Using the wage of the borrower for linkage

This suggestion is appropriate when lenders and borrowers are truthful, i.e. when the prophecy of Isaiah "And your people are all righteous ..." is fulfilled. It does not seem possible to use this method today when lending to the public at large. It may be possible to use it for loans in a family or in a small community, where everybody knows everybody.

We will describe three methods. In all the methods the repayments are a percentage of the actual wage of the borrower. These methods differ regarding the linkage of the debt.

1) Linkage of debt to the wage of the borrower - Repayments as a percentage of the actual wage of the borrower

The debt and its repayments rise and fall in proportion to the actual wage of the borrower, and the number of repayments of the loan is fixed at the time of giving the loan. For example, the lender gives a loan of 10% of the borrowers wage in one payment. The borrower returns two instalments of 5% of his wage to the lender - be it a profit or a loss to the lender. (Detailed Examples are given below.)

A question: What return can a bank expect when lending monies to the public at large with this method?

The bank makes a return according to the increase of the total wage of the public at large or according to the increase of the average wage of the public at large. In Israel, the average wage increases by about 1.5% a year above the price index. Therefore a bank can expect a return of about 1.5% a year above the price index.

If the borrower's wage decreases he then pays less and if his wage increases he pays more. With this method, the bank should make a profit from all its borrowers and not from each and every individual borrower. It may be that such a method will reduce poverty and the gap between rich and poor.

Here are two detailed examples.

We assume that:
1) The repayments and the debt rise and fall in proportion to the borrowers wage.
2) The borrower's wage is 10000 sheqels at the time the loan is given. The loan is 10% of the wage, i.e. 1000 sheqels.
3) The borrower repays the debt in 2 instalments of 5% of his wage at the time of repayment.

Here there may be a profit or loss.

Example 1:
The borrower's wage is 5000 sheqels at the time of the first instalment and 20000 sheqels at the time of the second instalment.
Then he repays 250 sheqels (5% of 5000) for the first instalment and 1000 sheqels for the second instalment. Here the lender receives 1250 sheqels back and makes a profit.
Example 2:
The borrower's wage is 5000 sheqels at the time of the first instalment and 5000 sheqels at the time of the second instalment.
Then he repays 250 sheqels for the first instalment and 250 sheqels for the second instalment. Here the lender receives 500 sheqels back and makes a loss.

Note: With this method, a problem occurs if the borrower's wage is zero at the time of giving the loan as the debt becomes undefined (division by zero error). This problem does not occur with the repayments, because they were defined as a percentage of the actual wage of the borrower.

2) No linkage of the debt - Repayments as a percentage of the actual wage of the borrower

The following examples will clarify what we mean. In all the examples we assume the following.
1) There is no interest.
2) The lender lends 1000 sheqels to the borrower without linkage of the debt.
3) The borrower repays the debt in approximately 2 instalments of 500 sheqels linked to his wage. If the debt is not cleared in two instalments there will be an additional instalment to clear the debt.
4) The borrower's wage is 10000 sheqels at the time the loan is given, i.e. the loan is 10% of the wage, and each monthly instalment is 5% of the wage.

Example 1:
The borrower's wage is 5000 sheqels at the time of the first instalment and 20000 sheqels at the time of the second instalment.
Then he repays 250 sheqels (5% of 5000) for the first instalment and 750 sheqels for the second instalment.
Note that he does not pay 1000 sheqels (5% of 20000) for the second instalment as the outstanding debt is only 750 sheqels.
So he borrows 1000 sheqels and returns 1000 sheqels but the actual repayments are not known at the time the loan is given.

Example 2:
The borrower's wage is 20000 sheqels at the time of the first instalment and 5000 sheqels at the time of the second instalment.
Then he repays 1000 sheqels for the first instalment and there is no further repayment.
Again he borrows 1000 sheqels and returns 1000 sheqels but there is no second repayment.

Example 3:
The borrower's wage is 5000 sheqels at the time of the first instalment and 5000 sheqels at the time of the second instalment.
Then he repays 250 sheqels for the first instalment and 250 sheqels for the second instalment and to clear the debt, an additional instalment of 500 sheqels is paid.
Again he borrows 1000 sheqels and returns 1000 sheqels but here there is an additional repayment to clear the debt.

Example 4:
The borrower's wage is 5000 sheqels at the time of the first instalment and 5000 sheqels at the time of the second instalment.
Here the lender receives 500 sheqels back and makes a loss.

Note: If the wage and the debt are the same there is no problem.
3) Linkage of the debt to the average wage - Repayments as a percentage of the actual wage of the borrower

Similarly, it is possible to link the debt to the average wage and define the repayments as a percentage of the actual wage of the borrower. Since debt and repayments vary in different ways, this means that the repayment period can only be known approximately. An example of this method will not given.

A Comment regarding these three possibilities

Since the repayments vary in proportion to the borrower's actual wage, this seems to be in the spirit of the biblical command "...thou shalt not be to him as a creditor...".

Linkage to the average wage
We do not discuss this matter here.

See http://homedir.jct.ac.il/~rafi/wls.pdf

Translated to Hebrew with the help of Erel Segal.

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3) Linkage of the debt to the average wage - Repayments as a percentage of the actual wage of the borrower

כד כך, ניתן להעריך את ההוצאות הממוצעות והשтратים באמצעות שכר העבודה של הלוז בן הצעומ. בשיטה זו, ההשтратים והשтратים מנותקים באPaginator שוער. זה אומר ששקופות ההזרדות יועדו בקורים בכדי לשונר דגמה של אחרים.

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ראה http://homedir.jct.ac.il/~rafi/wls.pdf

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תמות משע' 3 – יוני 2015

3) Linkage of the debt to the average wage - Repayments as a percentage of the actual wage of the borrower

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