

DOCUMENTARY CREDIT

Documentary Credit For Murabaha Sales

Is it permissible for the bank to issue documentary credit to a company for the purpose of selling its goods it has not yet received from the manufacturer? Would this be a Murabaha?

It is not lawful for the bank to issue documentary credit to a company for the purpose of selling its goods before having purchased them from the manufacturer. This is because among the conditions of a sale is that the object of the sale be owned by the seller at the time of the sale. Such a transaction cannot be considered a Murabaha since the seller's ownership is a condition before it can be sold to the purchase pledger.

The Client And Documentary Credit

How does documentary credit work from the client's perspective?

Documentary credit may be issued based on the client's balance in his account with the bank provided the amount is sufficient to cover the entire value of cash credit. The bank can deduct the amount from the client's account without charging any interest for the interim period, i.e. between the date the negotiating bank pays the exporter and the date of importing on the client's account.

The fee should be reasonable and in keeping with customary practice. If the client's account does not have sufficient balance to cover the entire value of the goods to be imported, the bank may pay a part of the value and become a partner according to the rules of a Musharakah.

Both partners must receive their share of profits in accordance with the percentage of capital invested by them. If the client has no balance, the bank may issue him documentary credit on the basis of the client's specifications. The client agrees to buy the goods from the bank upon their arrival at the port or upon arrival of their title documents based on the conditions of a Shariah-compliant Murabaha sale.

Repaying Documentary Credit

What is the Shariah perspective with regard to the bank extending financing for the import of goods in addition to issuing documentary credit?

The procedure for issuing documentary credit does not usually include the bank's extension of financing to the client; all of the financing is usually undertaken by the client himself. The bank

serves as the client's agent and receives a fee for the services it performs with respect to the issuance of the documentary credit. If the client advances only a part of the documentary credit's value and the bank expends some of its own funds, then it is necessary for the bank to receive a percentage of the profits according to the rules of a Musharakah rather than a fee.

When The Client Is Unable To Pay

What happens when the client is unable to pay all or part of the money due for the value of goods imported by means of documentary credit?

If the client pays a portion of the money due for the goods the bank may enter into a contract of partnership with the client in which each partner's percentage of ownership will be based on the amount each paid for the goods so that this amount will represent the partnership's capital investment. If the client is unable to pay anything, it is lawful for the bank to buy the goods from the client at a mutually agreed upon price and sell it to a third party. In this case all the profits accrue to the bank alone. Alternatively, the bank may take the goods as collateral in return for the amount it paid out and then sell it to a third party to settle the client's account and use the proceeds to pay the seller.

Approximation Of Value

When a client opens an account for documentary credit it is customary that the amount is considered approximate, varying upward or downward, for instance, 10%. When the client terminates this line of credit how does the bank calculate its fees?

The bank should calculate its fees on the basis of the agreement between the two parties and in return for a banking service. It is of no consequence if the amount is greater or less than the initial estimate since when the bank determines the fee it must consider actual expenses only regardless of the credit amount.