

The *Mia*

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Mishpacha

A Potpourri of Encounters and Impressions

THE MONEY TRAP

REAL PEOPLE.
REAL MONEY.
REAL MISTAKES.

FOREWARNED IS FOREARMED

Credit card debt. It's a phenomenon that has literally snowballed in our community in the past few years, While people of all ages get sucked into the quicksand of debt, surprisingly, the predicament hits young couples especially hard. With tantalizing offers of ready cash dangling in front of them — and their perhaps overly optimistic expectations for paying the money back in the future — it's becoming increasingly easier and more common for younger people to fall into the debt trap. And increasingly harder to climb out of it.

EXTRA CREDIT



(THE PLAYERS)

Name: Yossi and Dina Epstein
No. of Children: 5
Ages: 42 and 39
Place of Residence: Jerusalem

(THE LURE)

Instant Cash Loans!
Flexible Payment Terms — up to 84 installments!
No payments for first three months!

(THE BACKGROUND)

There are many reasons a person might be tempted to apply for a loan. Facing major expenses such as a chasunah, a new car or a dining room set; or an emergency, such as unemployment or sickness; or simply the challenge of covering the monthly tuition of a large frum family.

Most of us find ourselves at one time or another wishing we had some extra cash on hand.

The purchase of a home is a good example of a financial need for which a one-time loan would be justified. People have to budget for housing expenses over the long term, in any event; and a home is an asset that offsets the debt on the personal balance sheet. The problem arises, says Meir Shterenberg, project director of JOIN Israel's Pitronot Advocacy program, which helps those who have fallen into financial and legal difficulties, when people fail to take the long term into account, or think through how they are going to manage to pay back the loan.

"When a person has a strong desire or 'need' to buy something right now, there is a tendency to block out practical future concerns and think only of the here-and-now. One of my clients took out a 180,000-shekel loan to buy a state-of-the-art kitchen. When I asked him how he was going to pay back this money, he told me, 'You don't

understand, the guy said I don't have to put any money down for another three months.' And where will he get the money three months from now? He doesn't want to think that far in advance. Mashiach will come by then, he says."

Shterenberg relates that he is advising more and more clients in their early and mid-20s who have already managed to amass debt up to NIS 3 million .

Not only poor people are susceptible; Shterenberg says the people coming to him for help with serious debt generally have larger incomes. They earned above-average income for a short period, started living an extravagant lifestyle, and became overly confident that they could handle big debt. Many people don't have a good sense of how much they are really earning, or how much they are really spending.

"It's simple — if you spend more than you take in, you go into debt." No

matter what the cause, debt is a pit that is easy to fall into and hard to get out of. And it is hard to manage along the way — wreaking havoc on the lives and wellbeing of those who fall prey to it, and their families.

YOSSI'S NARRATIVE //

Our story is not extraordinary in any way and if you ask me, that makes it all the more frightening. If it could happen to us, it could happen to anyone.

Eight years ago, we fulfilled a long-held dream and moved to Israel. We knew it wouldn't be easy, coming as an established family with five children, but along with our worries about how our children would acclimate, one of our uppermost concerns was how to make a living. I worked as an administrator; my wife, as a social worker. While neither are high-paying fields, we understood that it was possible to find decent, steady work here. Indeed, I found a part-time teaching job right away, and supplemented that income with some online teaching. Dina, whose Hebrew was not good enough to work in local social work jobs, found freelance employment working remotely with US-based clients, while she attended ulpan to up her Hebrew skills.

Between both of our jobs, we were earning about NIS 10,500 a month. We were living in Ashdod, where living expenses were lower than in Jerusalem. Nevertheless, supporting a family of our size, we still found ourselves short about NIS 2,500 each month. We had some savings, though, and by dipping into that, we managed to stay afloat.

We lived this way for four years, until we decided it was time to buy an apartment. And we also decided the time had come to move to Jerusalem;

there are more English-speakers there, and we thought we'd feel more at home. With some help from our parents, we were able to make a down payment on an apartment, taking out a mortgage to pay for the rest. We also began leasing a car.

During this time, I made a fateful mistake. Looking to stretch my savings, I decided to invest it with a reputable investment company. Unfortunately, something there went sour, and I ended up losing my entire investment. I tried suing the company, but was unsuccessful at recovering any of the money.

If this debacle weren't bad enough, soon after I was let go from my job. While I received unemployment benefits for six months, this wasn't enough to support my family — especially with all of our new expenses, including the mortgage and car payments. With no savings to cover the shortfall, I had no choice but to take out a loan.

But loans need to be paid back, and when you aren't making enough money even to make ends meet, the only way to pay back one loan is with another loan. Before I knew it, I had several loans to my name, and the amount of debt was spiraling out of control.

The crazy thing was, there were always more loans available. Banks and credit card companies know how to draw clients. Every time I went on my bank's website, right there on the home page, in flashing lights, there would be an enticing offer for "NIS 30,000 — now!" As my Pitronot advisor later explained to me, after the Israeli government imposed strict regulations on mortgage lending, the banks had to find other ways to make their money, and so they turned to aggressively courting customers for small loans. People who are desperate for money, right now, will grasp at any

Digging Out of Debt

The Epsteins' situation is not unique; Meir Shterenberg relates that a very significant percentage of chareidi families in Israel are in debt, many of them severely so. And it is a phenomenon that crosses borders and oceans — Shterenberg knows from speaking with his American counterparts that the problem exists there as well. What can be done to avoid the quagmire, and what to do if one is already stuck in it?

"The desire for material things is the *nisayon* of our generation," he says. "The first principle for staying out of debt is to make an honest *cheshbon* of your income and expenses, budget accordingly, and relentlessly stick to that budget."

Good debt is defined by three factors :

- » The money is used to purchase something that is a necessary part of your life.
- » Repaying the debt does not blow up your budget. You can afford the monthly payments.
- » You have a plan to repay the money in a reasonable amount of time.

Good debt also typically adds long-term value to your property. Mortgages are good not only because they provide necessary shelter, but also because homes typically appreciate in value, adding to your net worth over time.

Bad debt is the opposite and may be marked by any of these qualities:

- » Whatever you purchased with credit cards or borrowed money — car, home, clothing, small business — depreciates in value.
- » You didn't really need the item. Very typical of credit card purchases.
- » You can't afford the repayment plan. This impacts a lot of consumers, but especially inexperienced ones who don't factor in the cost of borrowing money.

offer for quick, easy cash, and won't necessarily stop to consider what the payment terms are.

Believe me, I've been there. Once you start, it's frighteningly easy for your financial situation to go into freefall. Soon, Hotza'ah Lapo'al, the dreaded government debt collection agency, had opened a file against us. At the same time, being unable to meet our monthly car payments, our leasing company forced us to sell our car back to them at a huge loss.

These are the hard facts, but it's impossible to describe the amount of stress and desperation that goes along with being in such terrible debt. I couldn't sleep, I couldn't eat, I couldn't focus on anything other than the huge red numbers on my bank statement, the endless insistent phone calls that come in on a daily basis — “Nu, Mr. Epstein, when—?”

Do you know what shame feels like? It's not being able to look the local *makolet* owner in the eye, it's making endless promises to your children's school that “soon, soon, I'll have the money for you any day now,” it's the dread of opening your mailbox, of wondering when it will all blow up, and you'll at long last be exposed for all the world to see you in your financial ruin.

After a year of this, I decided to leave my administrative position and opened my own business, and, baruch Hashem, I've seen success. At the same time, my wife has increased her work hours, and today, with our expanded income, we are able to cover our monthly expenses.

A happy ending? Well, it could be — if not for the huge NIS 370,000 debt looming over us, that, even with our increased income and strenuous efforts, I simply have no way of ever repaying. ●

Do You Have a Debt Problem?

Ask yourself the following questions, and be honest with your answers:

- » Over time, is an increasing percentage of your income going toward paying debts?
- » Do you pay your bills late because you don't have enough money?
- » Have you stopped paying some of your debts?
- » Are you paying the minimum on your credit cards because you can't afford more?
- » Are you using cash advances on your cards to pay for essentials like groceries, utilities, etc.?
- » Do you utilize payday loans?
- » Have you maxed out your credit limits?
- » Do you have little or no savings?
- » Have debt collectors begun to call you, or send overdue notices?
- » Are you constantly worried about money?
- » Are you and your spouse fighting over money?

For someone who is already sinking in debt, Meir Shterenberg's advice is straightforward.

DON'TS:

Don't ignore the situation.

The worst thing to do is close your eyes and pretend that the debts will somehow dissolve on their own. Small debts very quickly accumulate into large ones, and the sooner you acknowledge the problem and turn for help, the easier it will be to pull out of the hole.

Don't be a *baal gaavah*.

Out of shame, some won't appropriately handle their situation. Often they will recklessly and tiresomely put on a show

that everything is normal. They avoid turning to others for help out of fear — “What if the community finds out?”

“As if he's the only one in the world in such a bad predicament,” explains Shterenberg. “If he realized how widespread a problem this is, it would be easier to open up and pursue solutions.”

Don't let it affect your *shalom bayis*.

Financial trouble is a primary cause of conflict. Pressure, tension, blaming, tough decisions, and more can lead down a very slippery slope fast; the storm outside can be brought inside. This is a time that a couple needs to work together more than ever, to confront their overwhelming challenges.

DOs:

Do reach out immediately to a qualified financial advisor, particularly for large debt.

“It's important to know that there are solutions,” Shterenberg emphasizes. For serious debt, it takes a seasoned professional to assess the situation, determine what changes can reasonably be expected, and weigh the pros and cons of the various options. Consolidating loans and paying off the most onerous ones are basic strategy. There are others you would never have considered on your own. There are some that you might consider that can backfire. Executing these options effectively requires knowhow. There are specific situations and approaches that are successful in settling with banks and credit card companies.

“Trying to deal with the banks and credit



card companies on your own can get you into a bigger mess and make it harder for an expert to resolve the issue." You may need to also obtain legal protection.

Do prepare yourself for a financial belt-tightening.

"The couple must view themselves as going out to battle, and understand that for the short-term future, they will have to undergo a drastic change in their spending habits," says Shterenberg.

This can include getting rid of credit cards, recording every shekel that comes in and goes out, and taking a hard look at their daily spending habits, cutting back to bare-bone essentials (such as replacing the NIS 4 gourmet yogurt with the cheaper NIS 2 brand). It could require telling banks and friends and relatives that have lent you money that, effective immediately, you will be temporarily stopping all loan payments.

"This take courage and resolve," says Shterenberg. "It's humiliating to tell someone, 'I don't have the money to pay you back.' But you have to understand that sometimes, you don't have a choice. In Israel, you can't be thrown in jail for debt, but you may need to obtain legal protection so that the bank can't start court proceedings against you."

He adds that, in his experience, when the banks know that Pitronot is dealing with the case, they are willing to cooperate and work out reasonable loan repayments, to get back whatever money they can.

In the most extreme cases, the best option is to declare bankruptcy. Aside from canceling all debts, it will legally impose on the person the spartan financial "diet" that he may be unable to undergo on his own. Shterenberg stresses that, while this may seem to be an easy way out — spend what

you want, and then head to the courts to get most or all of your debt canceled — the heavy emotional, mental and physical anguish a person goes through before he reaches that point means he has already paid a far greater price than whatever monetary amount the courts see fit to annul. He is unlikely ever to purchase an apartment or finance a car, it will be years without loans or a credit card and his reputation has been permanently tarnished.

Do turn to an personal financial coach

Organizations like Mesila and Paamonim have workshops and trained coaches who work with you to understand better budgeting and implement it. There are systems, tools, and advice, plus the encouragement and accountability of someone working with you. The awareness, skills, and better habits can change the course of your life for the long-term.

Do make it stick!

Commit to long-term financial prudence. Don't buy what you can't afford. Don't assume that everything will work out and you will find the money to repay the debt. Limit your credit card spending — or at least watch it. Avoid impulse shopping. Challenge yourself on every purchase: Is this a "need," or really a desire? What would happen to your life if you didn't make the purchase? Would you regret it in ten years?

At the end of the day, he says, the two most important things to bear in mind are: 1) stay clear of burdensome debt; and 2) if you are trapped, there are solutions. But a person can only be helped if he is willing to take that first step and ask for it, and then follow through.