

LOAN

Agreeing Repayment In Loan

Is it permissible to borrow interest-free money without both the parties agreeing to a fixed repayment date?

It is impermissible to borrow money without both parties agreeing a fixed repayment date (or fixed repayment schedule).

Benefiting From Loan

Is it permissible for the lender to derive any monetary benefit from the disbursement of a loan?

The loan should not derive any benefit to the lender, whether monetarily, in-kind, gifted, as a favor, or in the form of a service; unless the borrower does so voluntarily and the lender accepts once the loan is made.

Repaying Principal With Something Extra

Would it be permissible for the borrower to repay the loan amount with some extra value above the principal?

It is permissible for the borrower to repay an amount greater than the size of the loan as a gesture of goodwill (without letting such a gesture become customary practice), but impermissible for the borrower to promise to pay a greater amount at the time of borrowing or for the lender to demand a greater amount.

No Binding Conditions In Loan Contract

What is the ruling on attaching conditions to the loan contract?

The loan should be free of binding conditionality (not including the conditions of collateral or guarantor, which are permissible); forbidden are conditions that compel the borrower to do something or refrain from something outside of the agreement to repay the loan; the lender may, however, inquire about repayment and insist on timeliness.

Respite For Loan Default

If due to a genuine cause the borrower is unable to repay a loan, what course of action should the lender take?

The lender is obligated to grant respite to the borrower if it is established that the borrower is unable to repay the loan on time due to a genuine excuse (e.g. bankruptcy, unemployment, emergency expenditures).

Lending: When One Suspects Unlawful Usage

May one lend money or property when one suspects unlawful usage?

It is impermissible to lend money or property when one is certain that it will not be used lawfully, and offensive when one doubts whether it will be used lawfully.

Early Payment Discounts

Is the borrower entitled to any early payment discounts?

It is impermissible for the borrower and lender to agree a discount on the loan if the borrower repays before the due date.

Money Lending Should Be Unconditional

When lending money, may the lender specify how the borrower is permitted to use the money?

The lender is not permitted to specify how the money may be used or impose restrictions on how it may not be used.

Repaying Loan In Kind

Can borrowed money be repaid in kind instead of in cash?

Provided the lender agrees, the form of repayment can be different from the form of the original loan (e.g. a cash loan repaid in its equivalent in wheat).

Restricting Use Of Lent Property

May the lenders restrict how lent property is used?

The lender is entitled to specify how the property may be used and impose restrictions on how it may not be used.

Damage To Lent Property

Who is responsible to pay for damage to lent property?

The lender is responsible for paying for any damages caused by normal wear sustained during the property's intended use. The borrower is responsible for paying for any damages caused by himself, a third party, or acts of God during the property's use, whether the damage occurs during usage intended by the lender or not.

Permissibility Of Lending Property On Rent-Free Basis

May property be lent free of rent?

It is permissible to lend property free of rent while stipulating that the borrower pay for repairs related to his use.

Correct Intentions For Borrowing

What should the borrower's intention be at the time of borrowing?

At the time of borrowing the borrower must have a firm intention to repay the lender; to borrow without such an intention is impermissible and to benefit from the borrowed item unlawful.

Borrowing Must Be Accompanied With Fixed Repayment Schedule

May one borrow from a lender without there being an agreement on a fixed repayment date?

It is impermissible to borrow money without both parties agreeing a fixed repayment date (or fixed repayment schedule).

Duties Of Borrower With Regard To Borrowed Item

What protective measures must the borrower take with regard to the borrowed item and its return?

It is obligatory for the borrower to safeguard the borrowed item and return it in its complete form; if the item is unique and irreplaceable (e.g. animals, jewelry) the item itself must be returned; if the item is replaceable (e.g. money, oil, sugar) then an equivalent amount must be returned, regardless of the duration of the loan or the change in market value. When returning a replaceable item, it is permissible to return the same item of a superior quality (e.g. long grain rice instead of short grain rice) if the lender accepts, but not an item of inferior quality; to avoid riba, it remains a condition that the amount returned be equal in quantity (i.e. weight, measure, count, etc.) if not identical in quality.

Guidelines For Borrower

What guidelines are there for the borrower regarding the consumption of money, replaceable items, and irreplaceable items?

The borrower may consume the money or replaceable goods in any manner he chooses provided this consumption does not hinder his ability to make a timely repayment or to return irreplaceable goods in the condition he borrowed them.

Delaying Repayment Without Valid Excuse

May the borrower delay repayment of the loan which is due for purchasing a non-essential?

The borrower is obligated to repay the loan once it becomes due and is forbidden from purchasing non-essentials; delaying repayment without a valid excuse is a major sin.

Repaying Loan With Extra

May the borrower repay the loan with an amount greater than the borrowed loan (the excess being a gesture of goodwill)?

It is permissible for the borrower to repay an amount greater than the size of the loan as a gesture of goodwill (without letting such a gesture become customary practice), but impermissible for the borrower to promise to pay a greater amount at the time of borrowing or for the lender to demand a greater amount.

No Early Payment Discounts

May the borrower receive an early payment discount on the loan?

It is impermissible for borrower and lender to agree a discount on the loan if the borrower repays before the due date.

Extent Of Borrower's Liability

What is the liability for the borrower in relation to the borrowed item?

The borrower is responsible only for loss, damage or theft resulting from his own negligence, but not otherwise; the borrower is responsible for any loss, damage or theft occurring after the item was due to be returned, whether due to his own negligence or not.

Guaranteeing Creditor Against Loss

May the borrower, before borrowing, guarantee the creditor against loss, damage or theft?

It is impermissible for a borrower to guarantee against loss, damage or theft before borrowing; responsibility for loss, damage or theft is determined at the time it occurs, whether due to the borrowers negligence, in which case the borrower is liable, or otherwise, in which case the lender is liable.

Placing Stipulations On How A Borrowed Item Is Used

Can a lender stipulate how a borrowed item is used?

The restriction of unconditionality does not include valid stipulations for irreplaceable borrowed items relating to usage of the item, since a condition of using an irreplaceable item is that it is returned in the same condition, and certain kinds of usage affect the condition of a borrowed item (e.g. it is permissible to say: "you may only drive the car during daylight hours" if the lender feels that driving it at night may be dangerous); the borrower is liable for loss, damage or theft resulting from disobedience to a valid stipulation; it is impermissible, however, to restrict the usage of replaceable borrowed goods (e.g. it is impermissible to say: "you may only use this money to buy food"), because unlike trusts, commissions, and investments, the borrower is not bound under any obligation other than a general one to return what is borrowed.

Transferring Borrowed Item To Third Party

Does the borrower have the authority to transfer the borrowed item to a third party without the lenders permission?

A borrower may not transfer borrowed item to another party unless he receives prior permission from the lender.

On Returning Item To Heir's Of The Lender

If the lender passes away or becomes insane, to whom should the borrower return the borrowed item?

If the lender passes away, or becomes insane or incapacitated, the borrower is responsible for returning the item to the lender's heirs (if the lender passes away) or the lender's guardian (if the lender becomes insane or incapacitated).

Delaying Repayment Of Loan

Is it permissible to intentionally delay repayment of loan?

It is impermissible for a debtor possessing the means to pay the creditor to delay payment unnecessarily beyond the agreed upon date.

Loan Bringing Benefit

Is it permissible to make an interest-free loan to a client on condition that he deal exclusively with the bank when buying and selling foreign currency or at least use it as an intermediary?

It is not lawful for the bank to make a loan and attach any condition that provides the bank with direct or indirect benefit.

Government Loans

(i) Is a government loan that uses the consumer price index and increases by about 3% almost every year based on the rising cost of living considered ribawi or is such a change in the loan amount permissible as it merely reflects current market values? (ii) If an individual has taken such a loan without knowing of it being ribawi what should he do if he hasn't paid any riba yet as the government requires the loan be repaid once the individual's yearly income is above a certain

threshold and he has not reached that threshold? (iii) Should he only pay the amount borrowed or the riba as well?

(i) Such a loan would be ribawi. Increasing a loan to reflect inflation, movement on an index, a change in the cost of living, or the like, is not permissible. (ii) For ribawi loans already incurred, the individual should make every effort to get out of them as soon as possible, even if it means taken on a second or third job. (iii) He has to pay off whatever he owes, regardless of it being ribawi or not.

Loan Transfers Are Absolute And Final

Are loan transfer's absolute, freeing the transferor of the obligations it owed to the lender?

Transfers are complete and final (unless they are transferred back in a new agreement) and once the transfer is effected the lender cannot hold the borrower accountable for the new party's actions.

Mutual Loans

If a bank requires dollars for one month, is it permissible to request another bank to grant this amount as an overdraft on its account there, without a fee but in exchange for something of equal value, such as dirhams, on the basis that when the dollars are returned the dirhams will be returned as well?

It is permissible to exchange these kinds of interest-free loans provided no fee, payment, or penalty is attached to them.