

FATAWA RIBA AND INTEREST 2006

The nature of Riba and Rationale of Prohibition

Subject: The Difference between Interest and Profit

From: through Islam on line

Sent: Thursday, November 09, 2006 2:36 AM

Question

Dear Dr. Monzer, Assalamu Alaykum wa Rahmatullahi wa Barakatuh,

I would like to know the difference between interest and profit. can you please clearly distinguish the two for me. Jazakum Allahu Khairan for your constant help

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. Ansumana,

Al Salamu Alaykum Wa Rahmatullahi Wa Barakatuh

In one word: Interest is an increment in a loan or a debt, profit is a difference in the cost price and sale price of a good or service. Don't be bothered by any other chats and terms. There is no time value of money and no any other thing.

Wa Allahu A'lam

Wa Alhamdu li Allah Rabb al 'Alamin

Wassalam

Sincerely,

Dr. Monzer Kahf

Subject: Reason in of the prohibition of Riba

From: omair

Sent: Thursday, September 21, 2006 1:37 PM

Question

Assalam-o-Alaikum respected brother,

Please could you give me authentic reasoning for prohibition of riba. Shukran, Wasalam

Omair

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. Omair,

Al Salamu Alaykum Wa Rahmatullahi Wa Barakatuh

Any thing more authentic than the Qur'an. It says any thing above the principal is unjust. Please read 2:279. read also 30:39 and think of the meaning of fla yarbu 'ind Allah'" does it tell the truth?

I suspect you don't like my answer, do you? But still contemplate on the meaning of these two verses and if you go deep you get the answer!

Wa Allahu A'lam
Wa Alhamdu li Allah Rabb al 'Alamin
Wassalam
Sincerely,
Dr. Monzer Kahf

From: omair
Sent: Friday, September 22, 2006 1:29 AM

Question

Walaikum Assalam Wa Rahmatullahi Wabarakatuhu respected brother,
Thank you for your prompt reply. I didnt make my background clear with the first email. I am a final year student stuyding BSc Business Management (Accounting). As part of my dissertation (project of 12,000 words) I have chosen Islamic finance. I clearly know that riba is forbidden in Qur'an and Sunnah. It is a sin greater than adultery. I also understand that there is no definition given of riba in the Qur'an or Sunnah. What I wanted to know from you, was the reasoning given by Almighty Allah for prohibition of usury? From the passages of Glorious Qur'an you quoted to me, it seems Allah Almighty is basically informing us that it is unjust and not charitable, against brotherhood? Would this be a correct assessment brother.

I think, that by your answer you mistook me for someone who doesnt want to except that riba is haram. I think that was partly because I never made myself clear but you shouldnt pass judgement without knowing either. Jazak-Allah khairan. Awaiting your reply. Wasalam

Omair

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 Omair

Assalamu Alaikum wa Rahmatullahi wa Barakatuh

I did not mistake you for any thing and I don't make assumptions underlying my reply to any body. You asked for authentic reasoning and I mentioned to you the authentic reasoning: It is unjust and it is untrue. Notice they are related. I did not mention to you that it is Haram, the prohibition comes in Verse 2:275.

In your second letter you made uncalled for reference to brotherhood, and you made a reference to charity, both I did not mention in my email and I believe are irrelevant to the issue.

You also mentioned that there is no definition given of Riba in the Qur'an." This is also incorrect because the verse I quoted defines Riba as any thing that is above the principal when it says: ... But if you repent, you get your principal sum only..." What a clearer definition that this any one would want?

Wa Allahu A'lam
Wa Alhamdu li Allah Rabb al 'Alamin
Wassalam
Sincerely,
Dr. Monzer Kahf

From: omair

Sent: Friday, September 22, 2006 6:53 AM

Question

Walaikum Assalam,

Brother, I'm sorry, I clearly misunderstood you. With regards to brotherhood and charity, what I was trying to ask you was that would you agree that riba is seen as selfish and that it doesn't promote brotherhood and charity? This may not be stated in such exact wordings in the Qur'an but do you feel it is fair to derive this reasoning as you pointing out that Allah says it is unjust.

And I am sorry for this misunderstanding. In your initial reply to my email you said 'i suspect you don't like my answer do you?'. I was of the opinion that you thought I denied interest to be forbidden as no doubt some brothers do believe. Sorry for the confusion anyway. Jazak-Allah

Wasalam

Omair

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. Omair

Al Salamu Alaykum Wa Rahmatullahi Wa Barakatuh

Riba is a business transaction. In business you don't talk about selfishness and brotherhood, these are unrelated issues to business. In business we negotiate and each one of us looks after her/his own interests. Selfishness and brotherhood are psychological and social issues that you deal with in moral studies not in business.

I bet you may not like my answer because most people don't want to think of the idea of injustice in Riba and I wanted you to discover what is the injustice. If God says any increment above the principal in a loan (you give to increase in the property of others as the other verse says) is unjust, you need to find an explanation of this injustice your self. If you ask the question: who owns the borrowed money, the answer will be of course the borrower then aren't people entitled to all the increment that takes place in their own property? And aren't non-owner entitled to nothing? Why should a non-owner be entitled to a portion of the increment that is generated in the property of others?

Being untrue that is referred to in the verse 30:39 is: when you give a loan, the nature of your property changes from being a claim on the society (money) to being a claim on a specific person. This claim is personal, abstract and more important mute, does not produce increments by its very nature. Where does an increment come from? there is no truth to such an increment.

Wa Allahu A'lam

Wa Alhamdu li Allah Rabb al 'Alamin

Wassalam

Sincerely,

Dr. Monzer Kahf

Subject: Riba, views of Shaikh Muhammad Abduh and Shaikh M. Rashid Rida

From: Mohammad

Sent: Friday, August 04, 2006 4:38 PM

Question

Dear Dr. Kahf, Assalamu alaikum.

Almost twenty-five years ago, I met you the first time at ISNA annual convention, where Dr. Abdullah Ahsan, at that time a doctoral student at U-Michigan (currently at IIU, Malaysia), introduced me to you. At that time, I just came to USA and was an undergraduate student. How time flies fast!

Recently, I came across a statement from Dr. Azzam Tamimi as following. In an article Islam and Democracy in the Arab World,

[[http://www.southasianmedia.net/Magazine/Journal/6_Islam_and_democracy.h tm](http://www.southasianmedia.net/Magazine/Journal/6_Islam_and_democracy.htm)]

Dr. Tamimi mentioned about Imam Hasan al-Banna: The genius of Al-Banna manifested in his ability to take the concerns of the intellectuals of his time and the reformists that preceded him to the people. Working not from mosques or cultural clubs but from café shops and popular meeting places, he reiterated in simple and direct terms the calls for reform made by reformers of the 19th century. On colonialism, he echoed Jamal Al-Din Al-Afghani and Mustafa Kamil (1874-1908); on riba (usury), Abduh and Rida; on the influence of foreign companies, M. Kamil; on intellectual chaos and loss of moral values, Abduh and Rida; on blind imitation of the West, Afghani and Shakib Arsalan (1869-1946); on man-made laws that fail to curb crime or deter criminals, Arsalan; on mismanagement of education, Abduh; on signs of desperation and loss of will, Arsalan and Kamil10.""

Dr. Tamimi refers to the following citation in this regard. Su'ud Al-Mawla, Min Hasan Al-Banna Ila Hizb Al-Wasat (From Hasan Al-Banna to Al-Wasat Party), Beirut, 2000.

Can you shed some light about his assertion that Sh. al-Banna echoed views of Abduh and Rida on riba (usury)?

"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. Farooq

Al Salamu Alaykum Wa Rahmatullahi Wa Barakatuh

Both Abduh and Rida call for the elimination of Riba and creation of a finance system that is not Riba-based. They both argue for the harm Riba adds to the system, especially in the area of economic justice. Abduh had a Fatwa that he withdrew and Rida had a misgiving about Riba at the time of giving a loan, they both agree on the prohibition of Riba of debts that is in fact the most important because every loan creates a debt.

What matters is that we have past the age of this level of discussion by at least a century and Islamic banking and finance is now established on very clear cut understanding of the prohibition of Riba on debts as well as on loans.

Wa Allahu A'lam

Wa Alhamdu li Allah Rabb al 'Alamin

Wassalam

Sincerely,

Dr. Monzer Kahf

Subject: Interest Free Commercial Banking

From: Riaz

Sent: Tuesday, July 18, 2006 5:28 AM

Question

As salaamu 'Alaikum wa Rahmatullah, Brother Kahf,

I have been reading the book Interest free commercial banking by A.L.M. Abdul Gafoor. and in it he separated the Cost of Borrowing (CoB) into a few parts i.e.

1. Interest
2. Service Cost
3. Overheads Cost
4. Risk Premium
5. Compensation for inflation
6. Profit.

In his explanation of the above he said the following: The bank, being a commercial profit making concern, should receive some profit. Naturally it should be charged to the customer and therefore there should be no objection to including it in the cost of borrowing. The question is, on what basis? If we rule out charging a percentage of the loan, because it may smack of interest, what are the other alternatives? A good practical alternative seems to be to fix it as a percentage of the services and overheads costs, increase these costs accordingly and, call them services and overheads charge respectively. (p9)

This seems to be extremely similar to the interest system. Can you please offer your thoughts.

Yours in Islam

Riaz

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. Riaz

Al Salamu Alaykum Wa Rahmatullahi Wa Barakatuh

This issue raises a lot of confusion both among finance people and among Shari'ah scholars who study the matters and give Fatawa. Interest is the "price of money" as usually described but it is better to call it the price of debt. This is what is prohibited in our religion. The excuse that the lender makes a sacrifice (while true in a sense that she loses a degree of freedom or a potential opportunity for a gain or a loss) does not imply that the borrower gained from it. Besides a debt does not give birth to an increment by its nature, it does not create value. No matter whether it is called charge, interest, profit, fees, return or any other name, and be it a lump sum, a percentage or even an amount that will be determined later, an increment in a debt (a loan is a debt the moment it is granted) is prohibited in Shari'ah. Please notice also that under all legal systems, a person is entitled to any increment (added value physically or market wise) that takes place in one's property and borrowed money is legally, physically and really owned by the borrower, she is, according to all laws, the only one who is entitled to own such an increment (she also bears the liability that is associated with owning a property).

A lender is a benevolent and a benevolent must not be charged any burden for her good, helping others action. Therefore any cost involved must only be carried by the borrower. Be this cost the expenses for giving the loan or collecting it including any default. These are actual, not presumed,

cost. Any presumption on the cost is mingled with interest and may hide interest (a price of debt through time) Therefore any such assumption about a predetermined rate or amount, while giving a loan, can be considered interest and prohibited. Actual cost is only known after the event, so is actual inflation, so is any harm that is caused by default or delinquency. This means that when we say any contractual (pre-conditioned) increment in a loan is interest, such a statement covers all what is mentioned above and any excuse for inflation, cost, etc. does not change the fact. The issue of actual, not anticipated inflation raises an added question of fairness of any increment because inflation does not raise all prices together it raises the average price, i.e., the price index. one can think of many actual real life instances where you cannot in fact charge the rate of inflation to a debtor! Besides, did the debtor benefit from the rise of inflation or from the inflation differential? Many questions arise here and the issue is discussed under the banner of indexation not under interest). Please notice that the above all relates to loans/debts. Also notice that giving a loan is only one form of financing. other forms are: sale at a deferred price, advance payment of future purchase, leasing and venture capital (sharing or creating companies).

While the Shari'ah does not permit an increment in a loan because it is not just, it does allow all other forms of financing to be given on commercial (i.e., making return, profit, extra or what ever you call it) basis. Hence, a commercial Islamic banker may gain or loose because it is a business venture in a new profession called financial intermediation." an Islamic bank does not, in principle give loans because giving loans is not a return making activity. It provides financing in other forms, all of them create value and therefore entitle the finance provider to an increment. It is essential, if you notice the Islamic forms of financing, that all of them requires the finance provider to own a thing that may grow (physically or in market value) and then get the actual return from that growth. This is consistent with the principles of ownership in laws, all laws, human mind and Shari'ah (this is why AI always preach that Shari'ah finance is business as usual).

When you give financing on the principle of owning a thing, the financing charge may be high or low and it surely should cover your total cost (why differentiating between direct and overhead from a conceptual point of view; such a distinction is only in accountancy!).

Obviously, you will include anticipated inflation, profit, risks potential cost and reach the amount you like to charge on Islamic financing by adding all these elements; BUT THEN YOU HAVE THE DEMAND SIDE, users of funds may find your prices high and go to your competitors! Of course, in economics we like to think simple and systemic, so there will be a point where supply meets the demand and the price will settle under certain conditions where a minimum profit is allowed to funds providers that make them continue their business!

If you have any further clarification please write me again. By the way, I don't know who is this Ghafoor of yours or his credentials! Also, who are you? why don't you introduce yourself like any cultured Muslim?

Wa Allahu A'lam

Wa Alhamdu li Allah Rabb al 'Alamin

Wassalam

Sincerely,

Dr. Monzer Kahf

Subject: The First Interest Free Bank

From: Komoruzzaman through Islam on line

Sent: Sunday, August 06, 2006 3:21 AM

Question

Dear Dr. Monzer, Assalamu Alaykum wa Rahmatullahi wa Barakatuh,

Dear Scholar, Recently we found in a local book written by a historian, that the Prophet (PBUH) founded the world's first interest free bank. As far as we know, though interest was declared haram, there was no formal banking system at Prophet's (PBUH) time. Will you please enlighten us as to the exact status of this issue at that time. With best regards. Allah Hafiz. Jazakum Allahu Khairan for your constant help

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. Komoruzzaman

Al Salamu Alaykum Wa Rahmatullahi Wa Barakatuh

To my knowledge your writer is incorrect. On the other hand, when interest was prohibited people continued to finance each other but without interest. Many people used to give loans to family and friends for personal use and for business, these loans are obviously without interest. People used to sell on deferred payment and this is a financing that is even referred to in the Qur'an as an alternative to interest (2:275 and 2:282), also people used to lease assets for short and long periods and they used to create partnerships by either putting together money and management or money would be provided by one and management by the other; these are all forms of financing.

Furthermore, some of the rich companions used to give more loans to others and more donations to finance social projects including the government activities and the army. This is also financing.

Furthermore, some companions used to accept to safe keep money of other people by accepting money on loan basis so they can guarantee to the depositors the amount of their deposits and at the same time can use the money (being loans) for their own businesses, this is an early form of banking. But banks as we know them today are a Western invention that evolved over the more than three centuries between the 1600 and the 1900 CE.

Wa Allahu A'lam

Wa Alhamdu li Allah Rabb al 'Alamin

Wassalam

Sincerely,

Dr. Monzer Kahf

Subject: Riba, Loans and returns

From: Mohamed

Sent: Thursday, June 15, 2006 11:44 PM

Question

Assalamu'alaikum Dr. Monzer,

I'm trying to start up a business, and I'm trying to finance it in a Halal way. I couldn't find a bank that give me a loan without interest rate. So I decided to look for Muslim investors. My question: how can I write a contract that doesn't deal with Riba? For example can I give the person back a percentage of the benefits + the original amount if the business is successful, but if I loose, can I reimburse him back for original amount without having him share the loss? Could you please list for me the possible options to borrow money and paying it back in a Halal way? Could you also send me a sample of a such contract that I can use? Jazakum'Allah Khairan, Salam,

Mohamed

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. Mohamed,

Al Salamu Alaykum Wa Rahmatullahi Wa Barakatuh

The point is: you can't have your cake and eat it too. In interest, you get your principal guaranteed and yet you get an increment on it but you are sealed off losses. That is not real life. Real life is that if you own a thing that may give increments, you are also exposed to carry decreases too. While if you own a commitment (a debt) from another, the commitment does not increase or decrease. YOU CANNOT HAVE A LOAN (i.e., creating a commitment) and assign an increase to it. You may take sleeping partners who will get a share of profit but also expose themselves to losses. This called Mudarabah in Shari'ah and it not permissible in it to guarantee principal. The moment you guarantee principal it becomes a loan and does not entitle its owner to any increment. Forms of such a contract exist on the website of State Bank of Pakistan, please take a look at them. Also on my website there are forms that give only the Shari'ah points in the contract.

Wa Allahu A'lam

Wa Alhamdu li Allah Rabb al 'Alamin

Wassalam

Sincerely,

Dr. Monzer Kahf

Subject: Seeking for clarification on Interest

From: Kamardeen

Sent: Friday, April 07, 2006 8:36 PM

Question

Kind attn. : PROF. DR. MONZER KAHF Assalamu alaikum..

Kindly through some light on the term interest based on Quraan and Hadith.

A, B and C are decided to form a partnership firm to do certain business on the following terms.:

1. Capital contiribution will be as follows:

A- 10 Lakhs, B- 5 LAKHS, and C - 1 LAKH

2. Interest @ 12% on capital + profit-drawings will be given to each partner.

3. Net profit after deducting all expenses including interest on capital will be shared between the partners in the ratio 55:35:15 or as mutually agreed among the partners.

A. Whether above mentioned terms is permissible in Shariah? or not?

B. Whether terms (2) above will come under the definition of Riba, as there is no lending?

C. If both the above question is not permissible, Please advise how to give return on investment to each partner in the above situation. awaiting your kind reply. Jazakkallah..

Kamarudeen

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. Kamardeen

Al Salamu Alaykum Wa Rahmatullahi Wa Barakatuh

The essence of interest (identically equals Riba in regards to financing) is an increment in a loan or debt. And if you give an amount (or a %) on capital in a company what do you do in case of a loss? Obviously, any arrangement that gives interest on capital investment may fall into this kind of trap. The fact is: in investment you are exposed to gain and loose, you can't give interest (i.e., guarantee only gains all the time). What do you then do in case of making this kind of arrangement (that is in fact unrealistic!)? You still apply the rules:

- 1) Whenever there is a guarantee of a return, we are stepping in the Haram area.
- 2) If one gives to oneself and call this giving interest, it is not interest in fact and we consider the fact not the name.
- 3) Losses can only be distributed according to capital share and any contract otherwise is not valid. Hence, partners who give interest to themselves are in fact distributing profits under a different name. If the distribution they make is in the same distribution of capital contribution, profit distribution and either they do not assign any share to management or they, all, contribute to the management at the same ratio as their capital and profit distribution, then the interest they distribute is merely a distribution of profit; it doesn't matter if at the time of a loss they carry it over to a future accounting period as long as the above mentioned conditions continue to be fulfilled. However in your case the distribution of profit is different that the distribution of capital, this is prohibited and any differential is a prohibited interest. To correct it, you have to equalize the distribution of profit/loss with the distribution of capital and state that there is no assignment of any profit or salary to managing partners, and that losses are distributed at the same share too or they may be carried over for the future as long as if they ever are distributed, it will be at the same ratio as capital.

Wa Allahu A'lam

Wa Alhamdu li Allah Rabb al 'Alamin

Wassalam

Sincerely,

Dr. Monzer Kahf

Subject: Meaning of Riba

From: Atiq

Sent: Sunday, December 17, 2006 8:29 PM

Question

Assalamu alaikum Dr. Kahf,

Inshallah all is well. My name is Atiq Nakrawala and currently I work in the finance field for a muslim company. I was thinking of pursuing my studies in Islamic Finance but am a bit weary about it. It seems that there is no set body that declares what is Riba and what is not. Like i know we all know that Riba is haram but with all these companies lately coming out with Islamic Financing"" and now more and more products that are supposedly Islamically ok, how does one know what is righth and wrong. Also would you recommend someone like myself studying more into it. I am scared to fall into a trap of leading people the wrong way since Riba is such a big deal in the eyes of Allah SWT. If you think we should study more into it, where could i go study and under who? Also can an Islamic based economic system exist along a riba based system.

I apologize for all these questions but they have been bothering me for sometime.
Jazakullahu Khairun for the awesome work you have done so far and continue to do.
Wasalamu alaikum
Atiq

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. Atiq

Al Salamu Alaykum Wa Rahmatullahi Wa Barakatuh

There is no area in social science that is exhausted in research. Every thing is open to discussion and can accommodate your new input! At the same time in regard to Riba there is still a great deal of further discussion and argument although I feel that the definition of Riba is given in the Qur'an in clear terms when it says if you repent you take your principal and I argue that no one can dream of a more clear and accurate definition! Certainly there are transactions that have been argued on the ground of whether they contain Riba or not and I think any fresh new effort would still add clarifications in these contracts/transactions.

For studying these issues and contracts, what matters is to study them, anywhere, with your mind open and your eyes alert. Start on the internet and proceed in discussion with scholars wherever you find them. The one whom we take all his words died more than fourteen hundred years ago, pbuh, and all others are equal!

Finally, it is Haram for a Muslim, government or individual, to put the Haram beside the Halal and tries to work on the two systems, but when others stick to the Haram, can the Halal survive beside it? The answer is YES!

Wa Allahu A'lam

Wa Alhamdu li Allah Rabb al 'Alamin

Wassalam

Sincerely,

Dr. Monzer Kahf

Disposing of Interest Money

Subject: How to Get Rid of Interest Money

From: Akil through Islam on line

Sent: Wednesday, October 18, 2006 12:10 AM

Question

Dear Dr. Monzer, Assalamu Alaykum wa Rahmatullahi wa Barakatuh,

I have recently come to discover that interest money generated from bank deposits and savings are not lawful according to the Shari'ah (it is Riba). In my case, I have been earning that illicit money for long years from a deposit account and, later on, from a savings account, now both closed, al hamdoulillah. I am willing to get rid of all the interest money collected during that long period of time from those accounts. At this stage, I have three main questions: 1- According to the Shari'ah, am I required to get rid of all the interest money that I earned during a period of time that goes back to the 1980s? 2- If so, how can I calculate the total amount of that money, especially if we know

that the interest money earned year after year had been added to the principal and had produced itself more interest? What if I could not get the exact amount of that interest money, because of the long time gone from the very first day of opening that riba-based account? 3- Whatever the answer might be, to whom, or say, to what kind of people should I give that interest money? Could I give it to beggars, disabled men and women? Simple persons in need? Is it necessary that those people be Muslims? I am waiting impatiently for your guidance and ask you please that your answers be as clear and comprehensive as possible so as to help me to purify my earnings for good. Thank you and may Allah reward you all. Jazakum Allahu Khairan for your constant help

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. Akil

Al Salamu Alaykum Wa Rahmatullahi Wa Barakatuh

1. The contract that generate interest is not valid according to Shari'ah as the Qur'an reads in Surah al Ruum it does not increase according to God. Hence the idea that interest earned is not yours because the contract that brought it to you does not produce any effect. It is still owned by the bank that paid it. In principle, it should be returned to owner but since the owner is a Riba practitioner we don't do that, instead we give it to Muslim charity. This is in analogy to money whose owner is not known. It is not Haram for the charity but Haram for you.
2. The only way to calculate it is to make use of all info sources that you have, depending on the case. If these are from accounts that are left aside, you can easily know your principals. Bit if there were movement of money in and out, it becomes more complicated. Banks usually give an accumulated figure of interest paid at the end of each year. Whatever part that you cannot calculate you should make an educated guess about it. Support that by a little extra and Istighfar and asking forgiveness from God. That includes all the past from the beginning of the accounts. In the example of the Prophet, pbuh, his uncle al Abbas was a practitioner of Riba before Islam and the Prophet, pbuh, on behalf of his uncle gave up the principal and interest all together (as mentioned in the famous farewell speech he gave in Arafat).
3. As a principle, this Haram money can be given to any poor/needy persons from the kind that deserves Zakah. Beggars are usually excluded because it has become a public knowledge that most beggars are professional but not really poor. It is preferred to give it to Muslim poor because there are much more of them than non-Muslim poor and they have little resource for help for them. I suggest that the best way is to give it to a trustworthy dependable Muslim charitable organization because these organizations are working in helping the poor and needy and they have better ability to give it to the right persons. It is not Haram to give it to poor non-Muslims or to give it to persons you know they are in need.

Wa Allahu A'lam

Wa Alhamdu li Allah Rabb al 'Alamin

Wassalam

Sincerely,

Dr. Monzer Kahf

Subject: Using Bank Interest Money for Buying Resources for Public Schools

From: Hussein through Islam on line
Sent: Wednesday, July 12, 2006 5:05 AM
Question

Dear Dr. Monzer, Assalamu Alaykum wa Rahmatullahi wa Barakatuh,
Could you please answer the following question to the best of your knowledge and email me the answer. can bank interest money be spent on buying resources for public schools in UK or other countries in the world? Jazakum Allahu Khairan for your constant help

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. Hussein

Al Salamu Alaykum Wa Rahmatullahi Wa Barakatuh

Yes, earned interest money is not considered earned from Shari'ah point of view. It is not in fact your property. But you don't return it to the payer because it is a bank that deals with interest and if you give it that money you encourage and helps it to do more of that evil. You must give it to charity. I prefer Muslim charity because there is a lot of miseries every where in the Muslim world today, but if you decide to give it to UK public school or to public schools anywhere else, it is ok.

Wa Allahu A'lam

Wa Alhamdu li Allah Rabb al 'Alamin

Wassalam

Sincerely,

Dr. Monzer Kahf

Subject: giving Interest to the poor

From: Ibrahim

Sent: Thursday, February 09, 2006 10:37 AM

Question

Assalamalaikum Dr. Kahf:

Can you please assist me with the following two questions:

1. Is it permissible to give interest money to poor muslims, or muslim charities. To me logically it would not make sense b/c interest is impure money, and you would be transferring this impure money to other muslim brothers and sisters, and also the first principle is that it is haram to accept interest money for all muslims, then by giving it to poor muslims it would seem that it is then permissible, which would be contradicting the first principle?
2. Would it be permissible to use interest money to pay postal or cargo fee for sending clothing or other items over seas for poor muslims? Jazakallah

Ibrahim

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. Ibrahim

Al Salamu Alaykum Wa Rahmatullahi Wa Barakatuh

1. What do you do with interest that happens to have been earned? We have three choices: give it back to the payer, drain it in sewage or give it the poor, Muslims or otherwise. Interest is Haram and obtaining it or entering in an agreement that generates it is basically Haram, so we are talking essentially about interest that happens to have been earned by mistake, wrong judgment, investing in stocks of companies on whose management one has no influence or interest gotten before repenting, etc. What to do with it after the event is different from creating a contract that makes you earn it. Before the event it is not permissible to become a part to a contract that generates interest and this is well known to all Muslims but responding to the question about what to do with the earned interest is a must because it is a real life question.

The principle is: earned interest is not EARNED; that means it does not become your property according to Shari'ah although it is in your hand because the contract that generates it is invalid and does not transfer it ownership to you. The immediate conclusion is that it must be returned to the payer. That is exactly what should be done and you are not permitted to waste it because wasting it amounts to destroying a property of another person. This also means at the same time: you must not keep it with you because it is not yours. This is the general rule of dealing with any property that happens to be in your hand but it is in fact not yours.

The exception: our Shari'ah is a rational one and it does not, at any instance, go beyond human rationalism. There are cases where the payer is not known or it is morally wrong to give it back to it (take an extreme example of a prostitute who got some money from a customer and decided to repent, is it morally acceptable that she should return the money to its payer who enjoyed her body for it, i.e., got what he paid for?) because that encourages it to make more of the evil of Riba, increases its power to do so and consider you a real foul by your action. The only choice that remains under these circumstances is to give it to poor and needy, and the most deserving are Muslim poor and needy because their needs at the present world circumstance in more tense and because they are better people in general (the Prophet, pbuh, advised that if you can make it a point that your food offered to others is only eaten by righteous persons do it) and also because of the general brotherhood ties that we have with any other Muslims.

Is it Haram or Halal for the poor. The dirtiness of Riba money is abstract not material. It is, obviously, not similar to the dirtiness of liquor that is itself harmful. Interest money is exactly similar to any other money in its use and purchasing power and the rule is that giving it to the poor (who in reality deserves any thing that is not owned by others) cleans its symbolic dirtiness and makes it Halal for the poor.

This is why Shari'ah scholars argue that giving it to the poor is not considered a rewardable charity (Sadaqah) on your part, as Sadaqah can only be given from money that you own it is only an act to keep your money clean, this act is itself a rewardable form of obedience to God.

2. Using it to pay for cost of shipping is part of giving it to the poor, what matters is that you are not permissible to use it for your own benefit, e.g., you cannot use it to pay taxes or even interest that may be due on you because you entered in a prohibited interest generating contract such as credit card.

Wa Allahu A'lam

Wa Alhamdu li Allah Rabb al 'Alamin

Wassalam

Sincerely,

Dr. Monzer Kahf

Subject: What to Do with Interest Money

From: Humaira through Islam on line

Sent: Wednesday, December 06, 2006 8:07 AM

Question

Dear Dr. Monzer, Assalamu Alaykum wa Rahmatullahi wa Barakatuh,

I recieved compensation in september, which included some interest money.(£160).. could you please advise me on what to do with the interest money? Jazakum Allahu Khairan for your constant help

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. Sr. Humaira,

Al Salamu Alaykum Wa Rahmatullahi Wa Barakatuh

Interest money must be given to an Islamic charity. But you said compensation that includes interest, what do you mean by that, interest is on a debt or a bank deposit or any similar contract that results in a debt between two (legal or natural) persons. Are you sure this is interest that is a part of compensation""!?

Wa Allahu A'lam

Wa Alhamdu li Allah Rabb al 'Alamin

Wassalam

Sincerely,

Dr. Monzer Kahf

Subject: Giving Interest Money to Indebted Husband

From: Rasha through Islam on line

Sent: Sunday, December 10, 2006 4:40 AM

Question

Dear Dr. Monzer, Assalamu Alaykum wa Rahmatullahi wa Barakatuh,

I would be most grateful if you could help me with my question. I earn a good salary but my husband salary is very small. I have a separate account for interest not to get mixed up with the my money that I use for my family. Over the years I have given this interest money to the poor and to charity. My question is: can I give this money to my husband who is in debt and owes money to the bank. Or can I give it to my husband family (and other relatives) who are not too poor but struggling e.g., with college fees for his brothers and sisters. Finally can I use this interest money to pay for interest to the bank eg credit cards interest, car load interest, etc. Thank you very much. Jazakum Allahu Khairan for your constant help

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. Rasha

Al Salamu Alaykum Wa Rahmatullahi Wa Barakatuh

Interest money must be given to entities that do not reflect as a benefit to you. Giving it to your husband and you live in UK reflects as a benefit to you especially that you said you spend from your salary on the family. The same rule apply to paying bank's interest by this earned interest. One thing is important, any transaction that you make on interest basis, including using credit card with no payment during the grace period and car loans, etc. are Haram and sinful. their interest can't be paid from money that you do not own (earned interest is not your money it is money that you don't own). Besides, it is dirty money, do you want to give it to your husband? Giving it to the poor family of your husband, on the basis of being poor, i.e., not able to pay their bills, is permissible, but if I were in the place of your husband I wouldn't like this money to go to my family unless they are very desperate! I suggest keep giving it to the poor.

Wa Allahu A'lam

Wa Alhamdu li Allah Rabb al 'Alamin

Wassalam

Sincerely,

Dr. Monzer Kahf

Buying Cars on Interest

Subject: Buying a Car with Usury Loan

From: Abdulkadir through Islam on line

Sent: Tuesday, June 20, 2006 7:34 AM

Question

Dear Dr. Monzer, Assalamu Alaykum wa Rahmatullahi wa Barakatuh,

Dear Scholar. My question is buying a car with usury/loan. My Family become more (al-hamdu-lillah),so we need a Van /big car to our daily live. Those cars are very expensive. The used one costs app.25.000 us\$(6 yrs old). Can I use the case of Darurah to bay a car by loan. Jazakum Allahu Khairan for your constant help

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. Abdulkadir

Al Salamu Alaykum Wa Rahmatullahi Wa Barakatuh

You seem to be living in a country where cars are very expensive such as Tunis or Algeria! I don't think this is a necessity. Just don't put them all together! And if you live in a Muslim country you must work on creating Islamic finance facilities and you can't use the excuse of necessity even for housing.

Wa Allahu A'lam

Wa Alhamdu li Allah Rabb al 'Alamin

Wassalam

Sincerely,

Dr. Monzer Kahf

Is Riba a compensation for inflation?

Subject: Question on Riba and Inflation

From: through Islam on line

Sent: Monday, June 12, 2006 1:50 AM

Question

Dear Dr. Monzer, Assalamu Alaykum wa Rahmatullahi wa Barakatuh,

I understand that RIBA (appreciation or augmentation to the principle) is Haram in Islam. This means if we earn interest on the money in bank it is Haram. My question is: How do we explain the depreciation in the value of money due to inflation? what is the Islamic way to counter this depreciation in monetary value?

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. Ibad

Al Salamu Alaykum Wa Rahmatullahi Wa Barakatuh

First, kindly notice that interest is not a compensation for inflation and it has never been. Simply, interest is an increment stipulated in a contract of loan provision while inflation happens with time and no one knows, at the time of contract what the inflation is going to be.

Interest is a price for lending money or a price for indebtedness, it has nothing to do with inflation and it is contracted whether there is or there is no inflation. However, whenever people expect inflation they manage their prices so that they cope with their expectations (which obviously may not be true in a sense that actuality would often come different that what was anticipated). A seller who expects inflation that will affect the cost of new goods he will buy would go ahead and increase the price of the goods he is selling now. Interest lenders do the same. This means that when interest lenders expect a rate of inflation of say 5% they would add this rate to the rate they want to collect as a price for the indebtedness (interest). Also when there exist risks of default of of currency value in terms of other currencies (exchange rates of currencies) lenders will also add a risk premium to the rate they want as interest. In other words you will notice that in interest lending the charge consists of three components: interest per se, anticipated inflation rate and risks premium. All these three components are put together under one name simply interest because, contractually, they can't be distinguished from the charge for indebtedness. Of course when put together they are all together Haram. But if we are able to deal with each one alone! Take the case of risks premium: suppose we have an Islamic non-profit organization such as a Waqf as a lender. It gives loans without any price of indebtedness, It is known, indisputably in Shari'ah that the actual cost of its operation can, and must, be charged to the beneficiaries of its loans (this is well established in classical Shari'ah writings and there is also a resolution to this effect by the OIC Islamic Fiqh Academy) would it be permissible for it to consider the actual losses caused by default, foreign exchange and other mishaps as part of its cost and charge the same to the beneficiaries. The answer is: YES of course. Now inflation is a little different because you don't know what it really is!

This may sound strange but can any one tell me what is the loss of value of currency because of inflation? There is really no way of knowing it exactly. it is estimated by changes in price index.

But what is the index, which one we use, consumer prices, producer prices, retail, wholesale, prices calculated by labor unions or by the association of industrialist or by the government, and which department of it, etc. Inflation is felt but can't be exactly known. This leaves open the idea that any rate you may assign as compensation for inflation"" may include a portion as a price of indebtedness. Thus it is mixed with Riba and can't really be distinguished although theoretically we talk about it and know what it is! Paradoxical as it is, this treatment of inflation is called indexation. In other words, indexation is assigning a rate that compensates the decline in the value of money. Because of the way it is calculated and because it is always intermingled with interest, it has become controversial, some people argue it is Haram and some other it is Halal. One way of solving this problem is by government action. If, after a period of inflation the government decrees that all debts in the society that are affected during this period should be increased by a given rate, this indexation may become permissible and independent from interest. Finally, you cannot decide for yourself, or in a two party contract, that this increment or part of it is a compensation for inflation and all such increments on bank accounts are interest and must be given away to Muslim charity.

Wa Allahu A'lam

Wa Alhamdu li Allah Rabb al 'Alamin

Wassalam

Sincerely,

Dr. Monzer Kahf

Student Loans with Grace Period

Subject: Subject: Riba on student loan, work and Niqab

From: Amna

Sent: Thursday, May 25, 2006 12:04 PM

Question

aslam o laiakum wr wb,

i am sorry i'm disturbing u brother but plz i need advise here..i need help from a reliable knowledgeble person inshaAllah.

The thing is i read even at ur website interest is prohibited. Now, i m trapped the thing is i m an almost going to be 19 year old girl and i rely on my parents for everything. Now i donot want to sign an interest base student loan in fall becuz to be honest i know i wont be able to pay it b4 interest sarts accumulating. So i know i shouldn't go for it. But there are org who i can come in contract with and even my father says he'll pay it for me most of it. But once again, i talked to my father abt it and he said he wont go for that option cuz he'll pay the loan. Now, he may pay it with or widout interest that i don't know. But the thing is if he payz the loan (not me) with interest he will be sinning ofcourse and i donot want him to inshaAllah and also i m the one signing it so i'll be held accountable. Although i mite not be the one who pays it but totally signing it on my father wishes. So wot shuld i do know either i don't sign the loan this coming september and face dir consequences in my family with my parents probably forcng me to work which i donot want to cuz i wear niqab (behind their back) and i donot want to ta ke i off cuz of a job. Now i m trapped i wont work, wont sign the loan, wont get married cuz parents are totally againt young marrage, and plus if i get kicked out of my house then i have no place to go. No place at all to live. I might go and live in a mosque but how will i clean my self from impurities like periods etc. My parents donot

appreciate my living in the house without studying or working they want me to do either of it. I don't even want to go university but I have no choice. So subhanAllah I either don't sign the loan and face all this and inshaAllah it hurts to think about it but I'll go for it. But please advise me before I take this step inshaAllah because I don't have much time left and also one daiyye sis told me that go and live in a mosque get yourself married. But how can I just go and live in mosque without anything to eat hardly any money? And I need a wali too. Plus I would point out here that my father is very sensitive to his children disobeying him, and in this case something might happen to his health like he may not be able to endure it etc. But as I said inshaAllah in the way of Allah (SWT) I'll go for it inshaAllah.

Please I really need advice because all people of knowledge have declined that it's not their expertise. I am really worried. Just give me any advice inshaAllah. walaikum aslam wrwb

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. AMNA

Al Salamu Alaykum Wa Rahmatullahi Wa Barakatuh

I can help you with advices provided you would be willing to help yourself.

First you need to define your priorities and set them up in accordance with the Islamic criteria.

Interest is highly prohibited and it is one of the gravest sins that a Muslim may ever do. So is disobedience to parents (of course except when they ask to do a sin like interest; but even then disobedience MUST be enveloped in a nice and polite way!). You are a Muslim young woman in the age of my younger children and you need to understand and approach the Islamic way of life in a way that is consistent within itself and also coherent with the environment you live in. You didn't tell me where you live but it seems in Canada. If you live in Canada or any Western country, you will need to recognize a fact of life for Muslims here that is a Muslim woman (and in 98% men too) can't be accommodated in a mosque and can't live in a mosque at all. Mosques here are owned by Islamic organizations that have boards of directors and regulations. Even in Muslim countries, all over the world, no one is permitted to live in a mosque except to stay for a night or two in groups for night prayers as on the 27th of Ramadan. Besides, a Muslim woman, a man too, in the Western countries is not accepted to be doing no positive things for herself or for others. In other words, she must be either studying, working or taking care of children, but just being at home for doing no useful things is not really a good way of life even for a Muslim woman. All the wives of my boys are either going to universities to complete their degrees or have babies to take care of or working, in paid or voluntary community work. It is not acceptable for any one to be just idle!

In this regard, the Niqab has a lower priority than study, work, parental obedience or contracting a Riba-based loan; although the Hijab (covering all the body except face and hands) itself is a Faridah, the Niqab is not and the most established views in the four schools of Fiqh is that it is not a Faridah. I don't say that you must take it off and I defend your freedom to adopt the minority's view that considers Niqab as a Faridah but when you have to choose either or and you cannot reconcile, you certainly should sacrifice the Niqab in contrast to taking a Riba loan, disobeying your parents, defying family and go live unwelcome in a mosque or sitting idle at home. You may choose voluntary work in a mosque or an Islamic community organization if it is suitable to you socially and economically and discuss it with your parents instead of working for money in other jobs, this may accommodate your Niqab, although it is also difficult to efficiently work with it.

Finally my suggestion: find yourself a part time job and continue your university study; do not take an interest-based student loan unless it has a grace period and you know for sure that you can pay it during the grace period without interest. Please feel free to write me again and talk to me on the phone (my phone number is 714 775 0525) and if you want me to talk or write to your parents I will be glad to do that or to respond if they email me. Please set your priorities right!

Wa Allahu A'lam

Wa Alhamdu li Allah Rabb al 'Alamin

Wassalam

Sincerely,

Dr. Monzer Kahf

From: Amna

Sent: Monday, May 29, 2006 1:17 PM

Question

Aslam o alaikum warehmatiullahi wabarakatu, brother,

Alhumdulillah that ur answer helped me. JazakAllahu khairun. But still i have some questions.

Sorry it is long again.

1. I talked with my father and he said he'll pay all of my loan on my behalf at the end of every year (b4 interest starts accumulating) if i get a minimum of C+ in all my courses. InshaAllah i m willing to work hard buut shuld i go 4 it cuz its mite prove risky??
2. Therez a muslim org. wid which u can get into a contract and they pay the whole loan for u with out me paying any interest but at sume future date life after 5 yrz, for example, i'll have to pay them the principal amount as well as \$5000 (for example) extra as a benefit. But my father said he wont go for this option.
3. I know my father have plan to get me married at the end of 4 th year or maybe third year and i also know that he'll pay almost all of my loan. But the thing is i know that there is almost a 95% chance that my father will be paying the loan widout me paying any interest but i m the ne who'll be signing it. So will i be held accountable although i know i wont be paying it??
4. My last option is that i go out and work widout niqaab. And i have to work to cuz my father wants me to. So then i 'll be paying the loan as well as working hard inshaAllah to get the grade and pay the loan. They also allow a 6 month grace period but in that period u do get ineterest but the government pays it for u. So m i sinning although i wont be paying the interest again??

Option 2 will only work when i plead and plead and behg and beg my father to come into comtract with them cuz i said my father will be the one paying almost all my loan in the end so probably he wont go for it. But tell me for option 3 will i be sinning?? And shuld i go for option 1 although it is risky?

The thing is that in the end (if i don't work in the summer or cant find work or study instead) then my father will be paying all my loan or most of it. Although i wont be paying interest in this case, just signing the loan. But i do not want my father to pay interest either so i guess i have to work inshaAllah. But just signing a riba based loan on my father wishes and do not paying any interest in the end, will it make me held accountable??

JazakAllah khairun brother for helping me out in the first place and plz clear my confusion now too inshaAllah. May Allah (SWT) reward u id good in this world and aakhirah. Ameen.

Walaikum aslam wrwb

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. Amna,

Al Salamu Alaykum Wa Rahmatullahi Wa Barakatuh

- 1) I am glad you accepted the advice in principle. A loan that gives you the choice to avoid interest if you pay within a given grace period (e.g., six month after graduation) is permissible under the condition that you are certain it is going to be paid within this period. If you have a doubt about its complete payment during the grace period signing it becomes not permissible (I know some local Imams may say it is not permissible to sign it anyway but I argue that this choice since it is in your hand and you know your ability, signing it boils down to accepting the choice between a permissible and not permissible and this acceptance is permissible with that condition).
- 2) It does not matter if the government is paying the interest, this is none of your business unless if there is a condition that government will come back on you for repayment of interest it paid (such a condition does not usually exist in student loans). But it does matter if you sign a loan with interest and another party such as your father is paying the interest, this makes it Haram. Government and its agency are part of the system of granting student funds, your father is not.
- 3) The 5000 charged by a Muslim organization for giving such a loan seems to be Haram because it is interest; whatever name they may give it does not matter unless the funding is structured as tuition financing on the principle of buying credit units from the university and selling them to you at a higher and deferred price. This system is not available in North America, it is available in Kuwait and this Muslim Organization can't actually use it, this option seems as Haram as plain interest-based student loan although it may be disguised under a different name.
- 4) It is ok if your father gets you married and pays the loan within its grace period as long as you are sure, at the time of signing it that it is going to be paid on time without invoking the interest clause; after all this is what a father is for!
- 5) I recommend that you take a positive attitude toward your self and your father: pledge to your self to work harder on study and to find a job and work with or without Niqab (of course as long as you still maintain the Hijab on your body and hair except face and hands) and share paying the principal of the loan with your father. It is not Haram to sign it if you are sure that both you and your father will be able to pay it within its grace period.

Please write again if I can be of any help.

Wa Allahu A'lam

Wa Alhamdu li Allah Rabb al 'Alamin

Wassalam

Sincerely,

Dr. Monzer Kahf

Loans for Starting Business and Financing Working Capital

Subject: Borrowing for working capital

From: Zafar

Sent: Friday, August 11, 2006 4:18 PM

Question

Subject: Borrowing for working capital

Respected Dr.Kahf, Assalam Alaikum

I am an engineer from who has established a factory in, India. The capital assets are free of all encumbrances.

I had expected to fund the working capital from my own resources but after three months of production I find that due to credits given to my buyers as per custom of business here, I am short of funds for working capital. I have no means here to get Islamic financing as I would have desired. The State Bank of India has already sanctioned me Cash Credit limits for working based on my financials. If I do not borrow then I may have to sell the factory causing loss of livelihood to my 55 workmen half of whom are Muslims. Of course, Allah is the best Provider.

Under the circumstances, would taking the CC limit and drawing from it be permissible within the laws of Allah and The Prophet(saw). Please reply. Wassalam Yours sincerely
Zafar

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. Zafar

Al Salamu Alaykum Wa Rahmatullahi Wa Barakatuh

I understand that your original plan included funding for working capital but for circumstances that you either were not familiar with or new conditions arose you need now additional funding or else.. You know the rule. Any such cash credit borrowing is Riba based and it is certainly Haram. It seems to me from your explanation that the principle of "relaxation because of necessity" applies because the alternative threatens your business and assets. But I also would like to suggest a last resort before you go for this borrowing that is to try to have certain form of partnership with friends or other business persons on the basis of "credit line". This is a form of financing that is permissible in Shari'ah for working capital in which you establish a partnership with the provider of line of credit in which your capital share will be the net worth of your business (as it appears in a balance sheet audited and accepted to the two partners) multiplied by the number of days from the beginning of the agreement until the end of each accounting period. The capital share of the credit line provider will be the total (+ and -) of each withdrawal you make from the line of credit multiplied by the number of days between the day of withdrawal and the end of the accounting period (as +) and each deposit you return to the provider of the line of credit multiplied by the same (as -); then profit will be distributed on the ratio of capital shares after deducting certain percentage for management and losses (God forbids) according to capital shares. Take this proposal as a last resort if you can before you go for interest borrowing out of necessity and remember that the application of rule of necessity is always limited to the extent of amount of necessity.

Wa Allahu A'lam

Wa Alhamdu li Allah Rabb al 'Alamin

Wassalam

Sincerely,

Dr. Monzer Kahf

From: Zafar

Sent: Sunday, August 13, 2006 1:59 PM

Question

Respected Dr. Monzer Kahf, Assalam Alaikum. Allow me to thank you for your very clear fatwa and may Allah shower His choice Blessings on you.

I had earlier explored the possibility of having a partnership but unfortunately the local Muslim community has a very small number of people with capital and they too only understand trading and keep away from organised manufacturing, let alone manufacturing with sophisticated technology. I had resigned from the position of CEO to which I had risen from the bottom level in the Industry, only to set up what I know best, so that job opportunities could be made available to young Muslim men, who were being led into crime and degradation by the abject condition of society here. I was successful in my experiment that a large number of such youth are now reformed and living well and sending their children to school- there was hope for the next generation to come up on a better platform. I never had the intention of making money for myself, due to which I kept ploughing back all my earnings into the support of the community and Allah was so kind to keep me sending His Fazal. But, I cannot do anything which goes in contradiction to the commands of Allah and his Prophet(saw).

Now, I will sell my present factory which would mean giving away a lot of technology created by long years of R&D by me, and try and set up something on a smaller scale so that I can try to be of service to fellow Muslims and will not be on collision course with the Shari'ah or tariqah of the Prophet(saw). Please pray that Allah guides me and helps me in my mission. With best Regards and Many Thanks. Yours sincerely
Zafar

Dear Br Zafar

Assalamu Alaikum wa Rahmatullahi wa Barakatuh

What you chose to do is up to you. I explained to you the rule of necessity and how it may apply to your situation and the reservation on it too. May Allah help you, me and all Muslim do their best to please Him and serve our community and the humanity at large.

Wassalam,

Monzer Kahf

Subject: Billing insurance companies and loan to start a business

From: Rehan

Sent: Tuesday, June 20, 2006 4:35 AM

Question

Asslamualaikum Dr. Kahf,

I am taking the liberty of writing you directly on a subject that I need some clarity on. I am an Indian Muslim and I run a offshore Medical Transcription company (offering a service to doctors in the US transcribing their dictation on patients they see/treat/operate on.)

My first question relates to a business I would like to start. There is an opportunity now to offer services apart from transcription to healthcare providers in the USA like clinics and hospitals in the form of Medical Billing services. I am sure you are aware of this business however I will explain it a little here for the sake of clarity - Since most people are covered under some form of health insurance in the US, doctors most often have to collect their reimbursements for services rendered from the health insurance companies that cover their patients. The healthcare providers have to follow some procedures like filing claims (bills for services performed) with the health insurance

companies and then have to follow up with these companies until they get paid. Such services can be outsourced to companies that do this for a percentage of the collections and they are called Medical Billing companies. I am now interested in setting up a offshore Medical Billing business in India. My question is – would this a Halal business to do since we would be collecting funds from the health insurance companies on behalf of the doctors?

My second question relates to the funding of this business. I have a partner (Indian Muslim) in the USA, and he has suggested that we buy a US Medical Billing company so that we can get a ready platform from which to start. He says that the usual way to do such acquisitions is by investing only a small part of the purchase price, with the rest being funded by seller financing (where a seller agrees to accept a majority of the value of the company in deferred payments over 1-2 years) and the rest by bank loans to cover the remainder. The bank loan will obviously carry interest but my partner says that is the normal way to do these acquisitions in the USA. Can this loan from the bank for the purpose of buying the business be considered Halal? Wassalam,
Rehan

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. Rehan

Al Salamu Alaykum Wa Rahmatullahi Wa Barakatuh

1. Taking fees for your services that you mentioned from funds collected from insurance companies for services of health care providers is Halal, no doubt about it. Billing insurance companies and collecting funds from them by health care providers amount to accepting the Hawalah of patients on these companies. This has nothing to do with the insurance contracts between patients and companies at all. It is permissible to accept Hawalah and collect it. And obviously your share for your services is also permissible. This is so even according to the view that defies insurance! Besides I argue that insurance is permissible with a few conditions that are fulfilled in health insurance. This is the view of great scholars lead by the late Shaikh Mustafa al Zarka, it is also the opinion of the late Maududi.
2. Seller financing may be formulated according to Shari'ah but definitely, an interest-based loan to acquire a business is not permissible and interest is one of the most grave sins as known in Shari'ah.

Wa Allahu A'lam

Wa Alhamdu li Allah Rabb al 'Alamin

Wassalam

Sincerely,

Dr. Monzer Kahf

Subject: Loan to start a business

From: Jalal

Sent: Sunday, May 28, 2006 6:41 AM

Question

AA Dr. Kahf

I hope you are doing great and in the best state of health and iman. I am writing this email to inquire about financing and business loans. You were highly recommended for your opinion based on your profound knowledge in Islamic finances and transactions. Before I ask you the question, I would like to sincerely thank you for taking the time to consider my question, May Allah make it in the balance of your deeds.

I am currently working as an associate Dentist in London, Ontario Canada. I have being an associate for about 3 years. I have an opportunity at this stage to purchase the practice I am working at, as the principal dentist (owner) is ready to retire. The practice has being established since 1977 and has large patient base and high yearly gross income.

My questions is: The practice is worth about 1 million dollars, I have tried to look for investors, I have found few but I am still way short from getting the whole amount.

The other option is getting a business loan from the bank. I have consulted few people from our community that have a strong background in Islamic knowledge (Fiqh) and that are also working in the area of finance. I didn't get a definite answer and that's why I am asking your opinion.

Considering that if I take a business loan from the bank, and the interest generated is mostly tax deductible, and I have no other way of acquiring the money, Is this issue closed for discussion pertaining to business loans? And maybe I should just stay as an associate, or is there room for discussion? Please advise on this issue and any possible solutions. Jak

Waiting anxiously for you response, your brother
Jalal

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. Jalal

Al Salamu Alaykum Wa Rahmatullahi Wa Barakatuh

I am not aware of any way of getting a loan for starting a business on interest-basis and yet remain within the limit of Shari'ah! What I suggest is to search a little harder to find some partners who can enter with you in this business with a promise that you share with them the net return of the practice but after a given number of years you will buy them out, either gradually on installments or one lump sum. Second, in Canada, did you try the housing coop of Mississauga (same building as ISNA)? I know it gives this kind of financing. Third, many retired persons prefer, especially for tax reasons, to receive installments on such a big lump sum; did you try to offer the older retiring partner a larger sum (say the same plus an amount that is equivalent to the prevailing interest rate) with installments payment?

Wa Allahu A'lam

Wa Alhamdu li Allah Rabb al 'Alamin

Wassalam

Sincerely,

Dr. Monzer Kahf

Subject: Earnings from Businesses Selling Non-Halal Products and starting a business

From: Adam through Islam online

Sent: Sunday, May 21, 2006 8:19 AM

Question

Dear Dr. Monzer, Assalamu Alaykum wa Rahmatullahi wa Barakatuh,
I would like to ask you 2 questions. 1) Is franchise Halal or not? Knowing that around 70% of the money needed to open the FRENCHISE will be borrowed from a bank. 2) If you open a business selling products that are not Halal such as cooked non Halal meat, is the money earned Halal or Haram? Jazakum Allahu Khairan for your constant help

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. Adam,

Al Salamu Alaykum Wa Rahmatullahi Wa Barakatuh

1. Borrowing on interest to open a business is not permissible in Shari'ah, it is Haram because interest is one of the most grave sins that is prohibited in the Qur'an and Sunnah with strongest words.
2. Franchise business is permissible as you pay for the use of trade name, trade mark and special formulae and inputs. And all these are commercial and intellectual properties that are recognized in Shari'ah.
3. The sale of meat from animals whose meat is prohibited in the Qur'an and the Sunnah, such as pork is itself Haram. Additionally the price of a Haram item, such as liquor or pork, is also Haram as our most beloved Prophet, pbuh, said Surely When God prohibits a thing, He also prohibits its price. In other word, in selling such product two sins are committed: the act of sale, and the price.

Wa Allahu A'lam

Wa Alhamdu li Allah Rabb al 'Alamin

Wassalam

Sincerely,

Dr. Monzer Kahf

Personal Loans with Interest

Subject: Taking a Personal Loan with Fixed Interest

From: Mustapha through Islam on line

Sent: Thursday, April 13, 2006 4:10 AM

Question

Dear Dr. Monzer, Assalamu Alaykum wa Rahmatullahi wa Barakatuh,

Is taking a personal loan with fixed interest and fixed monthly repayments for the whole period of the loan repayment considered usurious (Riba)? For example: the loan is for £20000, the rate is 6.4%, monthly repayments £394.72, the number of repayments 59, the total amount payable £23288.48 Jazakum Allahu Khairan for your constant help

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. Mustapha

Al Salamu Alaykum Wa Rahmatullahi Wa Barakatuh

Yes, of course. This is the exact Riba that is prohibited in the Qur'an, and if not then what is Riba?

Wa Allahu A'lam

Wa Alhamdu li Allah Rabb al 'Alamin

Wassalam

Sincerely,

Dr. Monzer Kahf

Subject: Can Muslims Benefit from Some Credit Modalities in Western Countries?

From: Tahar through Islam on line

Sent: Wednesday, August 23, 2006 8:24 AM

Question

Dear Dr. Monzer, Assalamu Alaykum wa Rahmatullahi wa Barakatuh,

The resident Muslims in western countries where there are no Islamic banks when being in a situation of necessity for the buy of a house, vehicle or any other necessity do not have more solution than to go to these banks that operate without guarding the Islamic formalities. The governmental institutions contribute to unemployed the long play and without economic resources for their labor reintegration with microcredits for the opening of new trades (the maximum of these credits is between 20,000 and 30,000 Euros with an interest from 3% to 5% and with a lack of Time of 1 to 2 years) My question is if the resident Muslims in western countries in a situation of unemployed and without resources benefit from these modalities credit for his incorporation to the labor work? Jazakum Allahu Khairan for your constant help

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. Tahar

Al Salamu Alaykum Wa Rahmatullahi Wa Barakatuh

These are interest-based loans. They are as forbidden as any other interest-based loans from banks and other financial institutions. If you look closely it is incorrect and illusionist to think that this is the only opportunity to get a source of sustenance especially that the great majority of such shops fail and go bankrupt within 3-5 years (i.e., by the time they consume their capitals!). There is no real necessity for taking such loans, especially in Europe as it looks the questioner is from Europe because cars are not needed for basic transportation in Europe as public transportation are more available and cheaper, rental housing is also available with abundance in Europe and small shops often fail. Besides, there are other ways of pooling resources with friends and family to start such small shops. My dear brother questioner, please do not search for excuses to continue being dependent and/or throwing your problems on lack of resources. It is our own change of mentality and approach to life and work that need to be changed.

Wa Allahu A'lam

Wa Alhamdu li Allah Rabb al 'Alamin

Wassalam
Sincerely,
Dr. Monzer Kahf

Interest Finance under Cover!

Subject: Financing a mosque project

From: Hany

Sent: Wednesday, September 13, 2006 8:00 AM

Question

Dear Dr. Kahf, Alsalmo Alikom Wa Rahamto Allah Wabarakatoh

We have established a local Islamic Waqf for our community at 1998 through which we were able to start a cultural center to provide the community at large with clear and honest picture of the Islamic culture. We are in the final phase of finishing this project (www.noorusa.com). We are looking for a financial consultant who has a good background of Islamic and modern finance to help us to establish an Islamic contract with an American bank since many of them are showing the willing to accept Islamic contract. We are also looking for help in answering some question related to the nature of the Islamic contracts. These questions came as a result of our needs to borrow some money form an American bank which is willing to sign an Islamic contract.

We believe that answering these questions will help us developing his contract Thanks a lot

Hany

Background:

American Islamic Waqf (AIW) is in the process of building a Masjid and community center to serve Muslims in Columbus, Ohio. This project is the first Masjid constructed by Columbus, Ohio Muslims from the ground up. Consequently it has required many capital expenditures and AIW has thus spent several million dollars collected through community donations in its construction of these facilities. AIW is now at the last leg of its construction and has been unable to quickly raise the remaining 1.2 million dollars required to complete the project in the time demanded.

Community donations continue to come in however not at the rate needed to complete the project and pay off the contracts already signed and committed to. Prolonging the project until the total funds are raised via fundraising drives will cause the community many hardships. Material prices continue to skyrocket and AIW may be in default of the contracts already committed to and the time frame allowed.

Therefore, the AIW board has resolved to obtain an Islamically permissible loan to complete the project. AIW approached one of the local banks to enquire about a potential financing options however there is considerable confusion on what is Islamically acceptable and what is not.

As one of the few professors available in USA and specialized in Islamic Banking we put together some questions we need to be answered as they will affect our contract with a borrowing bank.

Below are these questions that were raised by AIW in its pursuit of Islamic financing contract with a "non-Islamic" regular bank.

1. Are Treasury Bills considered permissible Islamically as commodity to be used in nTawaroq contracts or do they constitute a form of Riba, and are therefore forbidden?

Treasury bonds are interest-based debt securities, they can't be owned by a Muslim and if a Muslim happens to own them must sell them at face value because debts can only be sold at face value regardless of maturity. They can't be used for Tawarruq, and Tawarruq is bad any why!

2. Can treasury bills be used as an instrument for the Islamically used practice of "Tawaruk" where a Muslim buys commodities from a bank or other financial institution pays that institution over time allowing the institution to make a profit. Then takes those same commodities and sells them in the market to raise the required capital. Answered above, any difference?

3. Can a third party (non-Muslim) be permitted to take a traditional interest loan from a bank, with the intention of then buying commodities such as gold or steel and thereby allowing a Muslim to conduct the "Tawaruk" financing mentioned above? Gold trades require immediate delivery of both and it can't be sold at a deferred price. Other goods can be sold at deferred prices. Tawarruq is not permissible according to the great majority of scholars because it is fake. If a person takes an interest-based loan from a bank and buys materials for constructions that you need for the building and you buy them from that person at a higher but deferred price, what you do is permissible and God will hold that other person accountable for the loan he takes. In other words, it is none of our business to ask where did the money come from (of course unless we know that the same is stolen, forfeited or the like).

4. Can a Muslim organization sell a bank a Masjid with an agreement that the bank will immediately resell the Masjid back to the same Muslim organization via land contract or a lease to own method? Does this constitute two sales in one, or any other forbidden practice?

A Masjid can't be sold, even with this intention. A Masjid is a Waqf (owned by God) He, of course will not sign the papers! Once a Masjid is declared as such or opens for prayers, it becomes so until the Day of Resurrection (unless, of course, is documented in writing or verbally that it is temporary until a permanent one is established). No sale and no lien can be effected on a mosque. This rule does not apply to an Islamic center even if it has a room for prayer.

Depending on what stage are you at, you may use the land of the Masjid before construction as collateral and then build the mosque on it with the financing obtained with the collateral. A non-Masjid land and structure can be sold to a bank and leased back a financial lease (again most scholars consider this not permissible, a few argue that a lease is different from sale and therefore it is permissible, all argue that you can't buy it back on installment, in contrast to leasing). Sell cash and buy back on installment makes bay al ""Inah, it is not two sales in one, but both are Haram and are in fact Riba.

5. Are late fees charges by the bank for failure to make timely payments on a loan permissible? If not are there any methods of allowing the bank to be compensated if payments are not made timely that would be Islamically permissible?

Late fees must not include any price for the money, this is interest and this is what is prohibited. Late fee that includes the actual out of pocket expenses caused by the delay are permissible to recover from the debtor. Any extra if collected for deterrence purposes must be donated to charity. If you have an Islamic contract, Murabahah, with a conventional bank and it insists on a large late fees (that includes a price of money, you may accept it under necessity and make all the effort to avoid invoking this clause by being punctual on payment as we do in credit cards, although an Islamic bank can't issue a credit card with such a condition)

6. Can you offer some Islamically acceptable finance arrangements that we could propose to bank officials for consideration?

Murabahah has been approved by the US Federal Currency Controller/ Administrator of National Banks as a ""regular banking business."" Any bank can use it and there must be no objection from any body, the only hindrance is the bank's formalities and standard forms it uses and its inability or unwillingness to go outside these forms.

You can make a three party agreement with the bank and the contractor that, from Shari'ah point of view, is worded as two contracts: the bank's buying from the contractor and selling to you on installments, and from conventional point of view will be financing the construction to your benefit. You can also make it construction to lease and take it from the bank as a financial lease. Alternatively, if you want the financing for only materials used and you can pay for labor from your own funds, you can make it a simpler Murabahah for the bank buying them and selling them to you at deferred installments

7. Can you provide us with guidelines to follow when seeking Islamic financing? What is permissible and what is not? Yes, as time goes, I can do that: the idea is to take things that are in the mainstream of Islamic finance.

Dear Br Hany,

Assalamu Alaikum wa Rahmatullahi wa Barakatuh

It will be my pleasure, rather duty, to help you to the utmost I can. I suppose your objective is getting financing to make the construction. Where did you get this idea of Tawarruq from? It is extremely controversial and the great majority of Shari'ah scholars find in it pure interest but even worse than interest because of the commission and price differential that it may involve. Please give me your objectives clearly in details and where did you reach with the local bank. Can we make this as a Murabahah? That is for the great majority of Scholars, not controversial. Answers to your questions are below:

Wassalam,

Monzer Kahf

From: Hany

Sent: Thursday, December 07, 2006 5:39 PM

Question

Dear Dr Kahf

I hope you are doing fine. AIW had an agreement with one of the banks to buy and sell gold through another party as you can see in the summary letter. Attached is the contract between us and a third party. Please advice us.

..... Bank contemplates that it will be funding any of the loan charges, i.e. the \$45,000 payable at Closing, the survey costs, AIW's legal costs, survey, etc.? I see the transaction as follows:

CLS sells Gold Certificate to AIW for gross purchase price of \$1,527,000, payment terms as listed ons term letter; CLS's agreement with AIW grants right for immediate repurchase at \$1.2 million, which CLS borrows from Bank and exercises right to repurchase at closing; The \$1.2 million borrowed by CLS is deposited with Bank, as provided in the CLS - AIW commodity purchase agreement, to be made available to AIW for property improvements to Community Center;

..... Bank has note from CLS for \$1.2 million, supported by the terms of the assigned Commodity Sale Agreement, the guaranty from AIW, and assignment from CLS of AIW's note/mortgage;

CLS assignment to Bank calls for all payments from AIW to CLS to be made directly toBank, excepting approximately \$6,000.00 of payment at closing (increases closing payment from AIW to \$51,000);

If Bank is funding any of loan costs, \$1.2 million note will need to be increased by that amount and CLS's fee will increase incrementally (.05%). If AIW is funding the additional costs directly, the numbers are good "as is".

I'm attaching a revised Commodity Purchase/Sale Agreement for your review/comment. Basically, now that we have numbers to work with, I've taken out the "profit margin" concept, and just built it into the spread between AIW's purchase price from CLS, and CLS's redemption price. Let me know if my summary makes enough sense to follow, and if you have questions/comments.

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. Hany

Al Salamu Alaykum Wa Rahmatullahi Wa Barakatuh

This transaction has triple Riba: it has Riba al Fadl because sale of gold must be only cash; and it has Riba (interest) because the sale at a high deferred price and the purchase are done between same two parties that is Bay' al 'ynah; and the third kind is at the end of article 2/d that reduces the price by the amount of savings... The Prophet, pbuh, described it as Riba (sale at two prices). I think whoever advised you want to over-smart the Shari'ah! This is a complex Haram transaction. please don't make it in the name of a Waqf!

Wa Allahu A'lam

Wa Alhamdu li Allah Rabb al 'Alamin

Wassalam

Sincerely,

Dr. Monzer Kahf
