

COLLATERAL

Asking For Collateral

Can banks request stocks or real estate owned by the client as collateral?

It is lawful to take collateral from the client whether in the form of real estate or stocks once it is verified that the client has unobstructed, legal possession of the asset. The bank holds the debtor's title to the collateral until all the dues are paid. It is not lawful to give something as collateral that is not permissible to transact.

Using Bank Accounts As Collateral

Is it lawful to use money deposited in bank accounts as collateral?

The use of deposits as collateral is lawful regardless of whether these are demand deposits or investment accounts. The amounts in such deposits may only be used as collateral if steps have been taken to prevent the depositor from accessing the amount for the entire period of collateralization. The profits accrued will be the right of the account holder.

Using Interest Bearing Accounts As Collateral

Is it lawful for the Islamic bank to accept a note from a conventional bank to the effect that the money possessed in its client's account will be held in the Islamic bank's favour as collateral?

It is lawful for the Islamic bank to hold a deposit in a conventional bank as collateral.

Placing Hold On Current Accounts As Collateral

Is it lawful for the bank to place a hold on a current account for an amount equal to a debt that is either owed by the account holder himself or guaranteed through an agency for another?

It is lawful to put a hold on a current account for debt owed by the client since in this way the client is considered to have honoured it by means of a deduction. It is also lawful to put a hold on the current account of a person serving as an agent on behalf of another for the purpose of honouring debt.

Money In Investment Account As Collateral

Is it lawful to make a purchase on the basis of deferred payments for a client who is an investment account holder at the bank if the account is used as collateral for the purchase price?

Such a purchase is lawful because the investment deposit represents a part of the goods purchased for sale and investment and it is lawful to hold material goods as collateral.

Machinery As Collateral

If a merchant purchases machinery from a conventional bank and uses it as collateral for the Islamic bank until he finishes paying for it but is unable after a few payments to continue; will it be lawful for the Islamic bank to purchase the machinery from the conventional bank and then resell it to the merchant?

It is lawful for the Islamic bank to purchase the machinery from the conventional bank and then resell it to the merchant. Ideally, however, it is better for the Islamic bank to refrain from dealing with interest-based banks altogether.

Land As Collateral

Is it lawful for the bank to sign an Istisna contract with a land-owning client for the purpose of developing the land, building on it and then selling the building to the client based on a Murabaha while holding the land as collateral until the client finishes making his payments?

It is permissible for the bank to enter into a contract of Istisna with its client for the purpose of developing land. Once the Istisna is concluded and the cost of the building becomes known, the cost will be the bank's right over the client or buyer. In case there is an agreement to defer payment, the bank will have the right to request the client to guarantee his payment of debt by offering the land as collateral.

Bonus Shares As Collateral

Is it lawful for Islamic banks to offer bonus shares as collateral in favour of conventional banks?

It is not lawful for Islamic banks to offer bonus shares as collateral in favour of conventional banks since it would be equivalent to facilitating an increase and guaranteeing a debt with interest.

Accounts Receivable As Collateral

Is it lawful for the credit department to stipulate in a contract that a company's accounts receivable be held as a guarantee for debt deferred in return for credit?

The credit department may reserve the rights to the accounts receivable of a company as a guarantee of its debt but only if this is made a condition at the time of contracting with the client.

Taking Collateral Before Debt Is Incurred

Is it lawful for the bank to take collateral from its client before it purchases goods from the importer and sells them to him?

The creditor has no right to take collateral from his client before the debt is established. It is only lawful to take collateral as confirmation of the execution of a contract of sale.

Collateral For Credit Facilities

Is it permissible to grant credit facilities to clients in return for goods held as collateral at the bank's own warehouses or in those of the client but under the bank's supervision?

It is permissible for the bank to accept pledges from its clients with regard to goods they may desire to purchase from it on a deferred basis, with the condition that they use the deferred price as collateral for a period of time. The goods may then be released in parts according to the percentages paid for the period of deferment.