NESHEKH AND *TARBIT*:
USURY FROM BIBLE TO MODERN FINANCE

JOSHUA BUCH

THE BIBLICAL APPROACH

The Torah frequently comments on loans given to fellow citizens who have become impoverished. The loan is usually money but it may consist of food, clothing or seed, whatever the poor person needs, or whatever the well-to-do can give. But charging interest on such loans is not allowed. Giving a free loan is regarded as a sacred moral duty upon whoever can afford it. But there are commercial or business circumstances where interest may be charged.[1] This essay will discuss two kinds of loans permitted under certain conditions.

Neshekh (נשך) and *tarbit* (תרבית) are two biblical Hebrew nouns whose functional meaning is "interest charged on loans." Both terms are mentioned in the biblical text dealing with the prohibition on the charging of interest. Biblical commentators attempted to differentiate between these two terms, yet the accepted conclusion was that there is no difference between them.

By studying *neshekh* and *tarbit* with the help of contemporary finance tools, one can conclude that from the point of view of the borrower the *neshekh* form [literally, "biting interest"] is much more hurtful (expensive) when compared with the *tarbit,* a "plain vanilla" form of charging interest.

NESHEKH AND *TARBIT*: A BRIEF REVIEW OF HISTORICAL INTERPRETATION

Over a long period of time, Jewish sources attempted to explain the differences between the terms *neshekh* and *tarbit*. According to Cassuto,[2] the most authoritative view on the subject is that of the talmudic sage Rava, who concluded that there is no difference in meaning between *neshekh* and *tarbit.* Cassuto summarizes the numerous discussions:

> Numerous commentators attempted to differentiate between the two terms. Yet, it seems that Rava is correct that there is no substantial difference between them. According to the Mishna, both

Joshua Buch has a B.Sc. from Hebrew University, a Ph.D. from the University of Pennsylvania, has studied at Dropsie University,, and is licensed as a teacher of Hebrew by the National Board of License. He is a resident of Pennsylvania and Professor of Finance at LaSalle University, Philadelphia.

> *Neshekh* and *Tarbit*, as they are stated in the Torah, refers to simple interest.

Rava also explained that the Torah used two synonyms in order to strengthen twofold the prohibition of interest and minimize the possibility of any loophole. Still, it should be noted how various rabbinical authorities tried to differentiate between the two terms. In Baba Metzia it is stated that the prohibition of *neshekh* applies only to money, whereas *tarbit* is applied to provisions or goods.[3] An etymological explanation suggests that "*neshekh* [bite]" was the term used for the exaction of interest from the point of view of the debtor, whereas "*tarbit*, [increase]" was the term used for the recovery of interest or "added return" by the creditor.[4] Briefly put, the Mishna states that *neshekh* is prepaid interest and *tarbit* is accrued interest.[5] This last explanation is of great importance to this paper, and is similar to the rendering of the two terms in the Jewish Publication Society's 1960 translation.

The historical Jewish position on the biblical position against charging interest was not a prohibition of usury in the modern sense of the word.[6] All forms of interest were prohibited and, therefore, there was no need to distinguish between the two terms. Both *neshekh* and *tarbit* meant forbidden interest, hence there was no reason to rank or differentiate between them. To state that both are illegal but one is more unlawful than the other is misleading. Therefore, we agree with Rava that the reason for the use of the two terms is to strengthen the prohibition by repetition and to preclude any loophole.

NESHEKH AND *TARBIT*: ANALYZING THE RELEVANT BIBLICAL VERSES

Although all forms of interest were proscribed, an analysis of all relevant biblical verses proves the prominence of the term *neshekh*. *Neshekh* appears alone in four verses in three biblical books. *Neshekh* and *tarbit* are listed together in seven verses in three other biblical books.

1. *If you lend money to any of My people with you who is poor, you shall not be to him as a creditor* [noshe], *and you shall not exact interest* [neshekh] *from him* (Ex. 22:24).

2. *Take no interest* [neshekh] *from him or increase* [tarbit], *but fear your God; that your brother may live beside you* (Lev. 25:36).

3. *You shall not lend him your money at interest,* [neshekh] *or give him your food for profit* [tarbit] (Lev. 25:37).

4. *You shall not lend upon interest* [neshekh] *to your brother, interest* [neshekh] *on money, interest* [neshekh] *on victuals, interest* [neshekh] *on anything that is lent for interest* [neshekh] (Deut. 23:20).

5. *To a foreigner you may lend upon interest* [neshekh], *but to your brother you shall not lend upon interest* [neshekh], *that the Lord your God may bless you in all that you undertake in the land which you are entering to take possession of it* (Deut. 23:21).

6. . . . *does not lend at interest* [neshekh], *or take any increase* [tarbit], *withholds his hand from iniquity, executes true justice between man and man* (Ezek. 18:8).

7. . . . *lends at interest* [neshekh], *and takes increase* [tarbit], *shall he then live? He shall not live. He has done all these abominable things; he shall surely die; his blood shall be upon himself* (Ezek. 18:13).

8. . . . *withholds his hand from iniquity, takes no interest* [neshekh], *or increase* [marbit], *observes My ordinances, and walks in My statutes; he shall not die for his father's iniquity; he shall surely live* (Ezek. 18:17). (*Marbit* is a variant of *tarbit*)

9. . . . *you men take bribes to shed blood; you take interest* [neshekh], *and increase* [tarbit], *and make gain of your neighbors by extortion; and you have forgotten Me, says the Lord God* (Ezek. 22:12).

10. . . . w*ho does not put out his money at interest* [neshekh], *and does not take a bribe against the innocent* (Ps. 15:5).

11. *He who augments his wealth by interest* [neshekh], *and increase* [tarbit], *gathers it for him who is kind to the poor* (Prov. 28:8).

Analyzing the biblical use of the two terms reveals the following:

The very first biblical prohibition on charging interest mentions only *neshekh* [Ex. 22:24]. In other words, had the prohibition not been repeated or mentioned elsewhere in the Bible, the prohibition on *neshekh* would still have been valid, while *tarbit* would not have been mentioned at all.

In Deuteronomy 23:20-21, while summing up the laws of the Torah, Moses used the noun *neshekh* seven times in two consecutive sentences. He did not, even once, use the noun *tarbit.*

In the entire Torah, *neshekh* is listed 10 times, while *tarbit* (or *marbit*) appears only twice.

Neshekh is mentioned in Exodus, Leviticus, and Deuteronomy, while *tarbit* is mentioned only in Leviticus.

Neshekh is cited in the Bible 16 times, whereas *tarbit* or *marbit* is cited only 7 times.

Neshekh is listed alone in four verses, in three biblical books, whereas *tarbit* is never mentioned by itself. When the two terms appear together, *neshekh* is always written first and *tarbit* always follows.

One may conclude that had the Bible given priority to one of the two terms for interest from the point of view of the borrower, *tarbit* would have been listed first, with *neshekh*, that is deemed worse, a distant second. However, the Bible was not concerned with differentiating or giving priority to one of the various methods of calculating and charging interest. The Bible focused on imposing the prohibition on all forms of interest charges.

THE CHRISTIAN APPROACH

The Christian position on usury can be traced to 325 C.E. At that time, the first general council of the Church, the Council of Nicea, established the first Catholic Church position and prohibited charging interest on loans.[7] Centuries later, the Hadriana of about 750 C.E., the Nynweger Capitulary of 806 C.E., and the Paris Synod of 829 C.E. further reinforced the prohibition.

The Church position was probably best stated by Thomas Aquinas (1225-1274): To pay interest on money lent was to pay twice for one thing, or to require payments for something that does not exist. A money loan must, because of money's fungible nature, be a sale of money, for which repayment is full compensation. To charge for the use of the money as well as for the sale – to demand repayment with interest – is therefore, a form of fraud. Aquinas did agree with the legitimacy of making money from a loan if the lender shared in the borrower's risk.[8]

The prohibition of usury was first broken in 1545 when England legalized charging interest, with a top limit of 10 percent.[9] The term usury was then applied only to exorbitant or unconscionable interest rates.[10] At approximately the same time, John Calvin broke away from past Church traditions and asserted that money was not sterile and unable to yield its own fruit.[11]

John Calvin (1509-1564) is considered to be the "father" of modern finance. He found a way for the Reformist (Protestant) Church to allow for the charging of some forms of interest. While his approach in differentiating between the two nouns is different from the main thrust of this paper, the author finds it to be interesting and worth reading. He fostered the modern attitude toward interest and he has often been credited with the creation of a modern theory of interest. His view was that there is a difference between the meanings of the biblical nouns *neshekh* and *tarbit*, and concluded that *neshekh* is the worse form and should be banned, while *tarbit,* should be permitted but regulated.

According to Calvin, Jerome translated both the Hebrew terms to mean "usuary," but most philologists regarded that translation as inaccurate, since *neshekh* means "bite," while *tarbit* means "legitimate increase." Thus, the law and the prophets had not totally forbidden lending at interest. We see that the law was framed to the end that men should not cruelly oppress the poor, who ought rather to receive sympathy and compassion.[12]

In explaining this difference between the two Hebrew nouns, Calvin stated that the Hebrew applied in the anti-usury verses signifies fraud, not usury as the canon law defines it. "It is fraud that so often accompanies usury, rather than usury itself, that is condemned by God."[13] In his sermons and commentaries on various books of the Hebrew Bible, Calvin declared that: "Scriptures forbid only biting-usury [*neshekh*], usury taken from the defenseless poor."[14]

The differentiation between *neshekh* and *tarbit* was probably first stated by the reformist Martin Bucer (or Butzer, 1491-1551). He explained that *neshekh*, meaning "bite," should be understood as "abuse of usury" or "excessive interest" and should be prohibited, "for multiplying too much is abuse."[19] In his commentary on Psalms 15:5 he stated: "There is no law or moral principle to forbid widows, orphans, and studious clergy from receiving a share of profit made by merchants in investing their funds."[15] To prove his point, he cited Exodus 22, Leviticus 25, Ezekiel 18 and Psalms 15 "contending that each contained a stricture against 'biting' usury and required that one lend freely to the poor."[16]

Bucer and the much more influential Calvin opened the way for the Protestant countries to allow the charging of interest on business-related loans. This eventually resulted in our contemporary credit-driven market economies.

CONTEMPORARY APPROACH TO *NESHEKH* AND *TARBIT*

In our contemporary financial markets there are two main approaches or methods of paying interest on loans, and calculating the true cost of the loan to the borrower. One resembles the *neshekh* method, and the other is probably similar to the *tarbit* form of charging interest.

This section will attempt to explain the differences between *neshekh* and *tarbit* utilizing contemporary finance terminology and methodology, and arithmetic forms that we trust will make sense to the reader. This approach will demonstrate that from the borrower's point of view the cost of funds in a *neshekh*-type loan is higher and more difficult to understand, whereas in the case of the *tarbit*- type loan the interest charges are lower and easier to understand. Put differently, from the borrower's point of view, *neshekh* is a more expensive form of charging interest than is *tarbit.* (For examples, see the Appendix.)

A CONTEMPORARY EXPLANATION OF *TARBIT*

Tarbit [increase] is probably the case when interest is charged and added to the principal. Assuming that no additional costs or charges are levied, this method of charging and computing interest on a loan is relatively simple to calculate and easy to understand. For example: If the sum of $100 is borrowed for one year at a 10 percent simple interest, $110 is due in one year ($100.00 x 1.1 = $110.00). Or, the borrower pays $10 in interest for the use of $100 over a period of one full year. This is a simple "plain vanilla" loan, and the borrower should not have any difficulties in understanding the details. This is a case of a loan without additional hidden, obscure, or misunderstood attached costs or charges. In other words, if the rate of interest is stated to be 10 percent, the borrower will pay back exactly 10 percent above the $100 borrowed.

The United States enacted the Truth in Lending Act (TILA) in 1968, and revised it in 1980. The United Kingdom adopted a similar code in 1974, and the European Union in 1998. The most widely known provision of the TILA is the requirement that the lender must inform the borrower of the correct Annual Percent Rate (APR) charged on a loan. The lenders must disclose the total dollar cost associated with granting a loan (finance charges), include them in the APR calculations, and follow a prescribed method for calculating the APR.[17] Since in the case of a plain vanilla or *tarbit*-type loan there are no additional charges, the real rate of interest charged to the borrower is identical to the APR. This is a very simple, easy case. The borrower knows exactly the cost of the funds. Comparing the cost of one potential loan to another is also very easy and simple, since there is only one rate to compare.

A CONTEMPORARY EXPLANATION OF *NESHEKH*

A *neshekh*-type loan is much more complex and confusing. It is possibly the case when the lender "bites off" [*noshekh*] the interest prior to extending the loan, or charges advance fees for obtaining the borrowed funds. Based on the above example, the borrower of the $100 will pay the $10 interest in advance; that is, receives only $90 but has to pay back $100. The true rate of interest on this loan, its APR, is 11.11 percent ($10/$90 = 0.1111 or 11.11 percent). This is a much higher rate of interest than is formally stated. The reason the cost of such a loan is higher is that the borrower receives from the lender only $90 while he pays $10 or 10% interest on the original sum of $100. There is another major problem with this form of charging interest on loans. Since the borrower sought to borrow $100 he obviously needed $100, but received only $90. Under these circumstances, the borrower is forced to borrow an additional $10. However, the borrower will receive only $9, since the lender will bite off the interest of $1 in advance. In order actually to realize the needed sum of $100, the borrower will have to apply for a $111.11 loan. The true cost of this loan is 11.11 percent ($11.11/$100.00 = 0.1111). This is a situation where the stated rate of interest is different from the true cost of the loan.

With such loans, borrowers are faced with at least five issues and dilemmas; two mathematical and three practical.

1. The actual cost of the funds is higher than stated. It is very misleading when a lender advertises funds at 10 percent but the actual rate is 11.11 percent.

2. The borrower is forced to be much deeper in debt than intended. Hence, the debt service is larger.

3. The average borrower might be ill equipped to calculate the true cost of the funds, or to understand the difference between the stated rate of interest and the APR.

4. Since the borrower is deeper in debt, his or her credit rating can be negatively affected.

5. Cost comparisons between alternative loans might be more complicated, since each might have different size bites. They differ by both the stated rate of interest and the APR.

If all loans were *tarbit*-type loans the stated rate of interest reflects the exact cost of the loan, and there would be no need for the Truth in Lending legislation.. However, *neshekh*-type loans present the borrower with a very confusing picture. The above five issues inherent in *neshekh*-type loans are exactly the reason the U.S. Congress enacted TILA, and the rest of the Western world followed. Thanks to TILA, the borrower knows the real true cost of the loan, and can shop for the best loan.

An important variation of *neshekh* is the case where besides the stated rate of interest, loan origination fees and points are also required.[18] This situation is directly related to several contemporary financial instruments, such as mortgages. Assume one borrows $100 at a 10 percent for one year, and the loan origination fees are $3. Even if this is a case of regular simple interest, whereby $110 is due after one year, it is a *neshekh* situation, since the actual size of the loan principle is only $97. The borrower received $100 from the lender, but immediately had to pay $3 in fees. In other words, one received only $97, but has to pay back $110. The cost of the funds is $13; $10 in interest and a $3 origination fee, meaning the actual interest is 13.4 percent. If this loan had a longer duration, the calculation of the true cost of funds is more complicated since the loan placement fees and charges should be spread (amortized) over the life span of the loan.

CONCLUSION

Biblical law prohibits charging interest on loans, whether *neshekh* or *tarbit.* There have been numerous attempts by biblical scholars to differentiate between these two terms. Yet, the accepted Jewish historical position has been that there is no difference between the terms.

This paper, using modern financial concepts, has helped the reader understand that there are different ways of charging interest on loans and that these result in differing true costs to the borrower.

With *neshekh*-type loans, the borrower actually pays a higher rate of interest and is often is not aware of other negative implications of such a loan. Moses, the lawgiver, apparently was not concerned with these differences, since in his time all lending for interest was deemed usurious and unacceptable. But our analysis of the relevant biblical verses indicates that in the Bible, *neshekh* had a negative emphasis. The biblical author was correct; from the borrower's point of view, *neshekh* type loans were worse.

NOTES

1. *Humash Etz Hayim*, (New York: The Rabbinical Assembly, 2000) pp. 1125-6.
2. U. Cassuto, *The Hebrew Encyclopaedia*, Vol. 29 (Jerusalem: The Encyclopedia Publishing Co., 1977) p. 465 (*Ribit*).
3. I. Epstein, (trans.), *The Talmud, Seder Nezikin*, *vol. 1, Baba Metzia*, (London: Soncino Press, 1974) pp. 362-369.
4. *Encyclopaedia Judaica,* Vol. 16 (Jerusalem: Keter Publishing, 1972) pp. 27-33.
5. Y.P. Gornish, *Questions of Interest* (New York: CIS Publishers, 1993) p. 12.
6. Historically, usury was defined as charging interest on loans. Nevertheless, the historical Jewish position on the biblical prohibition against charging interest was not a prohibition against usury in the modern sense of the word. Usury is currently defined as unconscionable or exorbitant rate of interest (*Encyclopedia Britannica Online*, on the term Usury).
7. S. Homer, and R. A. Sylla, *History of Interest*, 3rd Ed., (New Brunswick NJ: Rutgers University Press, 1991) p. 70.
8. J. T. Noonan, Jr. *The Scholastic Analysis of Usury* (Cambridge: Harvard University Press, 1957) p. 53. Also, N. Jones, *God and the Moneylenders* (Oxford: Basil Blackwell Ltd., 1989) pp. 9-10.
9. Henry VIII. 1545. Act of 37, c. 9.
10. *Encyclopedia Britannica Online,* on the term usury
11. M. Lewison, "Conflicts of Interest? The Ethics of Usury," *Journal of Business Ethics*, Vol. 22, No. 4 (December 1999). Also, Homer and Sylla, p. 80; T.F. Divine, "Usury," in *New Catholic Encyclopedia*, (New York: McGraw-Hill, 1967) p.499.
12. Jones, p. 18.
13. Jones, p. 18.
14. B. Nelson, *The Idea of Usury: From Tribal Brotherhood to Universal Otherhood*, 2nd Ed. (Chicago: The University of Chicago Press, 1969) p. 75 and Note 5.
15. Nelson, pp. 70-71 and Note 104.
16. Jones, op. cit.
17. P. S. Rose, *Money and Capital Markets*, 5th edition (Burr Ridge IL: Richard D. Irwin, Inc. 1994) pp. 224 and 458.
18. In the United States, a "point" is one percent of the mortgage principal which the borrower has to pay up-front. For the sake of simplicity, the author ignores the issue of compounding.

APPENDIX A

CALCULATING THE TRUE COST OF FUNDS (THE ACTUAL RATE OF INTEREST)

The life span of loans can vary greatly, from a short period of one month or less (as in 30-day U.S. Treasury Bills), to 30 years or even longer (as in mortgages and bonds). One way to avoid confusion in comparing loan rates is to annualize them, and thus to present the rates as if their duration is one full year. Mathematically, the correct way to calculate the rate is to divide the dollar cost of the funds (over one year), i.e., the interest charges, by the principal (the actual sum available for use by the borrower during the entire period).

Example: The buyer (the lender-creditor) of a one-month $10,000 Treasury Bill from the U.S. Government (the borrower) pays only $9,900, but receives $10,000 one month later. The cost (the interest) to the government-borrower is thus $100. The interest rate is determined by dividing the $100 by the $9,900 principal loaned to the government-borrower. That is: 100/9,900=0.0101 or 1.01 percent for one month. This figure multiplied by 12 yields the yearly rate of 12.12 percent interest. The reason we must annualize the loan rate (or cost) is that loan duration can vary from less than one month (T-bills) to 30 years or more (bonds or mortgages). Annualizing the rate of one-month, two-month, or three-month T-bills etc., allows for a much more valid rational comparison between them.