

# SECURITY

## Permissibility Of Maintaining Asset As Security In Contracts

*Is it permissible to maintain security in contracts?*

It is permissible to stipulate that the client furnish a security to ensure payment for debt whenever it becomes due. This security may be in the form of an asset.

The prerequisites that need to be met for the asset to be maintained as a security are the following: A pledged asset must be of value and be Islamically lawful to own, use, or sell. All its specifications must be clearly defined and it should be deliverable to the creditor. If a property held in common is pledged, then it is necessary that the percentage of pledge be clearly specified.

- It is permissible to grant more than one pledge on the same property. These pledges rank equally if registered on the same date. The recovery of debt from the value of the pledges may take place on a pro-rata basis . If the pledges are registered at different times then the priority in recovering debt is based on the dates of registration.
- The pledged asset may be maintained by the creditor or the debtor. All expenses related to a pledged asset excluding the expense for safekeeping are borne by the one giving the pledge (debtor). In case the one maintaining the pledge (creditor) incurs any expense on it, it may be claimed for from the one having given it.

In case of a default in the payment of debt, the creditor is entitled to sell the pledged asset in order to make up for the actual loss . He is not entitled to assume ownership of the pledged asset unless already mutually decided with the debtor. The creditor may stipulate that the debtor authorize him to sell the asset in case the debt is not recovered in time. In this way, a loss may be made up for without any recourse to a court of law.