

# FATAWA ON ISLAMIC BANKS

## I. RATIONALE AND OPERATIONS OF ISLAMIC BANKS

SUBJECT: How do Islamic banks work and make profit?

From: Islam on line

Date: 1/30/2002

Name of Questioner

Gender

Age

education

Date Submitted 1/19/2002

Email

country of Origin

User Ref. No. 43SFRF

country of Residence

Question

Assalamu Alaikum. I have a question about the Islamic banking system. I was reading about an Islamic bank in my area that gives loans for houses and cars yet they don't ask for any interest in return. And the savings accounts also don't collect interest. So my question is, how do these Islamic banks make profit? Especially if they give loans to people without asking for interest in return?

My Answer:

Dear Br. questioner,

Assalamu Alaykum wa Rahmatullahi wa Barakatuh.

Al Hamdu li Allah wa al Salatu wa al Salam ala Rasuli Allah.

Islamic banks provides finance on the basis of equity sharing, sale (buy cash and sell to customer at higher deferred price) and lease (buy cash and lease to customer to recover principal and some extra during the period of the lease) contracts; and they make money in all three forms of financing.

I don't know about the Islamic bank in your that you described. But all Islamic banks give return to depositors in investment accounts. The system is a bit different from conventional banks. Islamic banks take deposits in accounts they call them investment account because depositors enter into a partnership agreement with the bank that the latter uses their funds to conduct its business and share with them the net return. Islamic banks also accept demand deposit in current accounts, no return is given.

You may find some reference to review in the several websites available on the subject.

Wa Allahu A'lam

Wassalam

Sincerely,

Dr. Monzer Kahf

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SUBJECT: What is the alternative to the interest-based banking system?

From: Islam on line

Date: 2/18/2002

Name of Questioner Nowshad Gender Male Age 21-30  
Education Post Graduate Date Submitted 1/30/2002 Email  
country of Origin Bangladesh User Ref. No. S8C8G3 country of Res. Bangladesh

Question

Assalamu Alaikum. I am facing some queries with presently available BANK interest. All these are: 1) Is the present Banking system OK in respect to Islamic Jurisprudence? 2) If we say present Bank-interest is HARAM, we have to think about all the Muslims in our countries who are engaged as employees in Banks as they work with Haram. So, let's be careful about our comments. 3) If we take loan, that is nice in the eyes of present situation. But if we take bank-interest, we feel like taking Haram. 4) Fixed-deposits etc. should also be our point of discussion. So, please help us with your understanding or knowledge. Some banks claim they work on Islamic rules (like Al-Baraka etc.). Can we accept them? If positive, advise us about how we can get those banks' facilities in remote places (Do they allow Internet banking? etc.).

My Answer:

Dear Br. Nowshad

Assalamu Alaykum wa Rahmatullahi wa Barakatuh.

Al Hamdu li Allah wa al Salatu wa al Salam ala Rasuli Allah.

My dear brother your questions are only half a century late! In the early 1950s these issues were subject of discussion.

YES, conventional (i.e., those that work on the basis of interest) banks are Haram because interest is the same Riba that is prohibited in the Qur'an (Verses 2: 279-280).

They are Haram to establish, Haram to own their stocks, and Haram to take interest-based loans from and to deposit fund for interest at, Their CDs (Certificates of Deposits) are also Haram. Over the last 39 years the word has been witnessing the establishment and expansion and increase of Islamic banks at an annual rate that is more than 10%.

Bangladesh has at least four Islamic banks the oldest of them is more than 20 year old.

Please check the Islamic bank at the website of Islam on line and find out more info about them and whether any of them has Internet banking.

Wa Allahu A'lam

Wassalam

Sincerely,

Dr. Monzer Kahf

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SUBJECT: Islamic Banks and the new Fatwa of al Azhar

From: Islam on line

Sent: Thursday, March 06, 2003

Name of Questioner Qureshi Gender Male Age Above 60

Education Date Submitted 2/27/2003 Email

country of Origin User Ref. No. RU91K5 country of Residence

Question

Assalamu Alaikum: RIBA: Al-Azhar Fatawa say modern fixed bank interest is not Rib-aj-jahliya. Here in Pakistan the devaluation is about 18%p.a banks pay only 12% which they call profit. We officially have no Riba bank accounts are profit/loss accounts but in reality its interest as offered by any other bank. I don't have a job right now and I am unable to enter a business and I need constant income my savings are eroding as I am living on my savings for the past 13 months. Please suggest. Is this PROFIT Riba? Can I take this profit for a certain period of time till I'm able to earn some money through a job or a business?

My Answer:

Bismi Allah al Rahman al Rahim

Al Hamdu li Allah Rabb al 'Alamin

wa al Salatu wa al Salamu 'ala Sayyidina Muhammad wa 'Ala 'Alihi wa Ashabihi Ajma'in

Dear Br. Qureshi

Assalamu Alaykum wa Rahmatullahi wa Barakatuh.

I don't want to dwell on the new Fatwa of Azhar, it is political and instigated by the Shaikh of al Azhar who expressed the same Fatwa before and was banned from the OIC Fiqh Academy in 1995 because of it. This Fatwa has no base in Shari'ah on two grounds:

1-the contract of bank deposits is a loan contract, it is not investment. Shari'ah defines any increment in a loan as Riba and Riba al Jahiliyyah as prohibited in the Qur'an itself.  
2- the conventional banks' activities is mainly to give loans to businesses on the basis of interest, hence depositing with a conventional bank is tantamount to giving it money to give interest-based loans and the source of the banks income is from interest

Your case is very typical my dear brother. What conventional banks in Pakistan give on deposits is interest even if they call it profit. Pakistan has several private Islamic banks you can deposit in them what they give to depositors is a share of profit and they give to businesses on the basis of Shari'ah-compatible financing contracts. You can deposit in these banks or make a business with a friend or relative.

Wa Allahu A'lam

Wa Alhamdu li Allah Rabbi al 'Alamin

Wassalam

Sincerely,

Dr. Monzer Kahf

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SUBJECT: Differences about Islamic banking

From: Islam on line

Sent: Monday, March 04, 2002

Name of Questioner Samir

Gender Male

Age 46-60

Education Graduate

Date Submitted 2/6/2002

Email

country of Origin Egypt

User Ref. No. 7MJJ9X

country of Res. Egypt

Question

How come that there is some accept the non Islamic banks and some does not accept that

My Answer:

Bismi Allah al Rahman al Rahim

Al Hamdu li Allah Rabb al 'Alamin

wa al Salatu wa al Salamu 'ala Sayyidina Muhammad wa 'Ala 'Alihi wa Sahbihi Ajma'in

Dear Br. Samir

Assalamu Alaykum wa Rahmatullahi wa Barakatuh.

Our responsibility is to explain the Shari'ah to women and men and it is each person's responsibility toward God to implement what pertains to her/him.

Islamic banks make their contracts within the limits of Shari'ah and from that point of view they differ from non-Islamic banks, but the matters of management and efficiency depend on factors other than the Shari'ah permissibility of contracts. Those who reject Islamic banks because their contracts are Rib and other Haram-free are wrong and they commit a serious sin.

Wa Allahu A'lam

Wassalam

Sincerely,

Dr. Monzer Kahf

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SUBJECT: Islamic banks in UAE

From: Islam on line

Sent: Wednesday, March 27, 2002

Name of Questioner JASSIM

Gender Male

Age 31-45

Education Graduate

Date Submitted 3/6/2002

Email

country of Origin UAE

User Ref. No. 8WCE5V

country of Res.

Question

I have an account with Islamic bank in UAE and that bank gives profit yearly. On this profit some Muslim brother are commenting this is also a kind and different of interest but Islamic banks have termed as profit instead of telling Interest. Kindly make me clear in this regard.

My Answer:

Bismi Allah al Rahman al Rahim

Al Hamdu li Allah Rabb al 'Alamin

wa al Salatu wa al Salamu 'ala Sayyidina Muhammad wa 'Ala 'Alihi wa Ashabihi Ajma'in

Dear Br. JASSIM

Assalamu Alaykum wa Rahmatullahi wa Barakatuh.

The Islamic banks in UAE (Dubai Islamic Bank, Abu Dhabi Islamic Bank and recently the National Bank of Sharja if the latter completed its transformation to Shari'ah rules) abide by the rules of Shari'ah and have respected Shari'ah boards. They make financing in accordance with Shari'ah and the profit they distribute is a Halal profit. It is not interest. And those who accuse them of gaining and distributing interest under name of profit are wrong and must be questioned for such false accusations. Be assured of this my dear brother.

Wa Allahu A'lam  
Wassalam  
Sincerely,  
Dr. Monzer Kahf

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SUBJECT: Can banks operate without interest (Riba)

From: Islam on line

Sent: Sunday, September 08, 2002

Name of Questioner Nassor Gender Male Age 31-45

Education Diploma Date Submitted 8/20/2002 Email

country of Origin Tanzania User Ref. No. HBJBGT country of Res. Tanzania

Question

1. I know that Riba is a sin. But how should banks operate if they don't take interests? 2. I was planning to start my business but the only way of acquiring capital at the moment is by taking a bank loan. I decided not to take the loan for I know that Riba is against the Shari'ah. Does it mean that it is very difficult for us poor Muslims to start our own business or is there another way of getting business loan according to Shari'ah? Thanks.

My Answer:

Bismi Allah al Rahman al Rahim

Al Hamdu li Allah Rabb al 'Alamin

wa al Salatu wa al Salamu 'ala Sayyidina Muhammad wa 'Ala 'Alihi wa Ashabihi Ajma'in

Dear Br. Nassor

Assalamu Alaykum wa Rahmatullahi wa Barakatuh.

As you rightly said Riba is a great sin. God in the Qur'an (2: 279) declares a war from God and His Messenger on those who do not quit and abstain from dealing in Riba. Bank interest is Riba.

Banks can run without Riba. They take money from depositors on profit sharing basis and they give financing on either profit sharing, leasing or deferred sale basis. This is the Islamic way of running banks and there are more than two hundred banks in the world today that operate according to these principles.

I know it is difficult for Muslims who live in countries that do not have Islamic banks to get financing in accordance with the Shari'ah. Such Muslim communities are required by our religion that they should establish financing institutions that operate according to Shari'ah, Islamic banks, Islamic finance cooperatives, etc. It is a religious obligation on all such Muslim people. And until then we still must abstain from Riba unless in case of necessity for housing or to save a business, but the rule of necessities do not allow a relaxation of a prohibition for the purposes of promoting a business or to start one.

Wa Allahu A'lam

Wa al Hamdu li Allah Rabb al 'Alamin

Wassalam

Sincerely,

Dr. Monzer Kahf

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SUBJECT: Main motive for establishing the First Islamic investment bank in Malaysia

From: Islam on line

Sent: Friday, January 03, 2003

Name of Questioner Om-Samir

Ref No 525MQ

Age 46-60

Education Diploma

Date Submitted 10/29/2002

Email

Country of Origin United States

Country of Citizenship United States

#### Question

My husband and I are less than well-to-do so we just manage to pay our bills. We also help our daughter go to college. Abo-Samir dreams of going to Hajj. I think that if we had a dedicated savings account we could save for such a trip, but we don't want to open a typical USA bank savings account because they earn interest. If we eventually were to open this kind of account, we will not want the interest it earns. What is the best thing to do? Open one? Not open one? And if we do, what do we do with the interest? We would want to give it away in a Halal manner so that our Hajj money would be Halal. So what is the best thing to do with this interest? Saving money is the only way we could do this as we have no rich friends or relatives that would give such a wonderful gift, nor would we expect it.

#### My Answer:

Bismi Allah al Rahman al Rahim

Al Hamdu li Allah Rabb al 'Alamin

wa al Salatu wa al Salamu 'ala Sayyidina Muhammad wa 'Ala 'Alihi wa Ashabihi Ajma'in

Dear Sr. Om-Samir

Assalamu Alaykum wa Rahmatullahi wa Barakatuh.

Your case is quite typical of most Muslim families. This was the main motive behind inventing the first Islamic bank in Malaysia in the early 1960s. People save for several years to make the trip to Hajj, many of them under their own mattresses. The Idea of this bank, called Tabung Hajji, is to use these savings in Shari'ah permissible investments and distribute dividend, thus helping account holders accumulate the needed money in a faster way. Unfortunately we don't have an Islamic bank in America that helps us do the same. If opening a saving account helps you accumulate the amount of savings you need while protect the money from loss and theft, go ahead and do it and give away the interest to a Muslim charity. You don't have to tell the charity that the money is interest but it is permissible to tell them. You must not add the interest to your own money, not for use in Hajj nor other needs, because according to Shari'ah this is not yours, but given voluntarily in an invalid contract (from Shari'ah point of view) but you do not return it to the payer to avoid helping it make more interest-based transactions.

Wa Allahu A'lam

Wa Alhamdu li Allah Rabbi al 'Alamin

Wassalam

Sincerely,

Dr. Monzer Kahf

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SUBJECT: We need to be educated about Islamic banks

From: fatwae@islam-online.net

Sent: Tuesday, January 21, 2003

Name of Questioner Rizwan

Gender Male

Age 31-45

Education Post Graduate

Date Submitted 1/1/2003

Email

country of Origin Pakistan

User Ref. No. PYFT3U

country of Res. Saudi Arabia

#### Question

DEAR SCHOLAR, ASSALAM-O-ALAIKUM I KNOW THAT INTEREST IS PROHIBITED IN ISLAM. EVERY MUSLIM SCHOLAR IS SAYING THAT TAKING INTEREST IS HARAM AS WELL AS DOING JOB IN A BANK IS ALSO HARAM, BUT WHERE AND WHAT IS THE ALTERNATE SYSTEM? IS THERE ANY ALTERNATE SYSTEM AVAILABLE IN THIS WORLD. AS FAR AS I KNOW ALL BANKING SYSTEM IS BASED ON INTEREST. HOW CAN A PERSON SURVIVE IN THIS MODERN WORLD WITH OUT BEING INVOLVED IN THIS SYSTEM. I AM LIVING IN SAUDI ARABIA BUT HERE ALSO THE BANKING SYSTEM IS BASED ON INTEREST. IT IS THE RESPONSIBILITY OF ALL MUSLIM SCHOLARS TO DEVICE AN INTEREST FREE BANKING SYSTEM WHICH CAN TAKE UP THE PRESENTLY INTEREST BASED BANKING SYSTEM AND THIS TRANSITION WILL BE GRADUAL NOT ABRUPTLY. I WANTED TO INVEST SOME MONEY BUT I HAVE NO KNOWLEDGE OF ANY BUSINESS, AND IF I GIVE THIS MONEY TO SOMEBODY FOR BUSINESS HE WILL GIVE SOME PROFIT FOR SOMETIME AND THEN HE WILL SAY THAT ALL THE MONEY HAS BEEN LOST IN BUSINESS. I HAVE SEEN THIS THING HAPPENING MANY TIMES. IF A PERSON HAS RETIRED FROM HIS JOB AT THE AGE OF 60 YRS AND HE IS GIVEN SOME MONEY FROM HIS DEPARTMENT AT THE TIME OF RETIREMENT (GRATUITY) AND HE HAS 5 DAUGHTERS TO MARRY, AT THE AGE OF 60 HE CAN NOT DO ANY WORK. NOW IF HE WILL NOT INVEST THIS GRATUITY IN SOME SCHEME IN A BANK THIS MONEY WILL FINISH IN LESS THAN 5 YRS, THAN WHAT WILL HE DO? IF EVERYONE WILL STOP INVESTING IN BANKS THAN WHOLE ECONOMY WILL COLLAPSE. IF YOU HAVE ANY SOLUTION FOR THIS PROBLEM, PLEASE TELL ME.

#### My Answer:

Bismi Allah al Rahman al Rahim

Al Hamdu li Allah Rabb al 'Alamin

wa al Salatu wa al Salamu 'ala Sayyidina Muhammad wa 'Ala 'Alihi wa Ashabihi Ajma'in

Dear Br. Rizwan

Assalamu Alaykum wa Rahmatullahi wa Barakatuh.

There are many Islamic banks in the world today. They live and operate without interest.

Please go the nearest bookstore and make some reading on Islamic banking. Your

question has been answered hundreds of times over the past forty years. Islamic banks started forty years ago and they are growing at more than 10% every year.

Wa Allahu A'lam

Wa Alhamdu li Allah Rabbi al 'Alamin

Wassalam  
Sincerely,  
Dr. Monzer Kahf

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**SUBJECT:** Most workers in conventional banks are bad sources of  
information about Islamic banks

From: islamonlinenet@hotmail.com

Sent: Sunday, February 02, 2003

Name of Questioner RIZWAN Gender Male Age 31-45

Education Post Graduate Date Submitted 1/28/2003 Email

country of Origin Pakistan User Ref. No. XGHHE9 country of Res. Saudi Arabia

#### Question

DEAR SCHOLARS,ASSALAM-O-ALAIKUM.I SUBMITTED A QUESTION REGARDING INTEREST ,MY REFERENCE NUMBER IS "PYFT3U".SORRY SIR I AM NOT SATISFIED WITH YOUR ANSWER, YOU SAID THERE ARE SO MANY BANKS WHO ARE DEALING IN INTEREST FREE BANKING.I DON'T HAVE ANY KNOWLEDGE ABOUT THEM.RIGHT NOW I AM RESIDING IN SAUDIARABIA.ONE OF MY UNCLE IS ON A HIGH POST IN SAUDI HOLLANDI BANK ,HE TOLD ME THAT IN SAUDI ARABIA THERE IS NO BANK WHICH IS DEALING WITHOUT INTEREST,WE HAVE LOT OF SEMINARS DICUSSING ON THE MATTER,BUT NO SOLUTION.AS REGARDING YOUR PREVIOUS ANSWER,PLEASE GIVE ME THE NAMES OF BANKS WHO ARE DEALING IN INTEREST FREE BANKING BOTH IN PAKISTAN AND SAUDIARABIA.I WILL BE HIGHLY GREATFUL TO YOU.

#### My Answer:

Bismi Allah al Rahman al Rahim

Al Hamdu li Allah Rabb al 'Alamin

wa al Salatu wa al Salamu 'ala Sayyidina Muhammad wa 'Ala 'Alihi wa Ashabihi Ajma'in

Dear Br. RIZWAN

Assalamu Alaykum wa Rahmatullahi wa Barakatuh.

Your uncle works in an interest-ridden bank, he is in this sense under the influence, he does not know the difference between interest-based financing and financing the makes profit but does not deal with interest. In the bank where your uncle works they call interest commission, but changing the name does not change substance! Interest-free financing takes sale, lease or partnership as bases for financing. It makes profit and distributes return to depositors, who put their money with the bank on the basis of partnership too instead of the basis of loans as in the bank where your uncle works. If you live in Riyadh go and visit, the Shari'ah advisory office of "Sharikat al Rajihi al Masrafiyyah li al Istithmar" and meet Dr. Abd al Rahman al Atram, give him my personal Salam and ask him how this bank works without interest. In Pakistan there is a Faisal Islamic Bank, and a Barakah or TAwfiq Islamic Bank (both private). I requested you to do some reading homework and instead of that you asked a person who is involved in an interest-based bank! [In Egypt there are three of these banks. In Jordan,](#)



Kuwait, Bahrain, Emirates, Qatar, Algeria, Tunisia, Bangladesh, Malaysia, Indonesia, and in Europe and USA there are Islamic banks and financial institutions too. But acquiring knowledge needs effort on your part not dependence on you uncle!

Wa Allahu A'lam

Wa Alhamdu li Allah Rabbi al 'Alamin

Wassalam

Sincerely,

Dr. Monzer Kahf

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## II. DEALING WITH ISLAMIC OR CONVENTIONAL BANKS

SUBJECT: Depositing in conventional banks

From: [scitech@islam-online.net](mailto:scitech@islam-online.net)

Date: 9/12/00

My Dear Brother who did not give his/her name  
Al Salamu Alaikum WA Rahmatullah wa Barakatuh,  
your question is about putting money in banks, you did not mention where and under what circumstances.

My Answer:

Al Hamdu li Allah wa al Salatu wa al Salamu ala Rasuli Allah,

Any conventional bank certainly uses money deposited in it to its own benefit. However these deposits cost the bank money to maintain their accounts and transactions, Several points should be made clear:

1) if you are in a Muslim country and there is, at least one Islamic Bank that provides services, generally of the same qualities as the conventional banks , at that Islamic bank is accessible to you without much additional effort and cost, (a little additional effort and cost is always tolerable), it is then Haram to place funds with the conventional bank, whether in current deposits (that does not generate interest) or in timed deposits and saving accounts (that generate interest).

2) If you are in a Muslim country that does not have an accessible Islamic bank , or in a Muslim community , as a minority, and there is no Islamic bank too, and if you need the convenience of having a bank account for the deposits of your income checks and the payment of bills and for safeguarding the funds, as our case here in the United States, We MUST first always make sufficient efforts to establish an Islamic bank that allows us to have the convenience we need without having to deal with a Riba-ridden business establishment (a conventional bank) , this is a Fard Kifayah , i.e., all Muslims who are able to do it are required personally and each one of them is required by Shari'ah to cooperate with others to establish such an Islamic banking institution, and whose of us who do not undertake this responsibility are sinful as long as they can do it and it is not yet done. Second, until an Islamic bank is established, we are permitted, out of this general need that stands equal to individual necessity, to make necessary transaction with

a conventional bank , and we keep our seeking the forgiveness from Allah, the almighty, we keep our relation to minimum that we need and if any interest comes out of such transaction, we MUST give it away for charity, preferably through the Islamic center, and we do not consider this giving part of our Zakah, nor it is a Sadaqah, it is in fact nor our money because interest is Haram and it is not an earning to Muslim, we give it away because we have to keep our own money pure from it.

3) if you can keep your money in a safety box without having to bear the inconvenience of needing to write checks and cashing checks of income and receipts and having salary transfers come directly to your account, and you are willing to make the payment of the fees of the safety box, you may then do that, but remember that this is a serious inconvenience for most other Muslims, hence do not object to their having current accounts with these banks.

Wa Allahu A'lam

Wa al Salam

Dr. Monzer Kahf

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SUBJECT: Banking with non-Islamic bank

From: live fatwa on Islam on line

Date: June 20, 2001

Name JUMA country United Kingdom Profession Student

Question

Assalamu Alaikum. As a Muslim, am I allowed to invest my money in a stock market? If not, why? And am I allowed to bank with non Islamic banks and if not why?

Answer

Wa 'Alaikum Assalam wa Rahmatu Allah

Al Hamdu li Allah wa al Salatu 'ala Rasuli Allah

First, investment in the stock market: Stocks are documents that represent shared ownership in a company. It means you are a partner in that company. If the management produces anything that is forbidden, it is producing it on behalf of you the owner because. The implications of this are:

- 1) A Muslim must not produce anything (commodity or services) that is prohibited.
- 2) Any income generated to the owner that mingled with prohibited earnings needs to be purified by giving away to charity that part that is not permitted in Shari'ah.

Based on that companies are classified into three categories:

- a) Companies whose main business is prohibited in the Islamic Shari'ah such as interest based banks, casinos, and porno or alcoholics production.
- b) Companies whose main function are permitted and at the same time their management abide by the rules of Shari'ah. The example of this category is Islamic banks and Islamic Insurance companies. Buying their stocks and trading them are permissible within the known rules of sales contracts in Shari'ah.
- c) The third covers the very large majority whose main business is permissible such as computer or technology, but its management make some prohibited transactions such as taking loans from banks or depositing cash against interest. Buying stocks in

these companies may be considered forbidden because it is forbidden for any Muslim to do any prohibited transaction, no matter how little it would be in relation to the total amount of transactions he/she makes. This is the opinion of many Muslim scholars. However, there is a group of very learned scholars that consider this opinion very restrictive and very difficult to implement in our contemporary time. This group is lead Shiekh Taqi Uthmani from Pakistan and by Abd al Sattar Abu Ghuddah of Syria. These group argues that if you buy the stock for investment (with the objective of looking at profit in dividend and growth) and you have no way of imposing on the management to abide by the shari'ah rules, it is permissible within certain criteria to invest in the stocks of this third category of companies. The criteria are that the percentage of non-permissible transactions to total business of the company must be small and they suggest a small is not to reach, with regard to interest transactions, 10 to 15 percent. They put a few criteria around that idea of small percentage. These criteria are implanted by the Dow Jones Islamic Market Index under the supervision of a group of Learned Islamic scholars. This is available via the Internet.

The second criterion is the necessity of cleansing ones income the stacks of these category of companies. One must give for charity a portion of ones gains from investment that equals the estimated percentage of returns generated from prohibited transactions made by the management. The objective of these cleansing criteria is to keep ones own money pure from the prohibited and unlawful income according to Shari'ah. Dealing with banks in UK: It has become very cumbersome and inconvenient to stay away from dealing with banks in our contemporary world especially for the Muslims living in the west. The rule is that where there are no Islamic banks it is permissibly to deal with non-Islamic banks or Riba based bank as long as the transaction is not forbidden in Shari'ah. This means you may have a checking account; you may change currency, do transfer, and other non-interest related transaction with a conventional bank. If it happens that interest is generated to your account, you have to give away that amount of interest to charity.

Wa Allahu A'lam  
Monzer Kahf

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SUBJECT: Depositing in interest-based banks in Egypt

From: Islam on line

Sent: Friday, March 15, 2002

Name of Questioner Shereen

Gender Female

Age 31-45

Education Graduate

Date Submitted 3/9/2002

Email

country of Origin Egypt

User Ref. No. CPVUTG

country of Res. Egypt

Question

Please I wanted to ask about bank's interests for a woman like me who can not work as I have 2 kids at the same time I know no one who could invest for me this money. My question is also please what to be done when my husband also is like me doesn't know anything? Thank you sooo much

My Answer:

Bismi Allah al Rahman al Rahim

Al Hamdu li Allah Rabb al 'Alamin

wa al Salatu wa al Salamu 'ala Sayyidina Muhammad wa 'Ala 'Alihi wa Ashabihi Ajma'in

Dear Sr. Shereen

Assalamu Alaykum wa Rahmatullahi wa Barakatuh.

Depositing funds on interest basis in banks is Haram, no doubt about it in spite of what may be said by some people that these are investment. They are loans to banks. You find this definition in the Egyptian Law of the Central bank, please read it.

Moreover, in areas that have Islamic banks, many Fuqaha argue that it is forbidden to deposit even as checking accounts in interest-based banks. You have Three Islamic banks in Egypt, please ask about a branch close to you and place your funds, and tell your husband to do the same, in Mudarabah accounts with one of the Islamic banks.

Wa Allahu A'lam

Wassalam

Sincerely,

Dr. Monzer Kahf

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SUBJECT: Buying a house with a bank loan while there are Islamic Banks

From: Islam on line

Sent: Monday, February 24, 2003

Name: Hiba Country of Residence: Jordan

Gender: Female

Reference No.: 5RZ9FM

Email

Age: 21-30

Question

in the name of god Dear sir; Thank you very much for this opportunity, I need to ask if it is Halal to take a loan from a bank to buy a house for the family, knowing that me and my husband work and we live in a rental house, if we don't take a loan we will never be able to buy a house since we pay rent. . If we take a loan we will be paying almost the same amount as rent for the installment. Awaiting your answer. Thanks and jazakum Allah kheir

My Answer:

Bismi Allah al Rahman al Rahim

Al Hamdu li Allah Rabb al 'Alamin

wa al Salatu wa al Salamu 'ala Sayyidina Muhammad wa 'Ala 'Alihi wa Ashabihi Ajma'in

Dear Sr. Hiba

Assalamu Alaykum wa Rahmatullahi wa Barakatuh.

If you are in Jordan, there are two Islamic banks you should try to deal with them and find a good way to finance your residence in Jordan. Besides in the Muslim countries there are families and friends that may help and always help. You know Riba is forbidden and a house loan from a conventional bank is Riba-based.

If you live in non-Muslim countries that have no Islamic banks, the matter is different. That doesn't mean that the prohibition doesn't exist any more. No, the prohibition is as is no differences between countries and places. But because there is a great deal of hardship

for Muslim families who live in the West in finding suitable housing without mortgages and there are very few, and only recently, institutions that offer Islamically acceptable contracts, the prohibition is circumstantially relaxed. If you live in the West and your family need the housing for reasons that include, but not limited to: children education, tax considerations, equity building consideration, neighborhood security, safety and services, etc., and you don't find, at competitive cost, Islamic contracts for financing your house, you may then use conventional mortgage.

Wa Allahu A'lam

Wa Alhamdu li Allah Rabbi al 'Alamin

Wassalam

Sincerely,

Dr. Monzer Kahf

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SUBJECT: No necessity to bank with conventional banks in Pakistan

From: Islam on line

Sent: Sunday, March 17, 2002

Name of Questioner umer

Gender Male

Age 31-45

Education Graduate

Date Submitted 3/1/2002

Email

country of Origin Pakistan

User Ref. No. DBJUT

country of Res. Pakistan

Question

I am a small businessman need financial help to survive a business recession. I have no property to sell. Problems could be solved by loan from bank. 10 years before under same situation obtain bank loan and discontinued the loan facility after improvement. Under the law of necessity is it permissible to obtain loan from bank. Please advise.

My Answer:

Bismi Allah al Rahman al Rahim

Al Hamdu li Allah Rabb al 'Alamin

wa al Salatu wa al Salamu 'ala Sayyidina Muhammad wa 'Ala 'Alihi wa Ashabihi Ajma'in

Dear Br. umer

Assalamu Alaykum wa Rahmatullahi wa Barakatuh.

Pakistan has Islamic banks allover; there is no law of necessity that requires you to deal with interest-based banks in Pakistan.

Wa Allahu A'lam

Wassalam

Sincerely,

Dr. Monzer Kahf

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SUBJECT: Getting loans from banks while there are Islamic banks

From: Islam on line

Sent: Tuesday, March 19, 2002

Name of Questioner Abdulrahman

Gender Male

Age 31-45

Education Graduate

Date Submitted 2/5/2002

Email

country of Origin U A E

User Ref. No. TXX1B6

country of Res. UAE

Question

I am a partner in a commercial transport company. The other partner is not Muslim. The company has been using bank loans with interest to finance purchase of vehicles. What I have to do to avoid Shari'ah violation? For your information Islamic finance is more expensive and will not be accepted by my partner.

My Answer:

Bismi Allah al Rahman al Rahim

Al Hamdu li Allah Rabb al 'Alamin

wa al Salatu wa al Salamu 'ala Sayyidina Muhammad wa 'Ala 'Alihi wa Ashabihi Ajma'in

Dear Br. Abdulrahman

Assalamu Alaykum wa Rahmatullahi wa Barakatuh.

working in partnership with non-Muslims is controversial in the classical Fiqh, exactly because of the reason you mentioned. A non-Muslim partner may undertake actions and make contracts, for the partnership and in its name, that are prohibited in the Shari'ah.

Ulama agree however, that such partnerships are permitted if you are sure that no violation of the Shari'ah may be done in the decisions of the partnership.

Interest is Haram, no doubt about it, it is in the text of the words of Allah Ta'ala: You shall get your principal alone, no injustice you do and no injustice done to you. Verse 2:279.

I know in some countries that have only one Islamic bank, dealing with it may be sometimes more expensive, but in the UAE you have three Islamic banks: Dubai IB, Abu Dhabi IB and National Sharja IB, are you sure that all of them are more expensive than conventional banks? It seems to me they shouldn't, they should be somehow in the middle of conventional banks from cost point of view. I know some businessmen who found Islamic banks cheaper. Any way if they are more expensive, you should negotiate with them and try to involve some members of their Shari'ah advisory boards and make such a complain to their Shari'ah boards that unless they really provide quality service they must certainly be competitive with conventional banks.

Wa Allahu A'lam

Wassalam

Sincerely,

Dr. Monzer Kahf

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SUBJECT: House-purchase loans in Pakistan

From: Islam on line

Sent: Thursday, March 07, 2002

Name of Questioner Omar

Gender Male

Age 31-45

Education Graduate

Date Submitted 2/14/2002

Email

country of Origin Pakistan

User Ref. No. L6Y71J

country of Res. Pakistan

Question

Currently I am looking for a house to buy. Since it is virtually impossible to have the full price of the house in cash, and mortgages involve interest, what would you recommend I do in order to properly pursue this objective? I am not even sure if this type of interest (mortgage) is acceptable in Islam or not, although my inclination is that it's not. I have also inquired about Islamic Banks, but it is hard to find reliable information about them so far. Thank you much, Assalamu Alaikum, Omar

My Answer:

Bismi Allah al Rahman al Rahim

Al Hamdu li Allah Rabb al 'Alamin

wa al Salatu wa al Salamu 'ala Sayyidina Muhammad wa 'Ala 'Alihi wa Ashabihi Ajma'in

Dear Br. Omar

Assalamu Alaykum wa Rahmatullahi wa Barakatuh.

To the best of my knowledge, there are several private sector Islamic banks in Pakistan, in fact, I believe all banks follow the Shari'ah principle if the last ruling (1999) of the Pakistan Supreme Court has been implemented. Moreover, the Pakistan house Investment Corporation offers several form of Shari'ah compatible contract for house purchase.

Accordingly I find no reason for going to interest-based mortgage. Interest is obviously Haram for housing as well as for any other deals. I find no reasons for necessities in most Muslim countries, especially Pakistan.

Wa Allahu A'lam

Wassalam

Sincerely,

Dr. Monzer Kahf

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SUBJECT: Borrowing from conventional banks

From: Islam on line

Sent: Thursday, March 21, 2002

Name of Questioner lyazd

Gender Male

Age 31-45

Education Diploma

Date Submitted 3/4/2002

Email

country of Origin Algeria

User Ref. No. 9BRU6R

country of Res. France

Question

Assalamu Alaykum I live in London my parents live in Algeria, they do not have a place were to stay so we hired a place for them but it is too much I want to buy a house for them but I do not have enough money, is it possible to borrow money from the bank here in London, as you know they take interest. Thank you for your time and May Allah reward you inchoo Allah asalem alykoun

My Answer:

Bismi Allah al Rahman al Rahim

Al Hamdu li Allah Rabb al 'Alamin

wa al Salatu wa al Salamu 'ala Sayyidina Muhammad wa 'Ala 'Alihi wa Ashabihi Ajma'in

Dear Br. lyazd

Assalamu Alaykum wa Rahmatullahi wa Barakatuh.

There is an Islamic Bank in Algeria, why going to a Riba-based bank? I don't see a reason for needing to borrow on Riba in such a case.

Wa Allahu A'lam  
Wassalam  
Sincerely,  
Dr. Monzer Kahf

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SUBJECT: Interest-based loans for housing in Pakistan

From: Islam on line  
Sent: Wednesday, March 27, 2002  
Name of Questioner khalid                      Gender M                      Age 31-45  
Education Graduate                      Date Submitted 3/4/2002                      Email  
country of Origin Pakistan                      User Ref. No. 3BFV2S                      country of Res. Pakistan

Question

I am interested in buying a house and for this I have to finance it thru a bank. As we all know banks charge interest on the loan they provide and as Muslims we have to stay away from interest. So could you guide me if I am right in my understanding that we have to stay away from any kind of interest. Jazaka Allah.

My Answer:

Bismi Allah al Rahman al Rahim  
Al Hamdu li Allah Rabb al 'Alamin  
wa al Salatu wa al Salamu 'ala Sayyidina Muhammad wa 'Ala 'Alihi wa Ashabihi Ajma'in  
Dear Br. khalid

Assalamu Alaykum wa Rahmatullahi wa Barakatuh.

Yes, Dear Brother, you are fully right. Interest is one of the most grave sins in Islam, it is associated with believing in partnership with Gad and it is the only sin on those who do it Allah, Ta'ala, declared a war from Him and His Messenger, The Qur'an Verse 2:279.

To my knowledge, Pakistan has several Islamic banks, private and public. It also has a house financing public company that uses Islamic contracts. Why dealing with interest for housing in Pakistan?

Wa Allahu A'lam  
Wassalam  
Sincerely,  
Dr. Monzer Kahf

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SUBJECT:                      Interest-based deposits in the Muslim countries

From: Islam on line  
Sent: Monday, April 15, 2002  
Name of Questioner Z                      Gender Male                      Age 31-45  
Education                      Date Submitted 3/30/2002                      Email  
country of Origin                      User Ref. No. GYDKAL                      country of Residence



### Question

I live in a Muslim country. I have kept my savings in that particular category of accounts on which interest is not paid. However I rarely draw any money, as I am saving it for some future plan. The question I would like to ask is should I deposit my money in an interest paying account, and pay the interest money to some poor person, or that would be contrary to spirit of Shari'ah. Best Regards

My Answer:

Bismi Allah al Rahman al Rahim

Al Hamdu li Allah Rabb al 'Alamin

wa al Salatu wa al Salamu 'ala Sayyidina Muhammad wa 'Ala 'Alihi wa Ashabihi Ajma'in

Dear Br. Z

Assalamu Alaykum wa Rahmatullahi wa Barakatuh.

Many Muslim countries have Islamic banks. First, search for an Islamic bank and deposit in it. Second, I wouldn't advise to deposit in an interest earning account, especially in Muslim countries. If it happened that you earned interest, you dispose of it for Muslim charity, to poor and needy, etc.

Wa Allahu A'lam

Wassalam

Sincerely,

Dr. Monzer Kahf

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SUBJECT: Transactions of conventional and Islamic banks in Egypt

From: Islam on line

Sent: Tuesday, April 30, 2002

Name of Questioner Asser

Gender Male

Age 21-30

Education Graduate

Date Submitted 4/24/2002

Email

country of Origin Egypt

User Ref. No. N8P1NY

country of Res. Egypt

### Question

Al Salam Alaykum I've read about considering banks interest as Reba. And I'm asking you to give me clear vision on this issue that would help me to make the right decision InShaAllah. Banks in Egypt claims to give varying interest which is around 9.5%:10.5% these days. I'm not sure if the bank invests all its money in loans with fixed interest or it invests money also in projects that profits the bank. I would like to know what specific transaction of the bank that is considered Reba. I'm an Egyptian studying in USA, I've no fixed income right now, and I've some money in a bank in Egypt that inherited from my family. The interest of this money represents my main source of income that helps me to cover my living expenses. If banks are based on Riba, then what is the alternative, please advice me if there is Islamic banks that I can invest my money in, I understand that solidifying the money in gold or other fixed assets would not be a right thing to do.  
jazakom Allah kheir Alsalam alykom

My Answer:

Bismi Allah al Rahman al Rahim

Al Hamdu li Allah Rabb al 'Alamin

wa al Salatu wa al Salamu 'ala Sayyidina Muhammad wa 'Ala 'Alihi wa Ashabihi Ajma'in

Dear Br. Asser

Assalamu Alaykum wa Rahmatullahi wa Barakatuh.

For the first part of your question: Conventional banks in Egypt make most of their transactions on interest basis and interest is Riba, exactly as prohibited in the Qur'an.

Verse 2: 279 mentions that any increment above the principal is Riba. This is exactly the definition of interest in the banking world. Conventional banks in Egypt are not permitted by the banking law to own real estates, stocks or inventories other than their own offices, furniture and stationary. Their sources of money are from either equity of shareholders or deposits in current accounts or other types of deposits that give depositors interest. The use of their funds is only in giving loans on interest basis. They cannot invest in projects on the basis of equity and what they call investment in projects is done only on interest-based lending contracts.

Banks, all banks, have several other transactions that may not be forbidden: opening checking accounts, payment of bills, cash currency exchange, transfer of money from one place or country to another, etc. There are other non-lending transactions that are also prohibited in conventional banks such as letter of credits because it involves interest too and future currency transactions because the prophet, pbuh, specifically prohibited currency exchange unless it is all cash.

One more thing: any increment in a loan/deposit contract is Riba whether it is fixed or variable. Variability of the rate of interest does not make it permissible. Please notice too that Interest (Riba) is one of the worst sins in Islam, Allah, Ta'ala, in the Qur'an declares a war from Him and from His Messenger on those who do not quit all and any remainder of Riba.

For the second part of the question: There are 2 or 3 Islamic banks in Egypt: The Faisal Islamic Bank, The International Islamic Bank for Development and the al Ahram bank (I am not so sure about its exact name but it was a small conventional bank and Shaikh Saleh Kamel of Saudi Arabia bought it and converted it in an Islamic Bank. You can deposit your money in any of these Islamic banks, the largest is Faisal IB, and they use the funds in providing finance on the basis of Murabahah and equity. Why: because these banks were established by special laws that permitted them to buy goods and contribute on equity basis to projects.

Wa Allahu A'lam

Wassalam

Sincerely,

Dr. Monzer Kahf

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SUBJECT:                    [Avoiding Riba for a person living in Pakistan](#)

From: Islam on line

Sent: Saturday, June 08, 2002

Name of Questioner Mehtab

Gender Male

Age 21-30

Education Post Graduate

Date Submitted 5/22/2002

Email

### Question

Assalamu Alaikum Dear Sir, (1) If installment price of a commodity is more than its cash price, can one purchase that item on installment basis as the installment price contains an element of interest. (2) Is there a difference between interest and Riba? (3) What is the definition of Riba? (4) How can we avoid it as the entire banking system is based on Riba?

### My Answer:

Bismi Allah al Rahman al Rahim

Al Hamdu li Allah Rabb al 'Alamin

wa al Salatu wa al Salamu 'ala Sayyidina Muhammad wa 'Ala 'Alihi wa Ashabihi Ajma'in

Dear Br. Mehtab

Assalamu Alaykum wa Rahmatullahi wa Barakatuh.

Let me begin with your third question: what is the definition of Riba? As mentioned in the Qur'an, Riba is any contractual increment, in kind or in money, determined or will be determined later, above the principal of a loan. The Verse 2: 279 puts as Zulm or injustice (Riba) any thing above the principal. There is another kind of Riba that is mentioned in some Sayings of the Prophet, pbuh, and some Ulama explain that it is a kind of putting a barrier or a fence to make the Riba that is mentioned in the Qur'an more inaccessible. This is called Riba al Buyu' i.e., Riba in sale contracts. Essentially it is the prohibition of trading currency for currency (gold, silver and other currencies) without effecting the delivery of both subjects immediately at the time of contract and/or trading different quantities of same item (wheat, barley, date, raisin, gold and silver).

Question 1: If Riba is an increment in a loan, a deferred/installment sale contract is not Riba based if the price is higher than what it would be had the contract was cash. There is no lending here as you notice. You may say it is similar because it amounts to the same thing. Look closely and you notice differences: 1) a seller is an owner and owner are free to contract their sale at any price and dates of payment as they can agree with buyers. 2) in such a sale, default in any periodical payment does not generate interest for the delayed period, it does in an interest-based loan. 3) a seller is responsible for hidden defect/impurity of the sold merchandise, a lender has nothing to do with merchandise. 4) sale credit can only be given to a maximum amount of the value of the merchandise, it does not pile nor accumulate in the economy to huge monetary assets since discounting debts is also Riba (though it looks in reverse, but look at it from the angle of the giver of cash who waits until maturity to get larger sum). Therefore in a Riba-free economy debts-based assets are reduced to a maximum of the value of commodity transactions, no more. 5) prohibition of Riba is the only way to prevent spillover of lending for commodity financing to lending for lavish spending and for piling up debts assets.

Now, it becomes apparent that installment sale cannot be made Haram because of the similarity of having to pay higher sum anyway because this sum is a price and the increment in a loan is not a price. Some economists called it a price of waiting or of preference for cash, but can you imagine waiting or preference for cash as other than a thin air?! Do you have a bunch of them to sell, and how about selling waiting at a gas station? Or at a bus stop? Or for a friend to come?

Question 2: you notice from the definition that every interest is Riba but there are other kinds of Riba that goes beyond interest, those mentioned in the Hadith.

Question 4: Pakistan is privileged with many Islamic banks and you certainly can avoid Riba in Pakistan. The problem is for those Muslims who do not have Islamic banks or similar financial institutions that provide financing through contracts that are compatible with the Shari'ah. It is certainly difficult. And when there are pressing needs or necessities, and there are no other ways to avoid a prohibited contract, the Shari'ah certainly looks at such necessities and relax as much of a prohibited matter as needed to remove the hardship provided Muslims make exerted efforts and strive to establish the proper rules, as described in the Qur'an and the Sunnah.

Wa Allahu A'lam

Wassalam

Sincerely,

Dr. Monzer Kahf

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SUBJECT: Replacing interest financing by Islamic financing

From: Islam on line

Sent: Wednesday, September 25, 2002

Name of Questioner	Asma	Gender	Female	Age	21-30
Education	Post Graduate	Date Submitted	8/26/2002	Email	
country of Origin	Tunisia	User Ref. No.	W5PSA	country of Res.	Tunisia

Question

My parents are divorced since I was 4 years old and I have been living with my mother in my grand-fathers house with my aunts and cousins. Today, after about 25years, my mother can no longer bear this life especially that she has continuous problems with my aunts and that the house is small. My mother started taking tranquilizers and is crying all the time. Then my father decided to buy for us a house.. And after we agreed with the seller and I can not describe to you the happiness of my mother, my father mentioned something about bank loan but I did not take it seriously because my father is rich and also because at that time I was not praying and did not understand that it was not allowed by Islam. I signed the contract, but formalities took one year, and I was praying in FAJR Prayer that he will not take a bank loan and that God will not let us down (my mother & me). And whenever I try to mention to my mother that we might to not have the house, she breaks down. Unfortunately, He did take a bank loan interest based. And now I can not describe to you my fear of God and my despair because the loan is in my name even though I am not paying it. And it is useless that I talk to my father, because my father (May God forgive him) does not pray, and will not listen to me. Yesterday I cried all night, I don't want to live in a house acquired by "Riba". What can I do so that God forgives me?

Notes

please reply to this long question, because this sin is too heavy on my heart and kills me. JAzakom Allahou Khairan.

My Answer:

Bismi Allah al Rahman al Rahim

Al Hamdu li Allah Rabb al 'Alamin

wa al Salatu wa al Salamu 'ala Sayyidina Muhammad wa 'Ala 'Alihi wa Ashabihi Ajma'in

Dear Sr. Asma

Assalamu Alaykum wa Rahmatullahi wa Barakatuh.

You are now a mature woman that can make decisions for yourself and what you said of the prohibition of Riba is certainly correct. The sin of the decision on buying the house is not yours although the house is in your name and you signed the purchase agreement.

Your father took a loan from the bank to finance the purchase and gave you the house as a gift. You got the house and the loan is his not yours although the lien is put on the house to the benefit of the bank as a guarantee of the loan. In other words, your signature on the bank's papers does not change the fact that your father made the purchase and the loan.

However, to get out of this conscience pain you have two options: 1) Since everything is in your name you can go to the Saudi Tunisian Finance House, it is an Islamic bank, and you can substitute this bank loan with Islamic financing that is compatible with Shari'ah. You may have to get your father to agree to change payment to the new bank instead of the current one, or to guarantee the payment from your own income. 2) You can vacate this house and rent on your own or buy through the Islamic Bank and live in a new house that is pure of any sin of Riba.

Always pray for the guidance of your father. He can benefit from your prayer and your kind advice with the help of God and do not disturb your mother who apparently had suffered a lot and need now your help as a natural tranquilizer!

Wa Allahu A'lam

Wa Alhamdu li Allah Rabbi al 'Alamin

Wassalam

Sincerely,

Dr. Monzer Kahf

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SUBJECT: Depositing with Islamic Banks

From: Islam on line

Sent: Saturday, November 30, 2002

Name of Questioner farnaz Gender Female Age 15-20

Education Graduate Date Submitted 11/13/2002 Email

country of Origin Bangladesh User Ref. No. YCU1UG country of Res. Bangla

Question

Assalamu Alaikum. I want to ask you about Islamic banking system. Bangladesh is a Muslim majority country. But her government doesn't follow Islamic laws. As a result there is interest system in our banks. Some of the families of our country deposit some money in banks and they get some monthly interest from there. That is the only income source of those families. As government is allowing the interest system so should general public be punished in Islamic laws?

My Answer:

Bismi Allah al Rahman al Rahim

Al Hamdu li Allah Rabb al 'Alamin

wa al Salatu wa al Salamu 'ala Sayyidina Muhammad wa 'Ala 'Alihi wa Ashabihi Ajma'in

Dear Sr. farnaz

Assalamu Alaykum wa Rahmatullahi wa Barakatuh.

The situation you described is unfortunate. in fact most Muslim countries allow interest-based banks and permit payment and receipt of interest.

Interest is forbidden in the Islamic law, Shari'ah. There is no doubt about that. But Bangladesh is in fact lucky in this regards, because it has several Islamic banks. Muslims in Bangladesh can deposit their money in any of these Islamic banks and collect dividends (profit) instead of interest. This is permissible in the Shari'ah.

Wa Allahu A'lam

Wa Alhamdu li Allah Rabbi al 'Alamin

Wassalam

Sincerely,

Dr. Monzer Kahf

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SUBJECT:                    Depositing in Islamic banks when available

From: Islam on line

Sent: Monday, January 13, 2003

Name of Questioner M H

Gender Female

Age 21-30

Education Diploma

Date Submitted 11/30/2002

Email

country of Origin Canada

User Ref. No. 82CW7M

country of Res. Canada

Question

Assalamu Alaikum, dear scholars, my first question is regarding interest that one accumulates on their savings account...my father has a savings account in Pakistan, on which he accumulates interest...the reason he has an account there is so that he can provide directly for his family there who are in constant need of money to fulfill their basic needs. If my father did not have an account there, then every time a family member would need money, my father would have to have it wired over which is time consuming and quite costly...it just isn't feasible, especially if the family member needs it right away. As a response to a question posed by another fellow Muslim on this website, the advice given regarding bank interest was that the interest money earned should be regularly taken out and given to charity. In our case, all of the money in the account is going towards charity since certain members of my family are quite poor and the money my father puts into the account helps them meet their basic needs. In light of the information mentioned above, is what my father doing Halal or Haram?

My Answer:

Bismi Allah al Rahman al Rahim

Al Hamdu li Allah Rabb al 'Alamin

wa al Salatu wa al Salamu 'ala Sayyidina Muhammad wa 'Ala 'Alihi wa Ashabihi Ajma'in

Dear Sr. M H

Assalamu Alaykum wa Rahmatullahi wa Barakatuh.

Your question is interesting. It needs certain details that you did not mention; these are regarding the relations to the family members in Pakistan. If they are persons of the close extended family such as your grandparents, parental aunts and uncles, maternal aunts and uncles if your mother shares in the giving, your family may be required by Shari'ah to spend on their basic needs and then what is given them is not considered charity but obligation exactly like spending of you and your siblings. In this case you cannot give them the interest that is forbidden to you because it amounts to keeping it for yourself as it reduces your obligation toward them. This is one point.

The second point is a direct one. Pakistan has several Islamic banks that maintain deposits in saving and investment accounts. They use the funds and distribute return in ways compatible with the Shari'ah. If this alternative is available, it is then FORBIDDEN to put deposits in interest-generating saving accounts in conventional banks. It is always better to give charity out of Halal money than earning Haram and give it as charity!

Wa Allahu A'lam

Wa Alhamdu li Allah Rabbi al 'Alamin

Wassalam

Sincerely,

Dr. Monzer Kahf

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Subject: Financing when you don't have Islamic banks

From: Live Fatwa on Islam on line

Date: Feb 19,2002

Name: Salih

Question:

Dear Sheik, We're living in an economy that runs through the function of interests. We don't have an Islamic bank in this country yet. Although we have some Islamic institutions assisting us to acquire a house through what they called "the Islamic way", they claimed to file to the government the conventional way. That means that they must assign a rate to the amount of loan they gave to clients. Therefore, what's the difference? Please shed some light in this matter. Thanks.

My Answer

In the name of Allah, Most Gracious, Most Merciful.

May Allah's peace and blessings be bestowed on Muhammad (PBUH).

Dear Salih

Assalamu Alaikum

There is a difference between home financing through institutions that give Shari'ah compatible contracts and institutions that give financing on interest basis. What matters to the homeowner is the contract that establishes her relationship with the finance provider. Worrying about what the finance provider does with the government is outside that relationship. Even in those cases that require such an institution to give you a certificate called interest paid rather than rent or part of the price (as in Murabah) to be

used for tax deduction, the contract remains the framework of the relationship between the Muslim home owners and the finance providing institution and not this certificate. Allah knows best.

Monzer Kahf

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### III. WINDOWS AND ISLAMIC BANKS IN THE WEST

SUBJECT: Establishing Islamic banks in the West

From: live Fatwa Session on Islam on line

Date: June 20, 2001:

Name Fahad - United States Profession Student

Question

Assalamu Alaikum. What practical steps can Muslims take to begin to create Islamic financial institutions in the West? How can these institutions be integrated with the interest based system that currently exists?

Answer

AssalamU Alaikum wa Rahmatu Allah

Al Hamdu li Allah wa al Salatu 'ala Rasuli Allah

This question, brother Fahd, is not a fatwa question. However, the fatwa is that Muslims who live in the West are required to establish financial institutions like all other needed institutions that confirm with Islamic Shari'ah wherever they live. In the US we are required to create Islamic financial Institutions. The steps to create them may depend on the time and place. Obviously we have to follow the legal steps for incorporating and licensing such an institution. Easier institutions to establish would be Credit Unions and house financing Cooperatives.

The first and most important condition is to have the will and reasonable number of people and resources. Then, you consult the department of financial institution to create a legal entity. We have some examples, the Islamic house finance cooperative in Toronto, Canada and the Islamic Credit Union in Philadelphia, PA. Both groups would be helpful with their experience.

Wa Allahu A'lam

Monzer Kahf

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SUBJECT: Islamic windows in conventional banks

From: Islam on line

Sent: Thursday, March 21, 2002

Name of Questioner

Gender

Age

Education

Date Submitted 3/4/2002

Email

country of Origin

User Ref. No. IJYRJC

country of Residence



## Question

Assalamu Alaikum Learned brother in Islam I live in a small African country, where a local financial institution is intent on opening an Islamic Banking Division. I have joined this institution and am involved in the setting up of the department. I have a number of questions In the absence of any other Islamic alternatives, is an Islamic Banking Division acceptable, as the bank is listed on the local stock exchange and is not owned by Muslims? Due to a very limited range on possible investments, is it possible to invest depositors funds in Treasury Bills (One view is that Government Interest and taxes can be offset, as in my country taxation is the second highest in the world and can exceed 40-50%) Are TB's acceptable? And is it allowed to offset the taxes against the proceeds of Government interest-bearing instruments? I do want to ensure that ALL aspects are perfectly Islamically acceptable, and if unavoidable, these are disclosed to the public, where Muslims are a very small minority. jazaaakalah. May Allah Taala guide and protect the Ummah at large. Ameen.

My Answer:

Bismi Allah al Rahman al Rahim

Al Hamdu li Allah Rabb al 'Alamin

wa al Salatu wa al Salamu 'ala Sayyidina Muhammad wa 'Ala 'Alihi wa Ashabihi Ajma'in

Dear Br. Questioner

Assalamu Alaykum wa Rahmatullahi wa Barakatuh.

A) - It is certainly permissible to make a window or department for Islamic financing in a conventional bank with a very basic condition: full disclosure.

Several alternatives can be made:

1) Offer Shari'ah compatible financing; it is giving financing to business using the contracts of Murabahah, Musharakah and Mudarabah, and leasing, certainly without putting any interest clause or penalty in any of these contracts.

2) A window that offers financing and receive deposits. Deposits must be obtained on the Mudarabah basis or in checking accounts with no return (having checking accounts in this department support the department and gives it a little more liquidity) and all use of funds must be in Islamic financing both in contract and in the projects financed, e. g., you do not finance cigarettes or alcohol. This alternative requires autonomy within the bank, at least in accounts, projects and financial statements.

B) - Investment in treasury bonds is Riba based it is not permissible in Shari'ah.

C) - All tax reduction practices are permissible as long as they are legal and do not put a person in violation of Shari'ah. This may include having two legal entities owned by same person or company and make interest deal between them in such a way that ends reducing the total tax burden of both, as long as they are owned by same person.

D) - You cannot use Mudarabah deposits for any thing prohibited, even with full disclosure. These are given on the condition of their Islamically approved use.

Wa Allahu A'lam

Wassalam

Sincerely,

Dr. Monzer Kahf

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#### IV. COLLATERALS ON ISLAMIC BANKS' FINANCING

SUBJECT: Liens on lease debts in Islamic banks

From: dialogue@islam-online.net

Date: 7/30/2001

Name of Questioner siraj Gender Male Age 31-45

Education Graduate Date Submitted 6/20/2001 Email

country of Origin Sri Lanka User Ref. No. RB1G3K country of Res. Sri Lanka

##### Question

Dear Sir, this is regarding leasing systems. Can Islamic bank mortgage a property for leasing of vehicle? Please give me the answer. If the Islamic bank not available then what we should do for our business and financial help. Best regards.

##### Answer

Al hamduliAllah wa alSalat 'ala Rasul Allah

Dear Br. Siraj

Assalamu Alaykum wa Rahmatullahi wa Barakatuh.

1- Leasing is permissible in Shari'ah, and one may lease a car, a home or any other asset that may last for a relatively long time. Lease creates a debt on the lessee for the rental amount for the whole period of the lease. This debt may be supported by a lien, a mortgage or any other security. All these are permissible.

2- When a Muslim community doesn't have an Islamic bank, it has to create one, it is a kind of "Fard Kifayah" and until it is established, we should always realize that Riba is forbidden, it is one on of the worst sins, and the Shari'ah provides for the cases of necessities, the rule is that necessities relax the restriction.

Wa Allahu A'lam

Wassalam

Sincerely,

Dr. Monzer Kahf

We are explaining the situation more.

Assalamu Alaikum. In Sri Lanka, we have an Islamic bank called Amana Investment Ltd. When we go for a leasing agreement with them to purchase a vehicle like car or any other for a value of one million normally they ask for us to mortgage an asset of two million worth (Market Value) and they value for the particular asset to be 1.5 million worth. on this they approve 75% as official value And also this will take a two months time to purchase the car. This is a very difficult procedure for small businessmen like us. On the other hand, the other leasing companies in the island, it is convenient to purchase assets in leasing terms, that is, they normally ask for just two guarantors and within two days time the car could be bought. But the only barrier is that, they include a clause in their contract, that, when the payment is delayed an interest of 2 percent has to be paid. In this situation what is the solution to be arrived at? In Islamic bank, they take no any risk in this connection and at any time from the start date of agreement to the end of it, they

hold with them our mortgaged asset, its value is two times more than the car to be purchased. But in other leasing companies, they are taking more risk on this, and they say that they normally do not charge any interest even though the payment is delayed, but they compel us to sign on the agreement that contain the afore said clause. I need to buy a car. But I am not a position to go to Amana Investment in Sri Lanka. What should I do. Please answer my question.

My Answer:

Dear Br. siraj

Assalamu Alaykum wa Rahmatullahi wa Barakatuh.

Al Hamdu li Allah wa al Salatu wa al Salam ala Rasuli Allah.

Two points should be kept in mind: 1) - When we say that one has to deal with Islamic banks, if they exist in her/his area as a first priority, we always mean Islamic banks that provide similar services and similar products. If the Islamic bank in one's area provides services that are way below standards, we would be then comparing apple and oranges.

our Muslim financing services users are not required to tolerate higher prices, or substandard services because someone established an Islamic Bank and he/she does not know how to manage it. In other words, if an Islamic bank maintains inefficient

management, charges higher prices and rates of markup or provides low caliber services in terms of customer relation, paper work requirement, conditions for financing, or time frame for a transaction, one may act as if such an Islamic bank does not exist at all and the Fatwa of general need (Hajah 'Ammah) applies. 2) - there is a distinctive difference

between a penalty interest clause in an otherwise Shari'ah-compatible contract and an interest charging clause, and this difference affects the Shari'ah ruling on it. The example of a penalty interest clause in an otherwise Shari'ah-compatible contract is a

clause that imposes interest on delinquent payments in a lease contract. A lease contract may be sound from Shari'ah point of view once it determines the period of lease, the amount of rent (that may include a lump sum and periodical payments). An option given

to lessee to return or purchase the leased asset (say a car) at the end of the lease whether at a given price or at the market price at the time the lease ends, is permissible.

Conventional leasing companies usually add a penalty interest clause to the effect that if the lessee fails to stand to any of her/his obligations, she/he is required to pay interest for the delay. True, a Muslim lessor must not put such a clause in a lease contract and normally we don't accept to sign a contract with such a condition in it. But it is also true

that when we deal with conventional lessors, we are subject to certain conditions that are to them essential to the contract and they do not accept to offer a lease without such a penalty clause for obvious reasons. such a penalty clause is not similar to an interest

clause in lending since the latter is basic to the contract, the contract itself is based on Riba, while the penalty clause is only protective to the lessor, it does not make the

essential substance of the contract, and the lessee has always the choice of abiding by the contractual time schedule, which he/she is required to do anyway, and hence avoid

invoking the penalty clause. This certainly makes the penalty clause lesser of an evil and for those persons who know of themselves that they are both keen and able to abide by the payment schedule, it is not forbidden to sign such a contract because it only gives

them a choice between a Halal and a Haram and we are always exposed to such choice all

our lives, Dunya itself is a home of tests and choices are always given throughout our passing between taking what is Halal or committing what is Haram.

With that in mind, I would say that for those persons who know that they are able and keen to be always on time, so they do not expose themselves to the penalty clause, it is not Haram to sign a contract with such a choice giving penalty clause in an otherwise Shari'ah-compatible lease contract, especially when there are no lease institutions that offer contracts without such a clause.

Wa Allahu A'lam  
Wassalam  
Sincerely,  
Dr. Monzer Kahf

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## V. RETURNS ON DEPOSITS IN ISLAMIC BANKS

SUBJECT: Telling the profit on deposits in advance in Islamic banks

From: Islam on line

Sent: Monday, February 24, 2003

Name: Muhammad Country of Residence: Bangladesh

Gender: Male

Reference No.: TMEGHD

Email

Question:

Some Islamic Banks in Bangladesh counts the share of profit in advance. How is it possible when the business has not yet been started? How can I be sure that this does not fall within the purview of interest? Please educate me briefly about Islamic banking system and its system of making profit.

My Answer:

Bismi Allah al Rahman al Rahim

Al Hamdu li Allah Rabb al 'Alamin

wa al Salatu wa al Salamu 'ala Sayyidina Muhammad wa 'Ala 'Alihi wa Ashabihi Ajma'in

Dear Br. Muhammad

Assalamu Alaykum wa Rahmatullahi wa Barakatuh.

Islamic banks take deposits on investment basis, that is the depositor becomes a sleeping partner with the bank and they share profit. this is except for current account that are taken on loan basis and do not get any profit. They provide financing on the basis of sale at a price higher than the cash price, leasing, or equity sharing with companies.

Distribution of predetermined amount (dividend) to depositors or charging such predetermined amount to companies in partnership may be done during the year, these are considered as prepayment of profits. They are subject to adjustment at the end of the year when closing accounts are made and actual profit becomes known. If dividends to depositors or charges on companies on funds given on equity sharing, are paid final, i.e., not subject to adjustment when accounts are made, they are then a prohibited interest.

Wa Allahu A'lam

Wa Alhamdu li Allah Rabbi al 'Alamin  
Wassalam  
Sincerely,  
Dr. Monzer Kahf

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Subject: Returns on deposits in Islamic banks

From: Islam on line  
Sent: February 24, 2003 8:05 AM

Question  
Don't Islamic banks give interest like other banks?

My Answer:  
Bismi Allah al Rahman al Rahim  
Al Hamdu li Allah Rabb al 'Alamin  
wa al Salatu wa al Salamu 'ala Sayyidina Muhammad wa 'Ala 'Alihi wa Ashabihi Ajma'in  
Dear Br. Naveed  
Assalamu Alaykum wa Rahmatullahi wa Barakatuh.  
Omar bin al Khattab, may God be please with him, advised that whoever want to sit and deal in our market must first learn our Fiqh (law). Please brother call things their exact names. Islamic banks do not charge interest and mark up is not interest. If you think that Islamic financing means that people are going to give you their money with nothing to them except your prayers (Du'a), you are certainly wrong! Islamic financing is the provision of money through Shari'ah compatible contracts that give the financier a return otherwise she will not give up her money. That is not interest, even if it is calculated on the basis of the prevailing interest rate (as a result of Islamic banks being a small portion of the market that compete with conventional banks). Interest on deposits in conventional banks is the same Riba that is prohibited in the Qur'an, it doesn't matter whether it is in Pakistan, Kuwait or the USA, and it doesn't matter whether the taker or giver can or cannot work. In Pakistan

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SUBJECT: Profit distributed by Islamic banks

From: Islam on line  
Sent: Tuesday, May 28, 2002  
Name of Questioner Haroon Gender Male Age 31-45  
Education Graduate Date Submitted 5/11/2002 Email  
country of Origin Pakistan User Ref. No. G6RF1N country of Res. Pakistan

Question  
The interest given by banks on the deposited amount, is it Riba & unlawful in Islam?

My Answer:  
Bismi Allah al Rahman al Rahim  
Al Hamdu li Allah Rabb al 'Alamin

wa al Salatu wa al Salamu 'ala Sayyidina Muhammad wa 'Ala 'Alihi wa Ashabihi Ajma'in  
Dear Br. Haroon

Assalamu Alaykum wa Rahmatullahi wa Barakatuh.

Interest given on deposits by conventional banks is the same Riba that is prohibited in the Qur'an. Verse no. 2: 279 mentions that any increment above the principal is a forbidden Riba as it is unjust. Islamic banks give profits to their depositors because they take the money on investment basis as agents of the account owners on the basis of Mudarabah contract in which the fund owner becomes a sleeping partner of the bank in investing these funds in accordance with the Shari'ah.

Interest earned from conventional banks must be given to Muslim charities and not allowed to mingle with one's own money.

Wa Allahu A'lam

Wassalam

Sincerely,

Dr. Monzer Kahf

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SUBJECT: Islamic banks may distribute pre-determined profit subject to adjustment

From: Islam on line

Sent: Thursday, January 16, 2003

Name of Questioner

Gender Female

Age 31-45

Education Post Graduate

Date Submitted 12/15/2002

Email

country of Origin Egypt

User Ref. No. LIKC9B

country of Res. Egypt

Question

I put my savings in an Islamic bank in Egypt (al Masraf al Islami al Dawli - International Islamic bank for investment and development). When I put my savings they made me sign on the rules that guide their investment which say that I will share with them their gain and loss. They say that they will pre-specify an average interest rate and at the end of each term they will update it according to whether they made more or less money. The problem is that I feel this is a fake since they always end up with the same average rate that they pre-specified every time. This has been the case for the past 10 years. I asked about other Islamic banks and they all do the same thing. Is this Riba or not? My other concern is that I heard that these Islamic banks give loans to investors and apply compound interest (under implicit names) on them which is definitely Riba. Is that true? If so, what should one do with his/her money? If I put it in checking account (whether Islamic or non-Islamic banks) then I will get no income back but they will still be investing it in Riba if they actually do compound interest. What should one do with his/her savings?

My Answer:

Bismi Allah al Rahman al Rahim

Al Hamdu li Allah Rabb al 'Alamin

wa al Salatu wa al Salamu 'ala Sayyidina Muhammad wa 'Ala 'Alihi wa Ashabihi Ajma'in

Dear Sr.

Assalamu Alaykum wa Rahmatullahi wa Barakatuh.

To my best knowledge, the two Islamic banks in Egypt (Faisal Islamic and International Islamic) do not deal with Riba in all their transactions. For deposits, it is permissible to distribute a predetermined amount subject to accounting of actual gains at the end of an accounting period. But are you sure they do not make reconciliation in the accounts each year? I doubt that the actual rate has always been fixed! Besides several Islamic banks attempt to make the actual distribution quasi fixed or at the market interest rate through adjustments in the reserves they build up for investment risks, which is also permissible and does not mean it has become Riba, it is just a smart way, within the Shari'ah to cope with rough and highly competitive market. Notice that these banks compete with in a market that is dominated by interest-based banks! They do not act free in a market that is all based on Islamic practices.

For their investment, they use the mode of Murabahah very often. It is close to Riba but on the other side of the dividing line, on the permissible side. It is not Riba. Please notice that God in the Qur'an (2: 275) did not deny such similarities but added "And God made Sale permissible and prohibited Riba"

Wa Allahu A'lam

Wa Alhamdu li Allah Rabbi al 'Alamin

Wassalam

Sincerely,

Dr. Monzer Kahf

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## VI. COMPETITIVENESS OF ISLAMIC BANKS

SUBJECT: Customer services in Islamic Banks

From: Islam on line

Sent: Monday, March 04, 2002

Name of Questioner Hussain

Gender Male

Age 31-45

Education Graduate

Date Submitted 2/6/2002

Email

country of Origin U A E

User Ref. No. G6CW6P

country of Res. UAE

Question

I have an import business, where I import the goods using L/C facilities (Letter of Credit) provided by Reba Bank. I deal with this bank due to many restrictions & limitations exist with the only Islamic Bank in my country in order to provide me with L/C facilities. My question is, is it allowed in Shari'ah to deal with Reba bank as far as I deposit the cash in my company's account before the due date in order to avoid interest charges. The reason behind my question is that I heard from a friend that my L/C contract with the bank is "AQD SAHIH", but the clause which state the interest charges after specific dates is "SHART FASSEED", & makes the whole contract "FASSEED". Please advise.

My Answer:

Bismi Allah al Rahman al Rahim

Al Hamdu li Allah Rabb al 'Alamin

wa al Salatu wa al Salamu 'ala Sayyidina Muhammad wa 'Ala 'Alihi wa Sahbihi Ajma'in

Dear Br. Hussain

Assalamu Alaykum wa Rahmatullahi wa Barakatuh.

Are you sure you did not find in the three Islamic banks in UAE (Dubai, Abu Dhabi and Sharja National), any branch that gives as good of a service as that of the Riba bank?

Because I believe that if an Islamic bank provides similar services dealing with non-Islamic bank is not permitted, because of a trace of Riba that will reach you there no latter what you do to avoid it! While if Islamic banks charge more or give lower or limited services, then dealing with other banks is permissible.

What you are told is correct. The condition of Riba makes the contract all Fasid. I add however, that if the condition is completely optional, e. g., you pay interest if you do not deposit the amount due within one day, and you are sure of yourself that you shall deposit during that period, the contract is permissible to sign from your side and it is Haram for the other party to whose favor such a condition is put. This becomes like credit cards we use in the west. for those of us who are sure they will not withdraw cash and will pay during the grace period, the contract is not Haram because the activation of the interest condition is left to you and you know you are going to opt for no interest. The contract is Haram from the point of view of issuers of the credit card, and an Islamic bank must not issue a contract with such a condition.

Wa Allahu A'lam

Wassalam

Sincerely,

Dr. Monzer Kahf

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SUBJECT: Competitiveness of Islamic banks

From: Islam on line

Sent: Sunday, March 17, 2002

Name of Questioner Mstafa

Gender Male

Age 31-45

Education Post Graduate

Date Submitted 3/1/2002

Email

country of Origin Iraq

User Ref. No. IRTUBB

country of Res. Iraq

Question

Assalamu alaikom I live in UK and I want to buy a house. The Islamic banks is asking for higher deposits which I can not afford. Can I take a mortgage. assalamu-alaikom

My Answer:

Bismi Allah al Rahman al Rahim

Al Hamdu li Allah Rabb al 'Alamin

wa al Salatu wa al Salamu 'ala Sayyidina Muhammad wa 'Ala 'Alihi wa Ashabihi Ajma'in

Dear Br. mustafa

Assalamu Alaykum wa Rahmatullahi wa Barakatuh.



If Islamic banks do not offer competitive transactions to conventional banks, it means they are not providing the same service, as if they do not exist! The Fatwa does not mean that Muslims have to submit to a monopolistic treatment by Islamic financial institutions. Hence, if other conditions of the Fatwa about house financing through conventional mortgage are satisfied, yes, you may take a conventional mortgage.

Wa Allahu A'lam

Wassalam

Sincerely,

Dr. Monzer Kahf

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SUBJECT: Overdraft facilities from conventional banks

From: Islam on line

Sent: Tuesday, March 19, 2002

Name of Questioner

Gender

Age

Education

Date Submitted 3/3/2002

Email

Country of Origin

User Ref. No. B5K8FV

country of Residence

Question

I have a problem with Riba in the bank. We are getting a lot of facilities in the bank. overdraft and loans but i want to escape all this to clear my self after that, what is going to happen for Islamic bank they can't give me a loan or overdraft it will take long time to get all the facilities so shall I stay with the same bank where I am now or I should I clear my self and then I will get same facility in Islamic bank? I am very sorry I took long to explain. Thank you, jazaka allahu kheyr. I will be happy if u could answer me as soon as u can, plz and give me an idea on what to do? I asked about this aya saying fa' thanu biharbin mina allahi warasulih. shukran wasalamu aleikum warahmatullahi wabarakatuh...that my question it shouldn't put on the browse area

My Answer:

Bismi Allah al Rahman al Rahim

Al Hamdu li Allah Rabb al 'Alamin

wa al Salatu wa al Salamu 'ala Sayyidina Muhammad wa 'Ala 'Alihi wa Ashabihi Ajma'in

Dear Br. Questioner,

Assalamu Alaykum wa Rahmatullahi wa Barakatuh.

All interest-based transactions with banks are forbidden in the Shari'ah. Sorry I can't help you in giving you a course of action because it is only you who can select your own course of action. But I can tell you what is the rule of Shari'ah in this regard. Overdraft facilities and conventional banks' lending, if they are interest-based as it is normally the case, are forbidden in the Shari'ah. The bank's interest is the same thing as the Riba that is clearly mentioned in the Qur'an and Allah Ta'ala give note of war declaration from Him and His Messenger to those who deal in Riba (interest) and the Prophet, pbuh, says that the wrath is on the payer of Riba, its recipient and its writer, and in another Saying the Prophet describes Riba as the worst sin, he said: Riba has thirty six kinds, the least of them is as (bad as) a man making adultery with his own mother." These Sayings are correct and authentic. The Ulama say that even non-interest accounts with conventional

banks may be Haram when there exists an Islamic bank that provides similar services, because the bank will benefit from the balances in your checking any way and a conventional bank benefits from them through forbidden contracts, in a sense you helped!

Wa Allahu A'lam

Wassalam

Sincerely,

Dr. Monzer Kahf

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## VII. OBTAINING FINANCE FROM ISLAMIC BANKS

SUBJECT: Getting financing from Islamic Banks

From: [dialogue@islam-online.net](mailto:dialogue@islam-online.net)

Date: 2/19/2001

Name of Questioner Dina

Gender Female

Age 21-30

Education Post Gradute

Date Submitted 2/2/2001

Email

User Ref. No. YHN6TK

### Question

Al Salam Alaikum. Is it acceptable to deal with Islamic Bank for finishing our home which is under construction and in this Economic situation we live in Palestine we can not finish it? So I heard that the bank will buy construction materials and we pay in installments. Please tell me if this is acceptable or not.

### Notes

Islamic Bank which I mention is called Islamic Cairo Amman Bank, or other Islamic Banks in Palestine. We are in need to complete our house as we r living in rented old house, and since 8 months we did not do anything in our new house.

### My Answer:

Dear Sr. Dina

Assalamu Alaykum wa Rahmatullahi wa Barakatuh.

Al Hamdu li Allah wa al Salatu wa al Salam ala Rasuli Allah.

Yes it is certainly permissible to deal with Islamic Banks in Filisteen. The transaction you described is called Murabahah. It is permissible. The Islamic Bank buys the materials from their seller on cash basis and you buy the same from the bank on installments basis.

It usually begins with mutual promises that you request the Islamic bank to buy the materials and promise to buy them from the bank after it gets them.

This is the standard form of transaction all Islamic banks deal with.

But are you sure, Sister, that the Cairo Amman bank is Islamic, I never heard of it as Islamic, I know you have the Islamic Bank of Palestine in Ghazza which was established a few years back. I ask this because I know all Islamic banks have Shari'ah Boards that supervise their transactions from Islamic point of view, so you do not worry when you deal with any Islamic bank. Does the Islamic Cairo Amman Bank have a Shari'ah Board? Is it a bank that converted to Islamic recently? Or is it a conventional bank that opens a

window or a branch for Islamic transactions? In the latter cases just be sure it has a Shari'ah Board and if not you need to be sure that the contract format has been seen and approved by a respected Shari'ah scholar. I say that because some conventional banks in some Arab countries offer "Islamic transactions" that are not really screened by any Ulama and consequently they may have some serious errors from Shari'ah point of view.  
Wa Allahu A'lam

Wassalam  
Sincerely,  
Dr. Monzer Kahf

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SUBJECT:                   A student loan from an Islamic bank

From: dialogue@islam-online.net

Date: 3/26/2001

Name of Questioner Suleiman	Gender Male	Age 21-30
Education Diploma	Date Submitted 3/18/2001	Email
country of Origin Somalia	User Ref. No. DFECES	country of Res. Somalia

Question

I GOT AN EDUCATION FINANCE LOAN FROM ONE OF THE ISLAMIC BANK. BUT FOR 15000 DHS. I HAVE TO PAY 2000 EXTRA IF IT IS FOR ONE YEAR AND ABOUT 600 IF PAID WITHIN 6 MONTHS. PLS. TELL ME IS THIS HALAL (MURABAHA) AS THEY CALL IT IN THE BANK.

My Answer:

Dear Br. SULEIMAN

Assalamu Alaykum wa Rahmatullahi wa Barakatuh.

Al Hamdu li Allah wa al Salatu wa al Salam ala Rasuli Allah.

The way you described this contract does not seem to me as any of the contracts of any of the Islamic banks. If you got cash from the bank and you are required to return cash plus an extra 2000, this is not a deal Islamic banks do! Could it be a bank in a Muslim country? The way you described the contract, it is not Murabahah.

Murabahah contract is permissible and practiced in Islamic banks. The bank buys a commodity on your request, or a service such as renting an apartment, after it gets possession of the commodity or receive the key for the apartment it sells it to you at higher and deferred price or rent for the service. It may work in education if it can be arranged with a university that a bank buys its credit courses and sell them to students at deferred payments, but to my knowledge no Islamic bank practices that yet because it requires arrangements with education providers and certain governmental control and supervision.

Br. Suleiman, are you sure about the contract and the entity you are dealing with?

Wa Allahu A'lam  
Wassalam  
Sincerely,  
Dr. Monzer Kahf

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## VIII. ISLAMIC BANKS MAY ISSUE CREDIT CARDS

SUBJECT: Islamic banks may issue credit cards

From: Islam on line

Sent: Tuesday, May 28, 2002

Name of Questioner muhammad Gender Male Age 31-45

Education Post Graduate Date Submitted 5/11/2002 Email

country of Origin Bangladesh User Ref. No. ZLA19Z country of Res. Bangladesh

### Question

In what sense credit cards are Halal, while you take money as a credit from a Riba based bank, even though you pay them in full (so called grace period), while Islam forbade involvement of a third person in a transaction, because every time you make a transaction, there is a third party getting paid, because of that transaction, and that is Haram, we still see some Shaikhs say it's Halal, can you define that in the light of Qur'an and Sunnah???

My Answer:

Bismi Allah al Rahman al Rahim

Al Hamdu li Allah Rabb al 'Alamin

wa al Salatu wa al Salamu 'ala Sayyidina Muhammad wa 'Ala 'Alihi wa Ashabihi Ajma'in

Dear Br. Muhammad

Assalamu Alaykum wa Rahmatullahi wa Barakatuh.

I certainly can define it in the light of Qur'an and Sunnah. Qur'an prohibited Riba and Sunnah prohibited many immoral and or unjust transactions, but my dear Brother, there is no prohibition on transactions that involve third party! Did you get that from the Qur'an or Sunnah. Of course there are certain transactions that involve a third party which are forbidden not because they have three persons but because the essence of the transaction falls in the boundaries of prohibition. Example giving a discount from creditor to debtor is permissible but discounting a promissory note by the creditor at a third party, a bank, and the bank gets the face value on maturity is forbidden because this is interest.

On the other hand, a transfer of money and or debts from one person to another at the face value is permissible, so is a guarantee given by a person to a third party to guarantee a debt or liability of another. And there are many examples of this kind.

The credit card is a new invention and Muslim scholars define it as either a guarantee by the issuer to the seller who accept it or as a transfer of the debt by the debtor to another party, the issuer. Hence, it falls within the permissible transactions. However, there are two problems, one for the issuer and the other for the user because its contract usually contains an interest article if payment is delayed and if cash is withdrawn. Issuing such a card with this interest condition is not permitted in Shari'ah. Islamic banks can't issue it with such a condition.

Accepting it and using it is not the same, especially that it has become very convenient and it remove hardship, for instance in most countries you can't get into a hotel room or

rent a car or make a plain reservation without a credit card. Notice that the interest condition is not essential in the credit card, it has an “if”: if you don’t pay with the not so called but believe me it is real grace period, then the condition is invoked; and if you withdraw cash from a machine it is also invoked. If a user knows for sure that she is not going to allow the interest condition to take place, it is for such a user redundant. We certainly wish it is not there, but unfortunately in most countries there are no Islamic institutions that issue them and even those cards issued in some countries are not really satisfactory because they are limited in scope and usability. In other words you are not signing a loan contract with interest but you are signing a contract that gives you the choice to make it carry interest or not. Consequently if you know for sure that you can use it without incurring any interest you make the interest clause useless and it is permissible to sign such a contract and use the card.

Wa Allahu A'lam

Wassalam

Sincerely,

Dr. Monzer Kahf

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