box" is now included in every credit card in the U.S.

Before signing up for your preapproved card, with fantastic miles programs and other perks, let's take a look at some different offers and see what makes some cards better than others.

Assignment:

1. Compare the disclosure box ("Schumer's box") of three different credit card offers.
2. What is your introductory interest rate on purchases (APR) and when does the introductory period expire?
3. What happens to your interest rate (APR) if you make one late payment?
4. Does the card have an annual fee? How much?
5. What is the interest rate on cash advances?
6. When does the company begin to charge interest on purchases? When does the company begin to charge interest on cash advances? If there is a difference, explain why it may be significant to the consumer.
7. Is there any circumstance under which the credit card company might change the interest rate?
8. What other factors make one card more attractive than the others?
9. Overall, which card do you recommend, and why?
10. In the absence of the Schumer's box, what information might the consumer have missed?

Assignment #7:
Home Ownership Considerations

Scenario:

Motti and Dini Hirsch are married eight years, with three children. They are currently renting a 3-bedroom apartment for $1200/month, and they would like to buy a house. The house that they're looking at is in passable condition, priced at $335,000, and is situated on the outskirts of a growing frum community.

Considerations:

Location: Right now they are living right near their shuls and schools and near the shopping and a great pizza store. The new house doesn't have such great neighbors… yet.

Repairs: The superintendent takes care of anything in the apartment that breaks. In the ramshackle "new" house, no one is sponsoring the repairs – and there are lots of repairs to be made.

Space: Three bedrooms, one bathroom with three kids is getting a little tight. The new house has four bedrooms, with an alcove that can be used as a study/playroom, an extra bathroom, a bigger living room/dining room and a semi-finished basement that "has potential." There is also a nice-sized backyard.

Financing: The bank will give them a mortgage of up to $235,000, which is 70% of the property value. They have an inheritance of $75,000 from their grandparents. They can borrow $25,000 from relatives and friends to complete the $100,000 down payment.

Payments: Presently, they are paying $1200 in rent. A 15-year mortgage of $235,000 at 5.5% interest will cost them $1900/month, and a 30-year mortgage at 6% (interest rates are usually higher on a longer-term mortgage) will cost them $1400/month. They can manage the 30-year mortgage on their current income, if they squeeze their budget. To be able to afford the 15-year mortgage, Motti or Dini will have to find an additional source of income, but it will take only 15 years for the house to be theirs. They will also have to repay $500/month in private loans for the next four years, which will require them to pay a total of $1900 or $2400/month, depending which mortgage they take – a significant increase over the $1200 rent they are currently paying.

Possible Solution

Motti and Dini decide to go for the 30-year mortgage, and put any extra money they have into their mortgage so that they can pay it off sooner. They can afford the $1400 mortgage, but they need money to pay off the private loans. They decide to buy the house and rent it out. Because the house is a little bit "out," they can get only about $1800/month in rent for it. If they can manage in their current location for another four years, the $1800 in rent will pay their own rent ($1200) plus their private loans ($500), with some allowance for repairs that their tenants will need ($100), while they pay an additional $1400/month for the mortgage. They are also hoping that they will be able to raise the rent on their house, as the neighborhood grows and their location becomes more desirable. Once the private loans are repaid, they can reevaluate.

Alternate Solution

The above solution is one of many possible solutions. Can you come up with an alternate solution to the Hirsch's housing dilemma? Address the above considerations (location, repairs, space, financing, payments) in your solution. Are there any other considerations you think they should take into account? (1 page)

Assignment #8:
Ethics in Personal Finance

Finances naturally raise many ethical challenges and dilemmas.
Describe and evaluate one such issue.

Directions:

Identify an issue in your community where the value of charity or financial integrity is being compromised. Pinpoint the underlying factors contributing to this issue. Explain and evaluate what is wrong and why it is wrong. How is the compromise of integrity being rationalized or justified? Suggest possible solutions that will rectify the ethical issue without causing damage to the people involved.

Submit answers in an essay format (2-3 pwages).

Assignment #9:

Final Course Assignment

Personal Finance Portfolio & Reflection Exercise

Directions:

Part 1. Portfolio

Select the four written items you have prepared during this course that best exhibit your skills, achievements, and efforts within the course. Present this collection of your work as a portfolio showcasing what you have learned.

Part 2. Reflection and Evaluation Exercise

Describe in essay format (1-2 pages) what you have gained in this course. Use the questions below to guide your reflection (addressing at least four of the questions raised).

1. Which specific point raised in the course was most interesting or surprising to you? Why?
2. What part of this course was the least interesting or relevant to you? Why?
3. What are three things that you will do differently in your own financial life as a result of this class?
4. Which ideas covered in the course will be the hardest for you to implement? How do you intend to overcome those difficulties?
5. "Financial mismanagement can magnify or contribute to virtually any other problem."
   Explain this statement, giving specific examples to support it.
6. What personal finance advice or guidelines might you give to a friend based on what you have learned in this course? (Your advice should relate to a specific issue in personal finance, such as credit card use, taking loans, or career choices.)
7. How can the skills encouraged or strengthened in this course (such as prioritizing, decision-making, setting goals, accountability, resourcefulness, and delaying gratification) be applied to other areas of your life?
8. Have you shared anything you've learned in this class with parents, siblings or friends?
   Please elaborate.