

INTEREST

Goods

When are goods considered unlike each other for purposes of avoiding riba?

If substantive value addition to the good entirely transforms its original form and content (e.g. oak wood and oak furniture), then the goods are considered unlike, regardless of weight. In cases where the end product is inherently similar to the original product, such as with gold jewellery, scholars advise that the gold should first be denominated in cash before exchanging it for jewellery.

Occurrence Of Riba

When does riba most commonly enter into a transaction?

Riba occurs when there is an unequal exchange of like goods or mediums of exchange, where “like” is defined as goods that are inherently similar however much they differ in quality (e.g. 1kg of high quality dates and 1kg of low quality dates).

Unlike Goods – Cash

Are two amounts of cash, each in a different currency, considered a “like good” for purposes of avoiding riba?

As regards cash, “like” refers only to the same currency.

Increment Over Lent Amount

May I charge an increment over a loan?

It is forbidden to charge any increment, however small, over the principal lent amount, regardless of the duration of the loan.

Charging Interest

Is it lawful to charge interest on a sum of money?

It is unlawful to charge any kind of interest rate, whether floating or fixed, on a sum of money, though it is lawful to agree before transacting that a good or service (but not money) transacted on spot is priced at x , and the same good or service transacted in future is priced at $x + y$ (or $x - y$), where y is the pre-agreed premium (or discount); but an obligatory condition for such an agreement is that both parties must agree on spot whether the transaction will be executed on spot or in future and for the price to be fixed on spot; it would be impermissible to agree open-endedly that the buyer is entitled to make a future choice of whether to buy on spot or not and for the price not to be fixed.

Monetary Penalty

May I charge a monetary penalty on a monetary payment?

It is unlawful to charge a monetary penalty on any form of monetary payment (e.g. fees for late rental payments, car payments, loan installments, etc.), though it is permissible to enter into a separate parallel contract beforehand whereby the one paying late is legally compelled to give money to a specified charity in the event of late payment, thereby fulfilling the lender's need to create a deterrent.

Direct Involvement In Interest-Based Transactions

What constitutes a direct involvement in interest-based transactions?

Unlawfulness depends on how direct one's involvement is to the interest dealings: direct involvement entails that one participates in the actual execution of an unlawful transaction; the one who buys, sells, trades, witnesses, records, calculates, recommends, instructs or in any way directly assists in an interest-based transaction *during* its execution is culpable (e.g. car buyer who contracts an interest-based lease; homeowner who takes a mortgage; futures and options trader; insurance salesman; loan officer); if an accountant, for instance, merely records a transaction that has already taken place, the involvement is not considered "direct," and therefore remains permissible, though it is always superior to avoid the doubtful.

Interest Dealings Of Counterparty

Am I liable for any interest dealings of the party I am transacting with?

One is not answerable for the interest dealings of the party with whom one transacts unless one is also directly involved in the interest dealings; for example, the real estate agent who assists in the purchase of a house is not answerable for the interest-based mortgage the buyer acquires later unless

the real estate agent also assists in acquiring the mortgaging, at minimum, by merely providing the buyer with guidance.

Involvement In Interest

What must I do if I am involved in interest?

If one is already involved in interest, one is obligated to leave all such transactions as soon as reasonably possible; if leaving the transaction is not possible such that one anticipates harm to oneself, one's dependents, one's property or one's religion, then one is obligated to take all necessary means to conclude the transaction (e.g. repay all interest-based loans) as soon as possible; the goods transacted in an interest-based transaction and the resulting profits earned thereby are themselves lawful to own and use (e.g. a house purchased on an interest-based mortgage and sold at profit), but the imperative to leave all interest-based transactions remains.

Permissibility Of Interest-Bearing Accounts

Are interest-bearing accounts permissible?

All interest-bearing bank accounts, however low the interest rate, are impermissible to maintain; in the rare event that there is absolutely no access to an interest-free account, there is a dispensation to maintain an interest-bearing account for the individual who seeks the additional financial security of a bank; this is only permitted on the condition that no other option exists (even if reasonably accessible outside one's city) and that the interest that one earns is returned to the bank or given to a Muslim or non-Muslim charity or a zakat-eligible recipient (with the intention of eliminating the unlawful wealth rather than with the intention of earning reward) accompanied by a sincere repentance.

Paying Service Fee To A Bank

May I pay the bank fee for services rendered by it on my behalf?

It is permissible to pay a bank fee or transaction fee for such services as maintaining an account, using an automated teller machine, purchasing or selling stocks, Internet trades and the like, but not for the service of providing a loan.

Interest-Free Account In A Conventional Bank

May I maintain an interest-free bank account in a conventional bank?

It is recommended to maintain bank accounts at Islamic banks, though it is permissible to maintain an interest-free account in a conventional bank.

Transacting With A Person Whose Income Is From Impermissible Means

May I enter into a transaction with someone whose income is from impermissible means?

It is impermissible to enter into a transaction (e.g. partnering in a business, borrowing, receiving a gift, etc.), even if a Shariah-compliant one, with an individual whose worth derived directly from interest or other unlawful means is greater than 50% when this is certain, where interest involvement for this purpose is measured as the financial extent of the interest dealings (e.g. if 5% of a \$100 transaction is interest, \$5 of the transaction, not the entire \$100, will be considered unlawful for the purposes of determining the unlawfulness of the person's wealth, even though the entire transaction is unlawful); it is offensive to enter into a transaction with an individual when there is doubt about whether the worth that he derived directly from interest or other unlawful means is greater than 50%.

Doubt Whether Earnings Are Lawful

May I transact with someone who I suspect earns from impermissible means?

The permissibility of transacting with a source whose earnings might be unlawful depends on the extent to which the source's wealth is unlawful and the degree of certainty to which one determines the extent of this unlawfulness. One should determine the unlawfulness of the source's earnings according to that which is reasonably apparent; it is neither recommended nor preferred to seek out information about the unlawfulness of a source's earnings.

Conditionality In Impermissibility Of Interest

Does interest become permissible in extreme circumstances?

Interest is absolutely impermissible in any situation except when one anticipates extreme harm, where the extremity of the need would be analogous to eating unslaughtered meat when dying of hunger and nothing else is available; any extremity less than this degree would not permit one to deal in interest; too often Muslims mistakenly believe that dealing in interest-bearing loans is an

“extreme need” these days in order to buy a home instead of renting, purchase educational loans, or finance car purchases, to name a few common examples; but unless the need is life-threatening, (which the need for home ownership, a car or an education is not) the impermissibility of dealing in interest remains.

Modifying An Interest-Based Sale According To Shariah Principles

How can I convert a conventional interest-based sale into one acceptable in Shariah?

When a good or service (not cash, gold, silver, securities or similar tradable instruments) is offered for sale through an interest-based transaction (e.g. car loan, property mortgage, education loan, etc.), it is permissible for the buyer to propose to the vendor the following: that the vendor combine all future principal and interest payments into one lump-sum amount and divide this new amount into installments, provided any late payment charges go to a designated charity rather than to the vendor (e.g. a house sells for \$150,000 with a 7% interest payment payable in monthly installments over a 20 year period; the buyer proposes that the bank negotiating the transaction add the \$150,000 principal to all future interest payments, and divide the new amount into monthly installments); it would be permissible to vary the installments (i.e. flat, increasing or decreasing installment sizes) provided all the amounts are pre-agreed; such a transaction avoids the *riba* created by interest payments and penalty charges, allows the seller to sell at any price he chooses, and permits the buyer to pay in installments.

Giving Interest Income In Charity

May I deal in interest with the intention of giving it away in charity?

It is impermissible to deal in interest with the intention of giving the benefit away in charity (the forbidden always takes precedence over the recommended).

Interest On Credit Card

May I use a credit card that charges interest?

It is impermissible to use a credit card that charges an interest rate, unless one is certain that one is able to repay borrowed amounts before incurring the interest charge, in which case it is permissible; it is permissible to use a debit or automated teller machine card (i.e. that draws cash directly from one's existing account); it is permissible to accept “points rewards” from one's credit card (e.g. frequent flyer mileage, vendor discounts, etc).

Selling Interest-Based Credit Card

May I sell or assist another in buying a credit card that charges interest?

It is impermissible to assist in the purchase of a credit card that charges an interest rate, and it is also impermissible to assist in the purchase of a credit card that only charges an interest rate after a reasonable grace period; in the former case one directly assists in the sin because the interest rate is a direct consequence of owning the credit card, whereas in the latter case one indirectly assists in the sin because the onus of prompt repayment is on the credit card owner.

Interest Dealings With Non-Muslims

May I make interest-based transactions with non-Muslims?

The impermissibility of dealing in interest remains even when transacting with non-Muslims or in non-Muslim lands.

Investing Capital In Expectation Of Percentage Payout

May I take a loan in which the lender makes a monetary investment in expectation of a percentage payout?

It is impermissible to take any kind of loan in which the lender makes a monetary investment in expectation of a percentage payout, because invariably some difference will occur between the investment and the payout, a difference that constitutes *riba* (e.g. a home equity loan that invests \$10,000 in a property in return for 10% of the property's selling price); it would be permissible to instead ascribe a percentage figure to a monetary investment and make a payout at the same percentage (e.g. a home equity loan that invests \$10,000, or 10%, in a property in return for 10% of the property's selling price), provided both lender and borrower share in any damages (not caused by any particular individual's negligence) to the property to the extent of their ownership share.

Logic Behind Prohibition Of Interest

What is wrong with charging a moderate excess over the principal, as with commercial interest rates, if participants mutually agree that a dollar is worth more today than it is tomorrow?

The argument is that because any unit of capital is worth more today than it is tomorrow, providers of capital should be compensated for foregoing the opportunity to use their capital for that time. But the problem with this arrangement is that the borrower of capital is compelled to guarantee (often at

a considerable price) the return of this capital, in addition to a fixed premium, while the lender incurs no risk (in so far as the loan collateral compensates his risk). There is no mutual participation of risk: the lender's motivation is not the mobility of capital for the sake of investment; the lender's motivation is the commitment of capital for the sake of preservation. In a risk-oriented investment, the principal (lender) is rewarded for his business acumen; in an interest-based transaction, the lender is rewarded simply for the ownership of capital.

It is this imbalance of benefit that Islam addresses. The equal participation among borrowers and lenders in a commercial market is entirely illusory. The source of capital value is not determined by the subjective desire of the participants in the market, but rather by the financial competition of the lenders in the market. In a competitive market, lenders will always extract the highest possible interest rate from their borrowers. It is this asymmetry between the economic advantage of the lender and the economic disadvantage of the borrower that Islam seeks to address by ensuring that market participants are equal stakeholders in risk capital. In the absence of investment risk there is a tendency for the market to focus on repayment of loans rather than the enhancement of investments.

Prohibition Of Riba As Applying To The Poor

Doesn't the prohibition of riba apply only to lending to the poor who are forced to borrow at high rates?

Besides the fact that the prohibition refers to everyone, at a practical level it is impossible to apply a quantitative standard (interest rates) to a qualitative circumstance (poverty). Who determines who is poor? Does one set a poverty line based on zakat eligibility? Will banks be forced to lend to these poor? Will the "risky" poor be charged higher rates than the regular poor? Before long the standards by which money is allocated become identical to conventional interest-based standards. Because there necessarily can be no quantifiable cut-off between what is an "interest rate" and what is a "usurious rate" further supports the Islamic view that the term riba does not distinguish between interest and usury in the Quran.

Notarizing Interest-Based Transaction

Are Islamic bank's permitted to notarize interest-based transactions?

Notarizing an interest-based transaction is impermissible since those who assist in an interest-based transaction are as culpable as those who deal directly in the interest.

Fees For Transfers

Is it permissible for the bank to charge a fee for the services it provides such as money transfers? Will it be lawful for the bank to increase its fee for this service in proportion to the amount transferred?

It is permissible for the bank to charge a fee for services such as money transfers. The fee charged must be in proportion to the service being provided. Therefore, if the bank concludes that the costs differ with differences in the sums to be transferred, the bank may increase its fee with increases in the sums. If, however, the costs do not differ, then a higher fee for a larger sum may not be charged.

Islamic Bank Depositing In Conventional Bank

Is it permissible for an Islamic bank to deposit funds in a conventional bank?

Islamic banks should seek to maximize their dealings with other Islamic banks, but in case of genuine need an Islamic bank may deposit funds with a conventional bank provided no interest is taken or given. If its withdrawals exceed the deposited amount so that the conventional bank becomes the Islamic bank's creditor, under no circumstances should interest be paid.

Repayment From Interest Bearing Accounts

If a client maintains accounts at an Islamic bank but also holds an interest-bearing account at a conventional bank, is it lawful for the Islamic bank to accept funds that have come directly from his interest-bearing deposits?

It is lawful for the Islamic bank to accept these funds because there is no connection between the Islamic bank and the source of these amounts. The one dealing directly in interest is considered culpable.

Assistance In Cash And Kind

Is it permissible for the bank to offer assistance in cash or kind to its current and investment account holders in return for the business they conduct with the bank?

It is permissible for the bank to offer assistance in cash or kind to its current and investment account holders provided that this is not stipulated as a condition at the time of the opening of the account, or becomes an expectation or customary practice. It is only permissible for the bank to provide assistance as a gesture of goodwill.

Charging Fees For Late Repayment

Some debtors have the ability to repay on time but continue to defer. Is the bank permitted to charge them a fee?

It is not lawful to charge anything above the due amount for a delay in repayment regardless of whether the delay is intentional or not. Instead the bank should seek legal recourse against the debtor and at the time of entering into the transaction should include a charity clause entitling the payment of penalties to a designated charity.

Purchase Of Business License

Is it lawful to purchase the business license of a company that operates on the basis of riba when it is being sold and none of its riba-based assets remain, with the intention to make its operations Shariah-compliant?

It is lawful to purchase the business license of a business whose operations are riba-based for the purpose of making them Shariah compliant.

Interest From Bank Deposits

What is the Shariah ruling in regard to a Muslim depositing his money in a conventional bank?

It is unlawful for a Muslim to deposit his money in a conventional bank when it is possible to deposit the money in a comparable Islamic bank.

Deposits In Conventional Banks In Muslim And Non-Muslim Countries

Is the prohibition of interest the same in whether one deposits in a bank located in a Muslim or a non-Muslim country?

The ruling in regard to depositors taking interest is the same whether the bank is located in a Muslim or in a non-Muslim country. The interest earned on the deposits is unlawful for the Muslim to consume or use to his personal benefit.

The Definition Of Riba

What is the definition of riba?

The word *riba* refers to any excess, increase or additional compensation that is not in exchange for a due consideration.

There are two main types of *riba*: *Riba Al Nassiya* and *Riba Al Fadal*

Riba Al Nassiya

Any transaction of credit earning profit for the granter of the loan is referred to as *Riba Al Nassiya*. The establishment of a pre-determined amount in excess of the original loan, whether called a premium or interest, or whether its rate is high or low, falls into this classification. It is the type of *riba* that conventional interest-based banking is based on.

Riba Al Fadal

Any excess granted or received in an exchange between inherently similar commodities is referred to as *Riba Al Fadal*.

The Prophet (God bless him and give him peace) said:

“...gold for gold, silver for silver, wheat for wheat, barley for barley, dates for dates, and salt for salt, like for like, equal for equal, and hand to hand, if the commodities differ, then you may sell as you wish provided that the exchange is hand to hand.”

This means that 10kg of wheat may only be exchanged for 10kg of wheat.

In the exchange of unlike commodities an excess is allowed, however, deferment is prohibited. The exchange must take place at spot.

For instance an exchange of 10 kg of wheat for 12 kg of barley is permissible at spot.

This hadith may also be related to the practice of currency exchange.

In order to avoid *riba*, the same currency must always be exchanged at spot. In an exchange involving different currencies, at least one consideration must be paid (at spot) and the payment of the other may be deferred. However, the exchange must take place at the market rate prevalent at the time the first consideration is paid.

Amwaal E Ribawiya

What are Amwaal e Ribawiya?

Goods which, when exchanged with one another, result in the accrual of interest by either party are referred to as *Amwaal e Ribawiya*. Six such items have been classified in a Hadith: gold, silver, wheat, barley, salt and dates. These items may only be exchanged for each other in equal measure and at spot.

Islamic Financing From Interest Based Fund

Can a company offer Shariah-compliant financing if its fund sources are interest-bearing?

No, it would not be permissible for the company to engage in borrowing on interest and providing financing Islamically.

Using Riba Based Income as Capital

Can a person who receives a riba based sum of money as part of a divorced settlement use the cash to buy houses to rent?

It would be permissible to keep the money because the sin of the riba returns to the person dealing in the riba, not the one receiving the money. The money may be used in any permissible way. For the divorce settlement, though the specificity of the issue takes us beyond the scope of a simple answer, one must always ensure that the divorce was Islamically settled since conventional financial settlements following a divorce are not permissible.