RIBBIS: MATTERS OF INTEREST

HETER ISKA II

There are two basic types of *heter iska* that are written today; one is a *chatzi milveh chatzi pikadon* (half loan half investment) and the other is a *kulo pikadon*)all investment). As a rule, money for which the recipient takes responsibility, is considered a loan, while money he is not responsible for is viewed as an investment.

In a *chatzi milveh chatzi pikadon* agreement, responsibility for losses is split evenly between the two parties; half is considered a loan and the other half an investment. In the event that profits were made, each partner would receive half the profits. However, since the managing partner would prefer not to swear, the investor would receive the presumed profit amount.

The *kulo pikadon iska* is a complete investment where all profits would go to the investor, and would therefore be fully responsible. Here too, the manager would be required to verify his profits by swearing, unless the presumed profits are paid. There are distinct advantages to each contract based on the specific circumstances and a *rav* should be contacted in each situation.

Even after a *heter iska* is drawn up and the investment partnership is in place, there is still a potential ribbis concern. Since in an *iska* agreement there is still a borrower-lender relationship on one half of the money, the borrower may not work for the investor pro–bono, and must receive some compensation for his work. In cases where the compensation amount was agreed upon *at the time* the *iska* was drawn up, a small amount of money would suffice as compensation.

There are two compensation methods that may be used in an *iska* agreement. Some *heter iskas* state that one dollar has been advanced to the managing partner (borrower) for compensation for his work on behalf of the investor. When using such an *iska*, one dollar must actually be given to the borrower and cannot be forgiven. Other *heter iskas* call for allowing the manager a slightly higher percentage of profit than usual, while still being responsible for only half of the loss. The higher amount of profit that really should belong to the investor (since he took responsibility in case of loss) is given to the manager as his compensation. When such an agreement is made, the presumed interest does not change, only the amount of actual interest does. The one dollar payment would also not be necessary.