

The Path to Financial Stability



Mesila's Financial Literacy Course

Mesivta Edition



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Unit 5:

Loans & Borrowing

Goals:

- 1) To differentiate between the various types of loans
- 2) To introduce the benefits and costs of home ownership
- 3) To discuss the positive and negative aspects of loans from religious and practical viewpoints
- 4) To understand the psychological aspects of borrowing
- 5) To examine strategies for debt management

1

THEY SAY IT HAPPENED...

Jews and “choivos” have a long history. A Jew and a gentile each win a million dollars in a lottery.

The Jew asks the gentile, “What are you going to do with the money?”

“Well, first I’ll buy my dream home, then I’ll buy a yacht, and the rest I’ll put into my retirement fund.”

“And what are YOU going to do with the money?” the gentile asks the Jew.

“Well, I’ll pay off my debts.”

“And the rest?” the gentile asks.

“The rest of the choivos will have to wait,” the Jew says.

Where did this Jew get a million dollars in debt? Who lent him the money?

2. Types of loans

- a. Bank loan
- b. Line of credit
- c. Business loan
- d. Student loan
- e. Gemachim
- f. Private loans
- g. Loan guarantees (ערבות)
- h. Store credit
- i. Mortgages
 - i. Hidden benefits of home ownership
 - 1. Property values typically rise over time.
 - 2. Rents go up because of inflation; mortgages don't. That means that even if paying a mortgage is difficult at first, it usually becomes easier as time goes on.
 - 3. You have equity (value of the property minus the amount owed on it), which offers a measure of financial stability.
 - 4. Psychological comfort of owning your own home and feeling settled
 - ii. Hidden costs of home ownership
 - 1. Property tax
 - 2. Utilities
 - 3. Maintenance (more cleaning, gardening, home upkeep, extermination, etc.)
 - 4. Transportation costs are higher when you live in the periphery
 - 5. Tuition goes up when you are a homeowner
 - 6. Homeowner's insurance

iii. **Home ownership scenarios:**

DISCUSSION

COUPLE #1

Shmuel and Suri Rosenblum have an \$80,000 nest egg: \$60,000 put away from wedding money and money that Suri has been saving since high school, plus \$20,000 that their parents gave them toward a house, which costs them \$285,000. They take out a \$205,000 mortgage, and they scrimp and save to meet their \$1400 mortgage payments, which is slightly more

than they can afford. To ensure that they can meet their payments, they cut a lot of corners: they don't take vacations, they manage with an old car, they don't buy takeout or extras in the supermarket, and they buy clothing only at end-of-season sales. Within five years, the value of their house climbs to \$380,000.

COUPLE #2

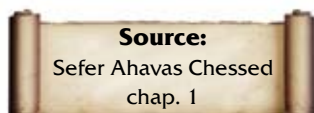
Avi and Ayala Stern have \$80,000 from an insurance settlement that Avi received after being in a car accident. They put the money into a savings account and dip into it as needed – for furniture, a car, little gifts or going out to eat. They are renting a house for \$1400/month, which is slightly more than they can afford, but when the going gets tough, they always have their nest egg to fall back on. Within five years, the \$80,000 is gone – and their rent has gone up to \$1700.

- iv. Contrast the approaches taken by the two couples above. What are the long-term ramifications of each approach?
- v. **In-Class Exercise: Mortgage Payments & Interest -**



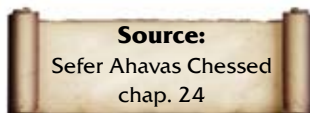
2 Torah view of Lending & Repaying Loans

a. There's a mitzvah to lend money



מצות עשה מן התורה להלוות לעניי אחינו, שנאמר (שמות כב, כד) אם כסף תלוה את עמי את העני עמך וגו', ואיתא במכילתא דכל "אם" שבתורה רשות, ושלושה מהן חובה, וזה אחד מהן. וראיה ממה שאמר הכתוב "והעבט תעביטנו" - דרך ציווי. ומצוה זו גדולה יותר ממצות הצדקה, שאין העני בוש בדבר כל כך. גם שבזה תומך ידו ומחזיק אותו שלא יתמוטט לגמרי, ומקיים בזה מה שאמר הכתוב (ויקרא כה, לה): "וכי ימוך אחיך ומטה ידו עמך, והחזקת בו וגו'", דהיינו שיחזיק בו עד שלא יפול ויצטרך לבריות. ומצוה גם כן להלוות לעשיר לפי שעה [היינו לזמן מועט] בשעה שאין המעות מצוי לו, דגמילות חסד נוהג בין לעניים בין לעשירים, אלא דהעני קודם לו בזה, ולכך פירט הכתוב לעני במצוה זו. ואי לא דהודיענו הכתוב, היה רצונו של אדם יותר להלוות לעשיר, מפני שגם הוא ישיג פעמים רבות טובות ממנו, ועוד שהעשיר בטוח אצלו יותר. (ב) ודע עוד, דלאו דווקא הלוואת מעות, דהוא הדין דמצוה להשאל לו כליו ושאר חפציו כיוצא בזה.

b. There's also a mitzvah to repay a loan



הנה עד כה בארנו גודל המצוה של הלוואה, ועתה נבאר את גודל החיוב שמוטל על הלווה לפרוע חובו. אמרו חז"ל כתובות (פז.): פריעת חוב - מצוה היא. ולא יוכל להשתמט עצמו מזה, כמו שאינו יכול לפטור עצמו מסוכה ושופר ותפלין, עיין שם בגמרא. בוא וראה עד כמה גדול כוח החיוב הזה, שהרי אמרו חכמינו זכרונם לברכה בבא מציעא (ק"ג): דמסדרין לבעל חוב [היינו מי שאינו משלם בעצמו, ובא המלוה לגבות בכח בית דין], ומניחין לו מזון שלוש יום, וכסות על שנים עשר חודש ולא יותר, וכלי אומנות שהוא מוכרח למלאכתו, וכל שאר מטלטליו וספריו וקרקעותיו מוכרין הכל בשביל בעל חוב, ואין מניחין אפילו למזונות אשתו ובניו, דכל מה שיש לו משועבד בשביל חובו.

והמונע את עצמו מלפרוע חובו כשיש לו, מפני אלמות שיש בו - הוא עובר על מה שכתוב בתורה (ויקרא יט, יג): "לא תעשוק את רעך וגו'". וכדאיתא בחושן משפט סימן שנ"ט סעיף ח': איזהו עושק? זה שבא ממון חברו לתוך ידו ברצון הבעלים, וכיון שתבעוהו כבש הממון בחזקה ולא החזירו, כגון שהיה לו ביד חברו הלוואה או שכירות והוא תובעו, ואינו יכול להוציא ממנו מפני שהוא אלם וקשה, עד כאן לשונו.

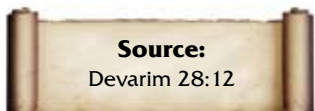
וגם אמרו חכמינו זכרונם לברכה (במדבר רבה פרשה יח, יב): ארבעה נקראו רשעים, ואחד מהם: הלווה ואינו משלם, שנאמר (תהלים לו, כא): "לוה רשע ולא ישלם". וכמה יש לו לאדם להתבייש מעצמו, כשיודע שהיכולת בידו לפרוע, והוא מונע עצמו מזה, ומביא על עצמו שם רשע. דהלא אם יקראוהו חברו רשע, אפילו בינו לבין עצמו שלא הגיע לו על ידי זה שום בזיון, אף על פי כן יכעס עליו מאד עבור זה, וכל שכן בזה שגורם לעצמו שנקרא שמו רשע עבור זה, כמה מהכלימה והחרפה ישיגהו לבסוף לעתיד לבוא כשיתפרסם שמו זה לפני רבי רבבות מחנות קדושות, כמו שכתבו הספרים הקדושים, שכל עניניו של אדם נכרזין ונתפרסמין למעלה לפני כל. ואף שהוא מיפה עצמו לפני אנשי גילו, שאין לו אשם בזה - הלא לפני השם גלוי גודל עלותו. וזהו כוונת חז"ל באבות (פרק ב' משנה י"ג): "ואל תהיה רשע בפני עצמך". [ובפרט אם הוא תלמיד חכם - עונו גדול מאד ומאד, שמתחלל שם שמים על ידי זה, ועובר עוד מלבד כל אלו הנ"ל על לאו (ויקרא כב, לב) ד"לא תחללו את שם קדשי". וגדולה מזו אמרו ביומא (פז.): היכי דמי חילול השם? כגון דאקיף ולא יהיב דמי לאלתר, וכל שכן בזה שאינו משלם כלל]. ואיתא בחושן משפט סימן צ"ז סעיף ד': אסור ללווה לקחת הלוואה ולהוציאה שלא לצורך ולאבדה, עד שלא ימצא המלוה ממה לגבות חובו, ואם עושה כן - נקרא "רשע" וכל שכן היכי שיש לו ואינו רוצה לשלם, כמה גדול עונו עבור זה. גם צריך לידע, שממון אחרים שנשאר ביד אדם בעוול, לבסוף לא יצליח, וכדכתיב (ירמיה יז, יא): "עושה עושר ולא במשפט בחצי ימיו יעזבונו" [ו"יעזבונו" קאי על שניהם, כי פעמים יעזוב העושר את האדם, ולפעמים להיפך], ויכלה גם את יתר הפליטה שיש לו בעצמו מכבר, וכדאיתא במסכת דרך ארץ זוטא פרק ג': אם נטלת את שאינו שלך - את שלך יטלו ממך [ראה לעיל פרק א' ד"ה כן ממש]. וענין השמירה מממון אחרים נכלל במה שאמר הכתוב (מיכה ו, ח): "הגיד לך אדם מה טוב ומה ה' דורש ממך, כי אם עשות משפט וגו'", כי כל זה הוא בכלל חוקי המשפט, להיות האדם זהיר שלא לעשות עוול לחבירו. ועיין לעיל בפרק א' שהארכתי בענין זה. והשומר עצמו להתנהג בדרך המשפט, הוא מהמקרים ישועת השם על ישראל, וכדכתיב (ישעיה נז, א): "שמרו משפט ועשו צדקה, כי קרובה ישועתי לבוא וצדקתי להגלות". ועיין מה שכתבנו בקונטרס "שפת תמים" בפרק ג' וד' וה'.

3 Considerations When Taking Loans

It is a mitzvah to give a loan, and to repay a loan – but it is NOT a mitzvah to borrow. In fact, loans are inherently negative and problematic.

A. Hashkafah Considerations When Taking Loans

- i) It is a blessing not to need loans:

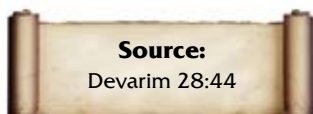


יִפְתָּח ה' לְךָ אֶת אוֹצְרוֹ הַטּוֹב אֶת הַשָּׁמַיִם לְתֵת מִטֶּר אֶרְצְךָ בְּעֵתוֹ וּלְבַרֶּךְ אֶת כָּל מַעֲשֵׂה יָדְךָ וְהָלִוִית גּוֹיִם רַבִּים וְאַתָּה לֹא תִלְוֶה. (מהברכות בפרשת כי תבוא)

Hashem will open for you His treasure-house of goodness, the heavens, to give the rain of your land in its time and to bless all your handiwork and you will lend to many nations **and you will not borrow** (Devarim 28:12)

- ii) Taking loans is a misfortune:

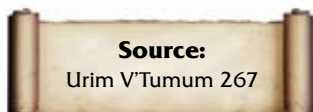
a.



הוא יִלְוֶה וְאַתָּה לֹא תִלְוֶנּוּ (מהקללות בפרשת כי תבוא)

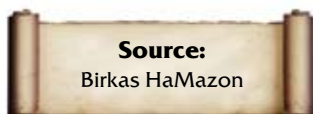
He will lend to you and you will not lend to him.

b.



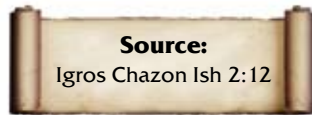
למה אין מברכין על מצות הלואה? כיון שהוא קללה ופורעניות. דברכה נאמר "ואתה לא תלווה" (דברים כח:יב) וכן "ואפס כי לא יהי בך אביון" (שם טו:ד). ועוונותיו הטו את אלה, משום כך אין לברך עליו.

- iii) Every time we recite *Birkas Hamazon*, we ask that we not be reduced to taking loans:

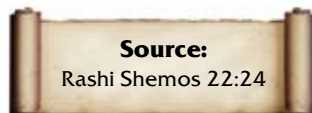


ונא אל תצריכנו ה' אלקינו לא לידי מתנת בשר ודם ולא לידי הלואותם.

iv) Taking loans corrupts a person's soul:

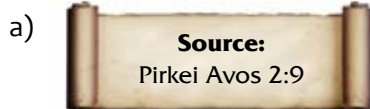


...לשלוח יד בהלוואות, המשחית את אצילות הנפש, וגורם בושה לעצמך ולאחרים.

v) Loans that bear interest are even more problematic than non-interest bearing loans – even when the loan is halachically permitted, such as when there's a *heter iska* (see sample *heter iska* in Unit 3):

רבית שהוא כנשיכת נחש שנושך חבורה קטנה ברגלו ואינו מרגיש ופתאום הוא מבצבץ ונופח עד קדקדו, כך רבית אינו מרגיש ואינו ניכר עד שהרבית עולה ומחסרו ממון הרבה.

vi) A person who does not repay a loan can be considered a rasha, an evil person:



אמר להם צאו וראו איזוהי דרך רעה שיתרחק ממנה האדם. רבי אליעזר אומר, עין רעה. רבי יהושע אומר, חבר רע. רבי יוסי אומר, שכן רע. רבי שמעון אומר, הלווה ואינו משלם. אחד הלווה מן האדם כלווה מן המקום ברוך הוא, שנאמר (תהלים לז) לווה רשע ולא ישלם, וצדיק חונן ונותן.

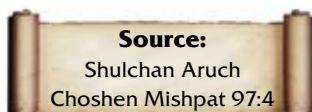


שנו רבותינו ארבעה נקראו רשעים, הפושט ידו לחבירו להכותו אע"פ שלא הכהו נקרא רשע שנא' (שמות ב) ויאמר לרשע למה תכה רעך, הכית לא נאמר אלא תכה, והלווה ואינו משלם שנא' (תהלים לז) לווה רשע ולא ישלם וצדיק חונן ונותן, ומי שיש בו עזות פנים ואינו מתבייש לפני מי שגדול הימנו שנא' (משלי כא) העז איש רשע בפניו וישר הוא יבין דרכו, ומי שהוא בעל מחלוקת שנאמר סורו נא מעל אהלי האנשים הרשעים האלה.

B. Halachah Considerations When Taking Loans

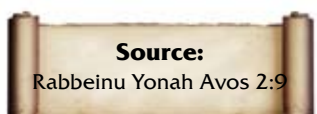
Loans are not just hashkafically problematic, they may also be halachically forbidden at times (aside from the obvious halachic prohibition of interest):

- a) It is forbidden to squander borrowed money to the extent that the borrower is subsequently unable to repay:



אסור ללווה לקחת הלואה ולהוציאה שלא לצורך ולאבדה עד שלא ימצא המלווה ממה לגבות חובו ואם עושה כן נקרא רשע וכשהמלווה מכיר את הלואה שהוא בעל מדה זו מוטב שלא להלוותו ממה שילוווהו ויצטרך לנגשו אחר כך ויעבור בכל פעם משום לא תהיה לו כנושה:

- b) According to Rabbeinu Yonah, one may not take a loan if he does not know how he will pay it back – even if he is desperate for the money.

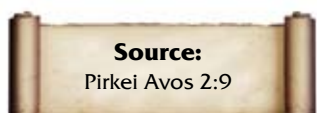


ואם לא יכיר בשלם אם יהיה בידו יכולת לא ילווה עתה משום דוחק שיהיה לו וידחוק השעה גם אם הוא צריך הלוואה הרבה מאד... כיון שלווה ואינו משלם רשע הוא ואע"פ שאין לו, כי מתחילה היה לו לעיין במה יפרעהו, אבל הצדיק חונן מה שיש לו ליתן ולפרוע בהן נותנו, על כל פנים הוא נזהר מתחילה במה יוכל לפרוע...

- c) In source (a) above, the Shulchan Aruch says that it is also forbidden to **lend** money to someone who will squander the loan and be unable to repay.

Note: See Shulchan Aruch and commentaries for further discussion of this complex halachic topic.

- d) **Discussion: Anticipating Consequences** – “הרואה את הנולד”



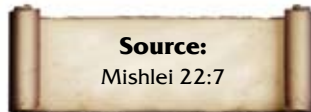
אמר להם, צאו וראו איזוהי דרך שידבק בה האדם. רבי אליעזר אומר, עין טובה. רבי יהושע אומר, חבר טוב. רבי יוסי אומר, שכן טוב. רבי שמעון אומר, הרואה את הנולד. רבי אלעזר אומר, לב טוב. אמר להם, רואה אני את דברי אלעזר בן עקיבא מדבריהם, שבכלל דבריו דבריהם. אמר להם צאו וראו איזוהי דרך רעה שיתרחק מפניה האדם. רבי אליעזר אומר, עין רעה. רבי יהושע אומר, חבר רע. רבי יוסי אומר, שכן רע. רבי שמעון אומר, הלזה ואינו משלם. אחד הלזה מן האדם, כלזה מן הפקדום ברוח הוא, שנאמר (תהלים לו) לזה רשע ולא ישלם, וצדיק חונן ונותן. רבי אלעזר אומר, לב רע. אמר להם, רואה אני את דברי אלעזר בן עקיבא מדבריהם, שבכלל דבריו דבריהם:

We see from here that the ability to anticipate consequences (רואה את הנולד) is one of the five positive attributes that a person can possess. The corresponding negative attribute is borrowing without repaying (הלזה ואינו משלם) – one of the “top 5” things to avoid.

Question: Why is הלזה ואינו משלם the opposite of רואה את הנולד?

C. Practical Considerations When Taking Loans

- a. **DEBT CAN RUIN YOUR LIFE:** The root of so many problems – shalom bayis, *chinuch*, health (physical, mental, emotional) – is financial pressure, which is created in large part by debt. When you owe money, you are a slave:



וְעָבַד לֹאָה לְאִישׁ מִלּוֹה

- b. **Headaches:** Every loan involves time, energy, hassle, stress and embarrassment.
- c. **Debt juggling:** When people borrow to repay old loans and end up desperately trying to juggle all their debts. This is a recipe for misery, not to mention financial disaster.

4 Negative vs. positive loans

A. Positive Loans: Definition

A positive loan is one in which you will be left with something positive after you repay the loan, or the loan helps you to build something for the future. For instance: a mortgage (in which you are left with a house after you pay the mortgage); or a business or investment loan (assuming the enterprise is a solid one, you will earn greater returns than the money you borrowed).

B. Negative Loans: Definition

A negative loan is one that is completely consumed, leaving you with nothing but a debt to repay. For instance: a debt to the grocery (by the time you pay your bill, you've already eaten all the food you bought); borrowing money from a friend to tide you over until your parents send money (by the time the money comes, you have to give most of it to your friend, and then you're in a pinch once again).

NOTE: When people resort to loans to cover expenses that should be covered in their ongoing budget, these loans can easily fall into the category of “loans that you cannot repay.” (See halachic sources above.)

5 Psychological Aspects of Borrowing

- a. Why do people buy (or charge) things that they can't afford? Possible reasons that you might hear from people who spend money they don't have (which automatically puts them into debt):
- “Everyone else has it”
 - “It's such an insignificant amount of money”
 - “It's a great deal”

- iv. “I really need it”
 - v. “I have *bitachon* that things will work out and I’ll be able to pay”
 - vi. “It’s worth it” (perhaps the most common teenage response)
- c. Why is debt more of a problem today than it was in the past? Do people have less today?
- i. Availability of credit
 - ii. High cost of basic living (a car, air conditioning, summer camp, etc. can be considered basic needs)
 - iii. Money is virtual – you don’t feel it leaving your pocket, it’s just a bunch of numbers on a screen

5) **Guidelines for Debt Management –**



IN-CLASS EXERCISE:**Mortgage Payments & Interest****A. COMPARATIVE TABLE**

	30-year mortgage 7% interest	30-year mortgage 4.5% interest	15-year mortgage 7% interest	15-year mortgage 4.5% interest	30-year mortgage 4.5% interest
Loan amount	\$200,000	\$200,000	\$200,000	\$200,000	\$300,000
Annual interest rate	7%	4.5%	7%	4.5%	4.5%
Loan period in years	30	30	15	15	30
Monthly payment	\$1,330.60	\$1,013.37	\$1,797.66	\$1,529.99	\$1,520.06
Number of payments	360	360	180	180	180
Total interest owed	\$279,017.80	\$164,813.42	\$123,578.18	\$75,397.58	\$247,220.13
Total money paid (principal + interest)					

B. QUESTIONS

- What are the advantages of a 30-year-loan over a 15-year?
- What are the advantages of a 15-year-loan over 30-year?
- In the last row of the above table, fill in the actual amounts repaid over the term of the loan in each of the four scenarios.
- Chaim and Devora Schwartz have four children, the oldest of whom is an eight-year-old boy. They need a \$200,000 mortgage to buy a house, and interest rates are at 4.5%. They can comfortably afford to pay \$1200 a month for their mortgage, but paying \$1500 a month would be a strain on their budget, and would require them to tighten their belts significantly. What considerations should they take into account when deciding between a 15-year mortgage and a 30-year?
- Inflation** – money is worth less over time, so \$1500 gets easier to pay over time.
 - Weddings** – in 15 years, the Schwartzes will likely have children in shidduchim, and they will probably prefer not to have to be paying a mortgage then.
 - Higher expenses** – as children grow older and the family grows, cost of living increases dramatically.
 - Higher income** – as people grow older and become more experienced and established in their fields, their income generally increases.
- Chaim and Devora decide to stretch themselves to pay \$1500/month for a 15-year mortgage. Then, they realize that their car is getting old, and their new house can use some renovations. Of course, they also need furniture. Their mortgage broker offers them a \$300,000, 30-year mortgage for practically the same monthly payment as the \$200,000, 15-year. If you were in their shoes, what would you do? Why?

Mesila's Guidelines for Debt Management

GUIDELINE #1: **Divide & Conquer**

Management of debt has to be separated from management of the family's income and living expenses. Loans cannot be considered income and cannot be used to cover ongoing living expenses. Conversely, money designated for living expenses cannot be used for debt repayment. The family's income is meant to cover its living expenses, while debts should be repaid from a budget surplus. (If the family has no budget surplus, the family has to either increase its income or reduce its spending in order to create a surplus.) This ensures that the family members do not fall further into debt and allows them to remain in control of both their living expenses and their debt repayments.

GUIDELINE #2: **Create a Debt Repayment Time- table**

If the family has an annual budget surplus, it should be possible to solve the debt problem. The amount of time it will take to repay the family's debts depends on the amount that the family can afford to put aside each month for debt repayment. If this amount is insufficient to cover the current monthly debt repayments, it may be necessary to procure interim loans for the family, or to renegotiate or freeze certain debts. The family's objective should be to reduce its debt load at the fastest possible pace that it can live with. This may involve negotiating new payment terms with creditors, procuring interim debts to give the family some breathing room, and finding new loans with easier repayment terms.

GUIDELINE #3: **Consolidate the Debts**

The preferred and most convenient way to pay off debt is to consolidate all of the debts into one large loan with reasonable repayment terms. If it is not possible to obtain one loan that will cover all of the debts, two or more loans can be arranged, but the total amount to be repaid each month cannot exceed the amount that the family's annual budget surplus allows it to set aside each month. If it does, the family members will be busy servicing their debt every month, borrowing continually to pay back the portion of the debt that exceeds their budget surplus. This leads to chaos and can eventually cause the debt repayment plan to unravel.

GUIDELINE #4:**Negotiate with Creditors**

If the family's annual budget surplus is insufficient to cover its monthly debt repayments, or if the loans that have been procured do not cover all of the debts, they should contact the creditors and suggest solutions that will ease their burden for the family. Often, creditors will prefer to be flexible with regard to the repayment terms, rather than take a chance of losing their money completely.

The creditor who is owed money at the latest date, or the one who is the easiest to deal with, can be asked to freeze his debt until all of the other debts have been repaid. Creditors can also be asked to reduce the monthly payment amounts and spread the payments out over a longer period. If they are unwilling to extend the term of the loan, perhaps they would be willing to accept smaller payments throughout the repayment period and then receive a lump-sum payment when the loan is due.

When debts are owed to banks or official bodies, you can submit an appeal – along with an explanation of why the appeal is justified – for the debt to be reduced, for interest or other charges to be waived, or for the repayment terms to be eased. Banks and credit card companies are often surprisingly flexible when it comes to waiving interest, late fees, and other charges, and a phone call is often all that is

needed. When dealing with a government body such as a tax authority, an appeal can be made on humanitarian grounds. If possible, the appeal should be accompanied by a statement from a local welfare office and endorsements from community leaders.

GUIDELINE #5:**Pay the Troublesome or Small Debts First**

Exercise careful judgment and consult with experienced people when deciding which debts should be paid immediately and which should be paid later. Generally, interest-bearing debts, or debts that will incur late charges or legal action, should be paid first. The size of the debts is also a consideration in deciding in what order they should be paid; it is preferable to pay off small debts first in order to relieve the pressure on the family. Other considerations are the amount of patience that the individual creditors have, the ability of the creditors to postpone payment, and the repayment terms of each loan.

GUIDELINE #6:**Pay Off the Debt Down to the Last Penny**

The objective is to eliminate all of the debts, down to the very last penny. Under no circumstances should a

creditor be told to forget about getting his money back. Declaring bankruptcy is an option, however, for it affords clients legal protection against creditors. But even if a client declares bankruptcy, he might not have the halachic right to default on his debts. If it is clear that a client will not be able to repay some or all of his debts, you should approach the creditors to freeze or cancel a portion of the debts. But this is a last resort.

GUIDELINE #7:**Get Help**

There are professionals and organizations dedicated to helping people develop strategies for debt repayment. If debt is overwhelming, do not hesitate to get help.

GUIDELINE #8:**Seek Rabbinic Guidance**

Borrowing money involves many halachic considerations. Before borrowing, and when making repayment arrangements, you should consult with a rav to ensure that your debt management strategies are in consonance with halachah.

Adapted from the Mesila Counselor Training Handbook, which is designed for volunteer counselors in the Mesila Family Counseling Program.

Assignment Sources and Questions



Source 1:

דברים ב:ז

כִּי ה' אֱלֹקֶיךָ בֵּרַכְךָ - לִפְיֶיךָ לֹא תִכְפּוּ (ס"א תִּכְפְּרוּ) אֶת טוֹבֹתָיו כִּאִלּוּ אַתֶּם עֲנִיִּים אֲלֵא הִרְאוּ עֲצֻמְכֶם עֲשִׂירִים (רש"י).

Question: Does the Torah want people to flaunt their wealth? Give examples of how showing one's wealth could be a positive thing, and how it could be a negative thing.



Source 2:

שפת תמים להחפץ חיים פרק ה:

שבתחלה כשהקב"ה מזמין לאדם מעות בחסדו, כדי שיוכל להחיות את נפשו בזה, וגם לפרוע מזה חובות הבורא כצדקה וגמ"ח והחזקת התורה, וכדומה לזה. היצה"ר מסיתו, שעתה נאות לו להתנהג בעניני הוצאות הבית והמלבושים במעלה הגבוה מערכו והפחות כהמכובד, והמכובד כאחד מעשירי העם]. כדי שיתראה לחשוב ומכובד לעיני חביריו. והאדם הולך אחר עצתו, מרגיל את עצמו בזה, עד שבהמשך הזמן הוא נעשה מוכרח לזה להתנהג כדרך הגבוהים.

Question: How does stretching our lifestyles to have more backfire in the long run?



Source 3:

א. דברים ט"ו:ח

כִּי פָתַח תִּפְתָּח אֶת יְדֶךָ לֹא וְהִעֲבִיט תִּעֲבִיטֶנּוּ דִּי מִחֲסָרוֹ אֲשֶׁר יִחְסֹר לּוֹ.

כתובות סז:

תנו רבנן די מחסורו אתה מצווה עליו לפרנסו ואי אתה מצווה עליו לעשרו אשר יחסר לו אפילו סוס לרכוב עליו ועבד לרוץ לפניו אמרו עליו על הלל הזקן שלקח לעני בן טובים אחד סוס לרכוב עליו ועבד לרוץ לפניו פעם אחת לא מצא עבד לרוץ לפניו ורץ לפניו שלשה מילין.

ב. רמב"ם הלכות מתנות עניים ז:

לפי מה שחסר העני אתה מצווה ליתן לו אם אין לו כסות מכסים אותו אם אין לו כלי בית קונין לו אם אין לו אשה משיאין אותו ואם היתה אשה משיאין אותה לאיש אפילו היה דרכו של זה העני לרכוב על הסוס ועבד רץ לפניו והעני וירד מנכסיו קונין לו סוס לרכוב עליו ועבד לרוץ לפניו שנאמר די מחסורו אשר יחסר לו.

ג. אהבת חסד להחפץ חיים פרק א:

עוד משמע שם בחינוך, דשיעור ההלוואה יהיה כפי מה שצריך לו להעני, אם ידו משגת. ובאמת כן מפורש במקרא במקום אחר [בפרשת ראה] (דברים טו, ח): "והעבט בעביטנו", וכפי מה שפרשו חכמינו זכרונם לברכה (מכילתא פרשת משפטים פרשה י"ט) דקאי על הלוואה, ושם מסיים המקרא: "די מחסורו אשר יחסר לו".

Question: "Our extras become our children's necessities" - how is this idea proven in Halacha? How can you see from here that sometimes a poorer person is really wealthier than someone with more money?



Source 4:

רמב"ם הלכות דעות ו:

דרך ברייתו של אדם להיות נמשך בדעותיו ובמעשיו אחר ריעיו וחביריו נוהג כמנהג אנשי מדינתו לפיכך צריך אדם להתחבר לצדיקים ולישב אצל החכמים תמיד כדי שילמוד ממעשיהם ויתרחק מן הרשעים ההולכים בחשך כדי שלא ילמוד ממעשיהם הוא ששלמה אומר הולך את חכמים יחכם ורועה כסילים ירוע ואומר אשרי האיש וגו' וכן אם היה במדינה שמנהגותיה רעים ואין אנשיה הולכים בדרך ישרה ילך למקום שאנשיה צדיקים ונוהגים בדרך טובים ואם היו כל המדינות שהוא יודעם ושומע שמועתן נוהגים בדרך לא טובה כמו זמנינו או שאינו יכול ללכת למדינה שמנהגותיה טובים מפני הגייסות או מפני החולי ישב לבדו יחידי כענין שנאמר ישב בדד וידום ואם היו רעים וחטאים שאין מניחים אותו לישב במדינה אלא אם כן נתערב עמהן ונוהג במנהגם הרע יצא למערות ולחוחים ולמדברות ואל ינהיג עצמו בדרך חטאים כענין שנאמר מי יתנני במדבר מלון אורחים:

Question: Why are people influenced by social standards and values? How can a person escape these influences?

Source 5:

ביצה טז.

כל מזונותיו של אדם קצובים לו מראש השנה ועד יום הכפורים

רש"י

כל מזונותיו של אדם - כל מה שעתיד להשתכר בשנה, שיהא נזון משם קצוב לו, כך וכך ישתכר בשנה זו, ויש לו לזוהר מלעשות יציאה מרובה שלא יוסיפו לו שכר למזונות אלא מה שפסקו לו:

Question: Our finances are established on Rosh Hashana - so what is in our hands?



Source 6:

שיר השירים ז יב - יג

(יב) לֶכֶּה דָּוִדִי נִצָּא הַשָּׂדֶה נְלִינָה בַּכְּפָרִים:

(יג) נִשְׁפִּימָה לַכְּרָמִים נִרְאָה אִם פְּרָחָה הַגֶּפֶן פִּתַּח הַסִּמְדָּר הִנְצִי הַרְמוֹנִים שָׁם אֶתֶּן אֶת יָדִי לָךְ:

ספר צרור המזר לרב יעקב מליסא

(יב) נצא השדה. אנחנו מבקשים אותך שתעשה אותנו שנהיה משוללי עול הגלות ונהיה כבני חורין בשדה שהוא מקום חירות: בכפרים. שנהיה משוללי עול מזונות רק נלינה בכפרים שנהיה מאוכלי מהן דכתיב ביה דק ככפור. ואז כל חפצך נעשה:

(יג) נשכימה לכרמים. כשנהיה משוללי עול דרך ארץ נשכימה אז לכרמים שהן בתי מדרשות שעל ידי כך נקראים הסנהדרין כרם ביבנה: פרחת הגפן. ואז נראה פריחת הגפן הן התלמידי חכמים שיהיו אז ביתר שאת.

Question: What are two general social factors that make it hard to learn Torah? How are these two factors different today compared to the last 2000 years of galus?

Assignment

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

Summer Camp Budget



Objective:

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

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

Part I.

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

Creating a Business Plan



"IF YOU FAIL TO PLAN, YOU PLAN TO FAIL"

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

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 an ehrliche, 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

Making Informed Choices



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

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

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 pages).

Assignment

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.