

We've all heard the expression "read the fine print." Before a person takes out a loan, he should read through the entire contract and make sure he understands *everything* that's written there, including that clause about what will happen to him, his house, and his other assets if he is unable to pay back the money. But what if you're not the one taking out the loan? What if it's your *chavrusa* who is making a *chasunah*? Or it's your son who is about to embark on some home renovations? Or it's your neighbor who is about to open a new business? When they ask if you'll be their guarantor, how should you respond?

# THE MONEY TRAP

REAL PEOPLE.  
REAL MONEY.  
**REAL MISTAKES.**

**FOREWARNED IS FOREARMED**



# What's in a Name?

## [ THE PLAYERS ]

Name: Baruch and Miriam Weissberg  
Age: Mid 50s  
No. of Children: 6  
Residence: Ramat Beit Shemesh

## [ THE REQUEST ]

**Cosign  
on a  
gemach  
loan for  
\$5,000**



## [ THE BACKGROUND ]

Am Yisrael is a nation of givers. And on the surface, being a guarantor for a loan seems like a perfect way to “give your cake and eat it too.” After all, no actual money changes hands when you sign the contract. All you have to do is take a pen (*How hard is that?*), sign your name (*Sure, no problem.*), and you have the satisfaction of knowing you have helped another Jew fulfill a dream or helped ease his financial situation.

Afterward, though, you may start to wonder: What have I gotten myself into?

According to Meir Shterenberg, of JOIN Israel’s Pitronot Advocacy program to rescue Israelis from financial and legal quagmires, the majority of guarantors don’t need to worry. Most borrowers will repay their loans. But there is a small percentage who won’t. When that happens, the responsibility to repay the loan falls on the guarantors, most of whom are totally unprepared when they get that phone call from the *gemach* — or, even worse, a bank — informing them they are now the proud owners of someone else’s debt.

The Weissbergs lend us their story.

## BARUCH’S DILEMMA//

My wife and I moved to Eretz Yisrael about 30 years ago. We were newlyweds and newly Torah-observant Jews, so we thought it was highly appropriate when we bought an apartment — our first home! — in a newly built neighborhood in Jerusalem.

In those days, a person needed two guarantors to receive a mortgage from the bank. I suppose most people turned to family to get those signatures. But new *olim* like us, who didn’t have family in Israel, turned to each other. Maybe we were unwise to give our signatures so freely, but we were genuinely happy to help each other build homes in Eretz Yisrael. And Hashem looked out for us, because I don’t recall hearing about anyone who defaulted on their loan.

Ten or twelve years later, neighbors who had been renting an apartment in our building had the opportunity to buy it. The Behrmans were a terrific family, so we were really happy to learn they planned to stay. Then one evening Yossi Behrman dropped by and asked if I would be a guarantor for his mortgage. I hesitated. I was no longer the happy-go-lucky guy I had been a decade earlier. I was already the father of four kids, I had my own mortgage to pay off, and even

# Guide for Guarantors

**Meir Shterenberg has met too many people who agreed to be guarantors without understanding the consequences, with sometimes tragic results. To help people decide if they can take on the obligation, he has created this brief guide for what to ask the borrower — and yourself.**

## CLIP AND SAVE FOR FUTURE REFERENCE:

though my wife and I were both working, it was always a struggle to finish the month in the black. Plus, I had heard a few stories about guarantors who got burned. Badly.

“How much is the loan?” I asked him.

“\$150,000.”

“I have to ask my *rav*. Let me get back to you.”

Yossi looked surprised, but he said okay.

### JUST SAY NO

I'm very grateful I've always had a *rav* whom I felt comfortable calling with my questions. I

immediately picked up the phone and explained my dilemma.

“Don't do it,” my *rav* replied. “It's too much money. You can't afford to take the risk.”

I was glad I had gotten *daas Torah*, but it wasn't easy telling the Behrmans no. I can still remember the way Yossi looked at me. He was really hurt by my refusal. But he was a very *erlicher Yid*. He quickly tried to put me at ease and assured me it was no problem. He had other people he could ask.

They didn't buy the apartment in the end. They moved outside of Jerusalem, to one of the new settlements, where housing was cheaper. After that we lost touch. I assume everything worked out for them, but I still feel a little guilty.

### ONE MORE TIME

A few years later we moved to Ramat Beit Shemesh. Out there, another neighbor, Eli, asked me to cosign on

a *gemach* loan, which needed two guarantors. He needed \$5,000 for a

### WHO'S LENDING THE CASH?

**1.** The first thing a potential guarantor needs to ask is what sort of loan is being taken out. Does the borrower intend to go to a *gemach* or a bank?

If it's a *gemach* loan, the guarantor is signing that he is guaranteeing to repay the sum borrowed by the borrower. A bank loan will involve repaying the original sum plus interest, which can significantly increase the amount owed.

Therefore, before a person signs a contract as a guarantor, he has to know the exact amount he will be obligated to pay if the debtor defaults on the loan. Once he knows that figure, he should ask himself a few questions: Can I pay it all back? If not, what is the maximum amount that I can pay?

Some people might decide to act as a guarantor only for a *gemach* loan and say no to bank loans that will accrue interest. But a *gemach* loan is an equally serious obligation. If the *gemach* can't get the money from the guarantor, they'll take the case to *beis din*. From there the lawsuit could end up in a secular court.

### PROMISES, PROMISES

**2.** A guarantor has to know in his heart that all the promises the borrower may make — even the most honest person — don't mean a thing.

Let's say the borrower tells you, “If I can't repay the loan, I'll sell my apartment.” When the catastrophe happens, the man's wife says, “What do you mean, you want to sell the

apartment? If you try it, I'll divorce you.” Then he comes back to you and says, “What do you want me to do? Sell the apartment and lose my wife and children?”

What will you say?

Instead, it's better to have a serious conversation with the borrower before you sign the contract. Say to him, “I want to help you. Sit with me and tell me about your plans for your new business. Tell me why you need the money and how you plan to repay the loan. Let's look at the numbers.”

In many cases, the person will become angry and say, “You don't believe me when I say there is zero risk? Then I'll leave.” That's better than being stuck with this person's debt. And by the way, there is no such thing as zero risk.

### NO WAY

**3.** A danger signal to watch out for is this: The borrower asks you to loan him \$5,000. When you say you don't have it, he says, “Go to the bank, take out a loan, and give me the money. I'll pay you back.”

You have to ask yourself, why doesn't the person go to the bank himself? Most banks are more than happy to give loans to people. So why won't the bank give this person money? And why won't a *gemach*? What's wrong?

If the person is already deep in debt, it's better to try and help him realize he must get help from an organization like Mesila and rehabilitate his life, rather than continue to

involve more people in his financial problems.

### WAY TO GO

**4.** Take a look at some of the guarantors of *talmidei chachamim*. They certainly want to help the person who has come to them. But they are responsible people. So if a borrower needs \$10,000, for example, and the *rav* can't pay that amount if the debt becomes his responsibility, he will write on the *shtar* something like this: I agree to be a guarantor for up to \$2,000, and if it should come about that I must pay back the loan, I can only pay up to \$100 a month.

This is a good way to do it, if you need to limit your risk.

### THE ACID TEST

**5.** Most of the times a person falls it's because he considers the loan to be virtual money. That's because not a single real dollar has been exchanged.

So before you cosign, try this test: When a borrower asks you to be a guarantor, first give him real money from your own pocket. Is he asking for a *gemach* loan of \$15,000? Go to an ATM, take out \$500 — real money — and give it to him. Are you thinking, “What? I don't have \$500 to give him!” Then give him \$250. If you don't have that amount either, how are you going to pay back the loan?

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new business he wanted to open. Eli wasn't a close friend, but he was one of those guys who always had a smile on his face and an interesting Torah *vort* on his lips. He seemed like an all-around good guy.

I wanted to sign. But then I looked over Eli's shoulder. I saw my wife, who was standing in the doorway to the kitchen, making frantic hand signals.

"First, let's have a cup of coffee," I told Eli, giving him a friendly shove into a chair. Then I hurried into the kitchen.

"Don't do it," my wife told me.

"Why not?"

"Don't you remember? He had that other business and it went bankrupt."

"I know. But what's wrong with giving a guy another chance? Besides, what's the worst that can happen? It's not a huge sum of money and there are two guarantors. We can split the debt between us, if it comes to that."

## PAYBACK TIME

Well, as Miriam tried to warn me, the worst did happen.

She was the one who answered the phone when the *gemach* called a year later. I could see by her face that something was wrong. Apparently, after a year of Eli telling the *gemach*, "tomorrow, tomorrow," the *gemach* gave up on him and was now turning to the guarantors.

Although it wasn't a huge sum of money to pay back — our share was \$2,500 — it's not as if we had extra money lying around the house that we didn't know what to do with. Fortunately, the *gemach* let us pay the money back in installments.

At first I was really aggravated by what had happened. I know of people who, if they can't pay back a *gemach* loan, will go to another one and borrow the money

from there. They're always running from *gemach* to *gemach*. Why couldn't Eli have done the same?

After a while, we decided it wasn't worth being aggravated. "Let's forgive the loan," Miriam said. "Let's treat it as though we had given Eli tzedakah."

I agreed that this was a great idea, and for a few months I went around feeling very noble. Then the telephone rang again. This time it was the other guarantor. We didn't really know him. We just knew he learned in *kollel* all day and had a big family.

After I hung up the phone, I told Miriam the gist of the conversation. The other guarantor had no money. The *gemach* had stretched out his payments over a couple of years, so the monthly amount was only about 100 shekels — about \$30 in those days — but he said he couldn't afford even that.

"He told me," I told Miriam, "that every month, when he has to scrounge around for that 100 shekels and hand it over to the *gemach*, he bleeds inside. It's like he's cutting off one of his fingers."

Ouch.

## LIVE AND LEARN

Miriam and I had a long talk. We looked over our monthly budget. We decided if we cut back on some of the nonessential items on our grocery list, we could pay back the other half of the loan too. It took us a few years, but the *gemach* got back its money.

Since then, I've continued to cosign on loans, and there haven't been any problems. But I'm cautious. I'll ask the person how he intends to repay the loan. If he doesn't have a plan — and if I'm pretty sure he doesn't have any income — I'll give him some tzedakah. But I won't give him my name.

## THE AFTERMATH//

After their experience with paying back Eli's loan, the Weissbergs asked Meir for some pointers on how to be a wiser guarantor. He replied by telling them this story:

There was a Jew who wanted to take out a loan. He came to the Chazon Ish and asked him to be a guarantor. The Chazon Ish agreed and he signed. Three months later the man came back and informed the Chazon Ish that he had paid back the loan on time. Six months after that, the same Jew came back to the Chazon Ish and said he wished to take out another loan for the same amount. He asked the Chazon Ish to be his guarantor a second time. The Chazon Ish said, "I can't do it."

"I don't understand," the man replied. "The first time I returned the money on time, and the Rav didn't suffer. Why won't you help me again?"

"It's very simple," said the Chazon Ish. "The first time you asked, I had the money and I put it aside. This time I don't have the money, and so I won't sign."

That story, says Meir, sums up the rules of being a guarantor in a nutshell: If you can afford to pay back the loan, sign. If you can't afford it, don't sign. Because once you sign as a guarantor, you are making a commitment to pay back the loan.

Meir adds that if you're wise, you'll do as the Chazon Ish did, and put aside the money until the borrower informs you he has paid back the loan in full. The reason is the *gemach* may come to you a year later or even ten years later — when perhaps you don't have any available cash because, for example, you're marrying off a child.

"It's good to have mercy on a fellow Jew," says Meir. "I once told a *gemach* that we need to have *rachmanus* on the guarantors who get stuck with paying back a loan. They told me we need to have *rachmanus* on the public's money. If both the borrower and the guarantor default on the loan, that means there's less money to lend to the honest Jew who does intend to honor his obligations."