

FATAWA ISLAMIC BANKING 2007

Are Islamic Banks Really Islamic and Is Working in them Permissible?

Subject: Islamic banking

From: Farhan

Sent: Friday, February 23, 2007 10:08 PM

Question

Sir;

I would like to know that I am working for Citibank Pakistan. For the last 3years I was working for their technology department. But the business wanted to Project manager for their technology project and I moved to Credit Policies. I thought that I would be only working on the project. But they are making me work on other things as well in which I can see read interest values and might be possible in future I might have to check and sign and give approval on them....so definitely my job will not be halal... so I am trying to make a move to some other industry.

1) I have been offered a job from Dubai Islamic bank which by their saying is purely Islamic bank so if I go there in any xyz dept will my job and salary be halal?

2) Also I have been offered a job from technology business partners but the company reputation is not good and there is a lot of politics

So if I get to know that my dubai Islamic bank job would be 100 % halal I could join in there can you please help me sort this issue. As I am willing to leave asap and asking for ALLAH's mery and forgiveness.

Is Islamic banking a step towards Islamic banking? Is it halal? Is it different then conventional banking? Regards,

Farhan

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. Farhan

Al Salamu Alaykum Wa Rahmatullahi Wa Barakatuh

Of course Islamic banking is Islamic and of course working in the Dubai Islamic Bank is Halal and the Salary is Halal. Don't be fouled by antagonistic propaganda! On the other hand, your work in credit department if it requires you to sign interest-based contracts is not permissible in Shari'ah.

Wa Allahu A'lam

Wa Alhamdu li Allah Rabb al 'Alamin

Wassalam

Sincerely,

Dr. Monzer Kahf

From: Farhan

Sent: Monday, February 26, 2007 9:13 PM

Question

Assalam u Alikum, and Walikum Assalams Wa Rahmatullahi Wa Barakatuh, my brother Monzer thank you for your reply. Sir I have a few query I may sound to you a bit rational but please do not mind.

My query to you is that I have been to your websites and several other websites and there it is said that there are many jobs in conventional banking which are halal as you are not the signer, or witness of interest. I cannot understand this point. If I am working in a consumer bank where the main way of doing business is giving loan or selling products on loans etc then how can my job even of a mis can be halal when I know that the work I am doing is in a way related to interest and that due to my work the one(person) will sign the interest contract? Or even lets say that the IT people job in conventional banking is halal, don't you think that IT is the backbone of a bank and without this nothing would happen like interest deals etc?

And through out your website I only saw at one place written that one's job in a conventional bank in which he is not directly link with interest is halal but he should leave that job asap, then by this do you mean that even that job in a way is not halal? I have heard from my friend that he heard in Dr Zakir naik's program that there is a hadith I tried to search that hadith my self but I couldn't so I am asking in my own words may ALLAH forgive me if I write anything wrong or miss communicate to you, but wot I got to know I am asking you that if a business is 70% involved in interest related work then in that place everything is haram something like this do you have any idea? Is there any such hadith? Regards,

Farhan

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. Farhan

Al Salamu Alaykum Wa Rahmatullahi Wa Barakatuh

Your question has more than one facet:

1. We need to distinguish between what is prohibited and what is not prohibited. For what is not prohibited I usually use the term permissible (not Halal) and if sometimes I used Halal to mean permissible I was not then accurate. What is prohibited both by the letter and spirit of the texts themselves and there is no need to expand on the circle of prohibition from our minds. For instance, we have the prohibition of alcohol for drinking. The Prophet. pbuh, is reported in an authentic Hadith to have Said: Ten things are prohibited in regard to khamr... and he counted serving it carrying it transporting it brewing it drinking it, etc. For the Hog all the text we have relates to eating it. On the other hand for Riba all texts refer to four functions: taking, giving, writing and witnessing. why should we expand these prohibition and make life difficult and sometimes full of hardship? In fact yes, you can use the hide of a hog

for shoes and for floor mats. The issue of whether it is purified (from being Najis) by tanning is disputed but all that it implies is not to use it for prayer! The same applies to Riba let us restrict the prohibition to what is given in the text. Besides, look at the function itself, say if you work as a teller in a bank, what you do is itself permissible doesn't have any ingredient of Haram and it is not of your business what other people (the one you take cash from and the one you give cash to) have as relationships between them.

2. We need to distinguish between permissibility and goodness, between drawing the line that divide areas into permissible and not permissible and what is better or what is the implication of Taqwa. Each one of us is encouraged and urged to do the best, but the Fatwa is to do what is obligatory and avoid what is not permissible. Of course jobs differ, a black smith who pollutes the area with bad and unhealthy smell is not like a perfume seller who spread nice aroma (This is an example given by the Prophet, pbuh). In this regard teaching Qur'an is certainly not like working in IT in a conventional bank. The latter, no doubt, helps the Riba dealers and the former spread the Divine and glorious words. In other words, while I don't dare say that working in IT in a conventional bank is not permissible, I wouldn't accept it to my dear ones. This is a different issue than the Fatwa. In Fatwa you go up to the dividing line. Certainly jobs have ranks from the point of view of the reward they imply (of course in addition to the reward of earning the livelihood of yourself and your family). But you can't expect all people to go for the Taqwa and you have to be clear on the Fatwa that draws the dividing line only. This is the distinction between recommendation to a beloved one and the Fatwa.
3. Working in Islamic banks is definitely more rewarding because even when you don't write the Halal contracts you are supporting and promoting them. This is incomparable with working in conventional banks because there you support the Riba as you said.

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

From: Farhan
Sent: Wednesday, February 28, 2007 10:54 PM

Question

Walikum as salams.

Brother, I didn't understand much of your text but I'll be asking my elders to make me understand, the only reason why I am asking you these questions is not because of I being hypocrite or anything but tomorrow when we all stand in front of ALLAH on the judgment day and when HE asks that we in HIS name opened ways of earning interest in the name OF ALLAH and because of us we misguided millions and just think what punishment will we get just because of the reason that we mis-guided the UMMAH in the name of ISLAMIC banking. I know QURAN has said yes to KARobar and no to riba.....

but everywhere people say in conventional it is interest and in islamic banking it is rent..... so how to guide them or make them understand that there is a lot of difference. Also I have read in some place that the rules and regulation of shariah for Islamic banking are very strict and are not fully applicable at this time so shariah has given some sort of relaxation on these rules/regulations do you have any idea on this? I know today's aalim or mufti don't like to have such of discussion once they say yes or no to something then they wouldn't like the person asking question to discuss that further but I have to because tomorrow when I join ISLAMIC banking INSHALLAH (whenever) then I have a responsibility not only to perform my job for that Islamic bank but also guide the ummah to correct path..... which we even do in other topics/contents of life.....

WE all know that conventional banking, loans, etc gambling etc are all haram in ISLAM or in many other religions as well.... By your text you are trying to SAY that QURAN should have spoon feeded us by saying clearly everything when you gave the example of a cashier. But don't you think that once in a blue moon there would be a customer coming to give him when submitting his cash, he could ask the cashier what rates of profit or what interest or profit will you give me on my balance or anything...so he will be telling that customer that our bank will give this much profit/interest to you etc? even the same could happened with any person not involve in interest but working for a interest related company either in a gathering, traveling etc people may ask him/her and that time he is promoting interest isn't he???

I hope you don't mind my questions and discussion but believe/trust me this is all to make sure that we don't dare make ALLAH angry and may ALLAH forgive all our sins... Regards, Farhan

Dear Br. Farhan
Assalamu Alaikum wa Rahmatullahi wa Barakatuh

I do mind. I think you are mixing up issues and you need to read more or attend some courses and training sessions on Islamic banking and finance. The difference is we, InShaAllah fear Allah with knowledge to distinguish between what is permissible and what is not and you want to fear Him with ignorance!

Best Regards,
Wassalam,
Monzer Kahf

From: Farhan
Sent: Monday, March 12, 2007 6:24 AM

Question

Walikum as salams,

My apologies that I hurt your feelings but believe me I didn't had any intentions of doing it for a reason, I myself am very much confused. One small question if you don't mind what it mean by a complete Islamic bank which follows/comply with Islamic banking

and the other which might not be fully compliant are they both halal with reference to shariah? Regards,
Farhan

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. FARHAN

Al Salamu Alaykum Wa Rahmatullahi Wa Barakatuh

I accept your apology. The answer to your question is quite simple. The Shari'ah-compliant transaction, division, action or what not in a conventional bank is Halal and normally all transactions, divisions and actions of an Islamic bank are usually screened by Shari'ah advisors and most likely they are all Halal. Yet an Islamic bank's management may make some mistakes or adopt a controversial opinion but usually these things are non-intentional and corrected once they are realized.

Wa Allahu A'lam

Wa Alhamdu li Allah Rabb al 'Alamin

Wassalam

Sincerely,

Dr. Monzer Kahf

Transactions of Islamic banks

Subject: recording Murabahah in Islamic banks and building depreciation

From: Shiraz

Sent: Tuesday, April 24, 2007 10:27 AM

Question

Assallamu ALaikum

One question - Our Board refuses to adopt the policy of recording the murabaha on our books at the sale price but instead records at the historical price. We spoke to them and we showed them the AAOIFI standard which they refuse to adopt.

Murabaha is recorded in our books at the cost price. Profit is nowhere but taken in when payments are received in proportion to the rate against the capital

Should they continue to refuse to adopt what do you suggest? I'm being very charitable in my attitude to them as they seem to know more than all the ulema put together, Also we moved into our head quarters in January of 2005 as we had permission to move in and renovate from the owner. We operated from different branches as the renovations were ongoing. At the end of May 2005 we made final payment for the building and transferred title.

We depreciated the building for one month but our auditors depreciated it for 1 year. We do not believe this is correct at all as we did not have ownership at all until that payment

was made we only move in to renovate. Is there any Islamic position we should know on this?

Shiraz
Managing Director

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. Shiraz

Al Salamu Alaykum Wa Rahmatullahi Wa Barakatuh

1) Indebtedness on members must be for the price of the Murabahah sale otherwise the books do not reflect reality. This is objectionable from Shari'ah point of view, from Auditing/accounting point of view and from disclosure point of view and if the Board does not accept the supervisory authority must force them. They are wrong in this point.

On the other hand, you may record on the credit side the buy price of Murabahah and put the mark up in an "unrealized profit" account which will be reduced each time a payment is done by the amount of the park up related to the payment by transferring it to realized profit. This is ok. Further, in the balance sheet you can subtract the balance of unrealized profit from the balance of receivable to reflect clearly the historical indebtedness. This all together may accommodate the concern of the board members about historical value.

2) For building depreciation, I think you auditor is right, the building must be depreciated for the full year because you owned it since January 05. You can revalue it after completing renovation and put the revaluation amount in a special reserve account and re-calculate the depreciation for the last 8 month according to the new value of the building. The Shari'ah position here is full disclosure. You actually had the building in your ownership since the delivery of the purchase contract and that happened in January. The title matter is merely procedural.

Wa Allahu A'lam

Wa Alhamdu li Allah Rabb al 'Alamin

Wassalam

Sincerely,

Dr. Monzer Kahf

Subject: Buying a house through Islamic Banking System

From: Salem

Sent: Tuesday, April 24, 2007 11:35 PM

Question

Dear Dr. Kahf, Assalam Alykum wa Rahmatul-Allah wa Barakatuh

First of all, I would like to thank you for your efforts for serving Islam and Muslims across the world. I'm writing you regarding buying a house in Oman through an Islamic Bank.

We here in Oman have no Islamic banks nor Islamic transactions thru regular "commercial" banks. The CEO of the Central Bank of Oman announced recently said in a paper that the government is not planning to introduce the Islamic banking system in the country.

I've come across a financing company from the Kingdom of Bahrain that can finance buying a house for me in Oman. They work as the guarantee party for me to get a loan from the Bahrain Islamic Bank. They cannot buy the house for me in Oman but they can transfer the money of the house to my account in Oman. In order to make things ""halal"" [according to them], they buy diamond in Bahrain [worth the same amount of money of the house] on behalf of me and they again sell it to another party [The bank representative said that this transaction is monitored by their Islamic advisory committee]. He also mentioned to me that I can have the diamond and I sell it through my own way. He said that they have a fatwa that says that this is Islamically halal. They call this transaction "Tas'heel (تسهيل)" [my friend told me that is called tawaruq in Islam]

My question is ""Is it OK for me to take this money for buying my house in Oman?"" Please note that they apply a fixed profit rate on this money over the period of the loan. Please note that this is considered as my only option to buy a house. I've been renting for about 15 years because I cannot buy (or build) a house on my own and I don't want to get a Riba loan from banks. I hope I've explained the case well. I appreciate your inputs on this matter. Assalam Alykum wa Rahmatul-Allah wa Barakatuh. Your brother, Salem

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. Salem

Al Salamu Alaykum Wa Rahmatullahi Wa Barakatuh

It is unfortunate that Your country is not introducing Islamic banking in Oman. I really am surprised by this position and behavior especially that the neighboring Dubai has so much of Islamic banking and so much of excess liquidity that Islamic banks would love to invest in Oman development.

Your friend is right this is called Tawarruq and each bank gives it its own sub-name. This is pure Riba hidden under a different name although we have, unfortunately, some close minded Shari'ah scholars who approve of it as it looks, on the paper, as pure sale and buy! All respected Scholars know it is Riba and do not accept it.

I suggest that you should find some other means of financing through the land developers and builders, sale on installments that is very common in all Arab countries.

Wa Allahu A'lam

Wa Alhamdu li Allah Rabb al 'Alamin

Wassalam

Sincerely,
Dr. Monzer Kahf

Subject: Accounting questions in Islamic Banks

From: Aadila

Sent: Saturday, April 21, 2007 6:17 AM

Question

Dear Dr Kahf, Assalaamu'alaykum Wrt Wbt.

Thank you for meeting me and my family in Singapore during your last trip with the introduction of Brother Ariff. How's your family and grand children? I'd saw your family photos on your web browser. They are so beautiful. Marsha-Allah!

I have some financial question and hope you can help me. Is there an equivalent term for EBITDA in Islamic finance? where it this financial tool is use to measure the credit worthiness of a company. It's earning before interest, tax, depreciation and amortization. So far there is nothing mentioned in most of the Islamic banks' annual report. Can the "interest" here be term as "income" instead of "interest"?

Another question is whether there is equivalent term for interest service cover used in conventional banking for Islamic bank. It is a kind of service fee I suppose.

Please keep in touch. Best Regards and do convey our salams to your wife and family.
Aadila

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. Aadila

Al Salamu Alaykum Wa Rahmatullahi Wa Barakatuh

I surely remember you and remember that dinner of Br. Ariff in the Indonesian restaurant and the nice local sweet that you gave me, every body liked it here. Please give my Salam to your husband and to Br. Ariff and his family and remind him about the proposed lecture and discussion on Riba transactions that he mentioned to me.

The first question of EBITDA: I don't know any equivalent term in Islamic banks, and I don't see a need for one because this process of assessing credit worthiness is exactly the same in Islamic banks as it is in conventional banks.

Interest Service Cove: what is it please? I did not hear of this term before. Explain it please and then we'll see what is in Islamic banks for its equivalent if any!

Wa Allahu A'lam

Wa Alhamdu li Allah Rabb al 'Alamin

Wassalam

Sincerely,

Dr. Monzer Kahf

From: Aadila

Sent: Friday, April 27, 2007 11:30 PM

Question

Dear Dr Monzer, Wa'alaykum mussalam.

Thank you for your reply and kind words. My family convey their salams to you too. I have relayed your message to Bro Ariff on the topic of ""riba"". He should be keeping you in touch.

Thanks for your answer to my questions too. Interest Service Cover is another ratio to measure credit worthiness. I spoke to my colleague to find out the meaning. I also told him that the way to measure should be the same irrespective of how one calls it.

According to the shariah, one cannot trade with arms. However, if the arms are restricted to government military defence use and not for terrorism or ordinary purpose, wouldn't it be permissible under an exception rule. A nation still needs to defend herself in case of war. Please comment.

My simple understanding of Murabaha is straight forward kind where a customer A go to islamic bank to say he is interested to buy X and request the bank to purchase from third party C. After acquired X from C, Bank sell X to A at cost plus markup. Contracts end. However, it seems the practical murabaha practised by the islamic bank is not that simple. Some go through brokers of buyers and brokers of sellers. It seems to me that the essence is still not truly buy and sell. But just making use of a commodity in name to trade. And there is no physical movement of commodities. The movement is only through paper evidencing the transfer of ownership. It appears to me as a gimmick. Can you tell me what other complicated manner of murabaha arrangements are there in the real Islamic banking world. Thank you and best regards,

Aadila

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. Aadila

Al Salamu Alaykum Wa Rahmatullahi Wa Barakatuh

1- Financing arms trading: Shari'ah doesn't say it is prohibited. The prohibition is circumstantial because arms in today's world are used for aggression and the biggest aggressor is the American government, then comes terrorists because both use excessive power against innocent people. Most governments use weapons for aggression and weapon industry and trade in today's world is an industry against humanity. I am sure there are some weapons factories and transactions that are confined in their final use to defending civilians and people against aggression from both governmental and individual terrorism. These are of course permissible and permissible to finance. The Fatwa in this regards came in connection to trading stocks of companies in the military industry sector. These stocks are all of companies that produce weapons that are used in aggression as mentioned.

2- Murabahah: Murabahah is exactly as you described it. If it is done on the paper only and money is given to a customer and debt is recorded on him of a marked-up price, this is a fake Murabahah and it is pure RIBA. Also, the same when it is done with an asset already owned by the customer, buying it cash and selling it back deferred at a marked-up price. And also the same when we fake it under the name of Tawarruq: buying from an outsider and selling again in the market to the same broker or seller through the bank. In other words, in every case it becomes cash now for a higher amount of cash deferred it is RIBA and it is Haram. Unfortunately there are closed minded "minute" Fatawa that permits some of these fake practices as if we don't know the final result of each transaction.

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

Subject: Forex transaction accounting in Islamic banks

From: Nur

Sent: Saturday, April 28, 2007 10:22 AM

Question

Dear Br. Monzer,

In a Spot FX transaction on interbank currency exchange..

Do you take the spot exchange rate on trade date or value date?

For example, Money committed to exchange on 16/4/07 for USD100 @ rate of euro, 2 days later, i.e. 18/4/07, on value date, we receive the money.

Qn: So to book the transaction, do i take the currency exchange date base on trade date on 16/4/07 or do I use the exchange rate base on 18/4/07?

If the answer is on trade date, that means, my entry would be to book USD100 @ rate of Euro using 16/4/07's spot rate on 18/4/07 (value date).

I was asked to comment whether AAOIFI FAS16 on foreign currency exchange in compliance with FRS21 of FX. on its treatment and recognition.

I have reviewed a few different Islamic bank's foreign currency policies. So far not many follows IDB's way of keeping the exchange difference on balance sheet date to a foreign exchange reserve fund in equity or balance sheet account. Most of them would charge the gain or loss in exchange to income statement. That is referring to monetary assets and liability at balance sheet date. As for transaction, most practise recognition of spot fx on date of transaction.

International Financial Reporting Standards recommend that the exchange gain or loss to be charged to Profit and Loss account. There should not be any foreign exchange reserve fund in balance sheet. (That's what my colleague told me when I told her that some banks use forex reserve fund to maintain exchange difference in equity account)

Can you please enlighten me on the treatment. Best regards and thanks. Wassalam,
Nur

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. Nur

Al Salamu Alaykum Wa Rahmatullahi Wa Barakatuh

It is ok to kill any differences in foreign exchange in the profit and losses instead of creating a reserve for them. The IDB practice is caused by its peculiarity of holding too much assets in foreign currencies keeping in mind that its official (and of course balance sheet's) currency is the Islamic dinar (not any actual currency) that is equal to one SDR of the IMF.

For pricing: It seems to me that the principle must be the pricing of the moment of the foreign currency contract. It looks that this is also the price that is carried actually between contractors, otherwise you are contracting a price (of two days later) that you don't know at the time of the contract. what is the actual practice in banks on this when the currency contract is for the bank itself and also when it is done for a customer? can you please tell me and give me more details?

Wa Allahu A'lam

Wa Alhamdu li Allah Rabb al 'Alamin

Wassalam

Sincerely,

Dr. Monzer Kahf

From: Nur

Sent: Monday, April 30, 2007 7:43 PM

Question

Dear Bro Monzer, Wa'alaykummusalam Wa Rahmatullaahi Wa Barakatuh.

Thanks for your answer.

According to common practice of the bank, the transaction is booked on trade date.

Thereafter, on value date, this foreign currency will be reversed on value date and settlement of fx contract at the same time. As for reporting to MAS regulators, the transaction is reported base on trade date.

Base on your answer, when we say spot prevailing rate, does it mean that we have to take the exchange rate base on trade date? 2 days later (T+2), when settlement of foreign currency, we still use the same rate as trade date but there will be an exchange difference as 2 days later rate may fluctuate and change. Therefore, derive an exchange gain or loss. Or if the currency is in Euro, do we book it as Euro but exchange rate kick in only on value date? However, if the recording currency is in USD, then we still need to translate the Euro to USD during reporting? end result would be an exchange difference again.

Can you explain "one SDR of the IMF"? Has it to do with saudi money and international monetary fund? then how imf define sdr? Thanks and best regards, wa salamu alaykum wa rahmatullahi wa barakatuh.

Nur

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. Nur,

Al Salamu Alaykum Wa Rahmatullahi Wa Barakatuh

Do you mean to say that if a customer receives or sends an amount in a foreign currency she/he does not know the price on the day of the order, the trade date? And you are going to charge her/his the unknown price of trade date+2? Is this the way foreign currency are bought and purchased? Please explain whether this is the way forex trade is carried out or this is a local requirement of Bank Negara or certain markets? I know currency trades in the US market are carried at the price of the trade day!

The SDR is a basket of major international currencies that include the Euro, GBP, Yes, Dollar and I think Swiss Franc. It is used as an accounting currency in the IMF and also in IDB under the name of Islamic dinar.

Wa Allahu A'lam

Wa Alhamdu li Allah Rabb al 'Alamin

Wassalam

Sincerely,

Dr. Monzer Kahf

From: Nur

Sent: Tuesday, May 01, 2007 5:26 AM

Question

Dear Bro. Monzer, Wa'alaykummussalam wa rahmatullaahi wa barakatuh.

Honestly, I am not too sure how the bank trade foreign currency. but from the journal entries for accounting base on foreign exchange contracts given to me, are as follows:

On trade date, eg. 23/4/07

1) Dr FX Bought, Cr Forward Exchange Position and 2) Dr Forward Exchange Position, Cr FX Sold.

On Value date, eg 25/4/07

A) Reverse entries passed on trade date:

1) Dr Forward Exchange Position, Cr FX Bought and 2) Dr FX Sold, Cr Forward Exchange Position;

B) Record settlement of FX contract

1) Dr Bank A/c, Cr Exchange Position and 2) Dr Exchange Position, Cr Bank A/c

Daily MTM on outstanding deals and/or outstanding position:

- accounting system will value outstanding deals and positions and recognize the fx gain/loss in USD.

FX Gain:

Dr Accrued Exchange P?L

Cr Exchange P/L

FX Loss:

Dr Exchange P/L

Cr Accrued Exchange P/L.

I've no work experience in bank nor how forex is done. It is very different from trading company's account. As this is dealing with money itself.

Whereas in trading company, we purchase goods at a foreign currency and we convert base on invoice date's rate. Then when we settle payment we use the settlement date's exchange rate. This banking forex is very complicated for me. Therefore, I need your help to explain.

If we say only spot fx is permissible, then my reasoning would be the forex should base on the trade date's exchange rate. I cannot rationalise the extra 2 days' entries as to why they have to record that way to reverse out the entry. Best regards wa salam

Nur

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. Nur,

Al Salamu Alaykum Wa Rahmatullahi Wa Barakatuh

From your accounting explanation it seems that when the bank buys for itself, in juggling its liquidity, the settlements takes place 2 days later. If this is the way the transaction is constructed (may be because there are across border accounting procedures) then it is permissible to use the settlement date price. I am definite, it is not the way always and in all countries because I know when you buy on the internet, you just buy at that price and no difference will come to you 2 days later, so is it when you buy from a bank or a money exchanger.

In other words, we consider the actual procedure of the transaction, if it takes place all on the trading date, it is then the trading date price, but if it takes place on the settlement date, then it is the price of the settlement date.

Wa Allahu A'lam

Wa Alhamdu li Allah Rabb al 'Alamin

Wassalam

Sincerely,

Dr. Monzer Kahf

Islamic Banking in Western Countries

Subject: Islamic banking in the Netherlands

From: Rachida

Sent: Tuesday, May 01, 2007 2:40 AM

Question

Salamoe'alaikoemwarahmatullah, Dear Professor Monzer Khaf

I got your e-mail address from Miss Somia. I'm Rachida, I'm studying Arabic and Middle East studies and for my Master-thesis I'm examining the possibilities for islamic finance in Holland, especially islamic mortgages.

The reason why I send you this mail is because I have a question about a Murabaha contract related to a mortgage. Firstly in Holland the duration of a mortgage is 30 year. Because by a murabaha the selling price is definitely, it is for a buyer almost impossible to move (house), the financial institution has namely the right on the whole selling price. This means that for example if a buyer wants to sell the house in 7 years, he has to pay the full amount inclusive the mark-up, whereby an islamic mortgage in Holland will be much more expensive than an conventional one and in the most cases it will be impossible for the buyer to pay all the money and thus to move. This means an implicit move prohibition what in the Dutch law impermissible is. The murabaha contract would be therefore expound as invalid.

For this problem financial institutions are searching for solutions, one of the institutions is thinking about taking in a condition in the contract whereby the seller (the bank) is obliged to come towards the buyer. I have question marks by this solution because then the price is not definitely anymore. I'm very curious to your opinion about this. I hope you have the time to look to this and answer this question.

This is the condition they want to take in the contract:

"Might the buyer want to go over to sale of the pledge before all month terms are fulfilled, the seller is then obliged to consult with the buyer over the remaining month terms, by which the point of departure will be that the buyer will not be in a worse financial situation than when these redeem a traditional money loan."

Thank you in advance, Wa'laikoemsalam warahmatullah,
Rachida

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. Rachida,

Al Salamu Alaykum Wa Rahmatullahi Wa Barakatuh

I don't see why the fuss is created. Any debt, from Murabahah or any other cause, can be settled earlier at a discount provided the amount (or percentage because a percentage reflects an amount) is not determined in the contract and the discount is not transacted by a third party (so that it becomes like discounting IOU's for cash in a bank that is Riba.

In other words, the condition that you mentioned in your query is permissible as it means that the discount shall be determined consensually on the basis that a Muslim beneficiary of finance shall not be disadvantaged in comparison to a conventional borrower.

We include such conditions in many Murabahah contracts. and it is ok.

However, to get out of the whole problem (and more important if the provider of finance is a Muslim company, for it to be able to sell its contracts at a lower than the face value so

that it can replenish its funds and finance more persons) why don't you use the lease/purchase contract? that is easier!

Wa Allahu A'lam
Wa Alhamdu li Allah Rabb al 'Alamin
Wassalam
Sincerely,
Dr. Monzer Kahf
From: Rachida
Sent: Sunday, May 06, 2007 1:30 PM

Question

Dear dr. Monzer, Salamoe'alaikoemwarahmatullah wabarakatuhu,
DzaijakaAllahughairan for your very fast response and your very clear and interesting answer! I really appreciate that!

I completely agree with you that a lease/purchase contract is much easier, but also for that contract there are unfortunately some complications in the Dutch law. After a little research some financial institutions came to the conclusion that a murabaha-contract in combination with a mortgage would be the easiest to implement for a financial institution here in Holland. That's why they are looking for solutions for this form.

For the same problem that I described in my former mail another financial institution came up to two other solutions, namely: 1) To close an assurance with an other party whereby the customer is guaranteed, that if he sells the house before he redeems the full amount, that all the mark-up that he has to pay to the bank after selling the house will be paid back to him.

Or 2) An unilateral testimony from the bank that if the client wants to sell the house before he redeems the full amount that the mark-up for the coming up years will be let off.

Also here still remains the question if these two solutions fits within islamic law. What's your opinion about these? I hope I don't aggravate you with my questions.

Thank you in advance! DzaijakaAllah. Wa'laikoemsalamwarahmatullah,
Rachida

My Answer

Dear Sr. Rachida
Assalamu Alaikum wa Rahmatullahi wa Barakatuh

I still think that it is much easier to solve the complications of Leasing than such closes are you mentioned in your email.

However, in Murabahah, we can put a general close of discount for payment acceleration provided we do not mention a rate, that is we can relate it to what is the practice then is similar contracts.

I remember about two years ago a gentleman from Netherland forced a "free" Fatwa from me that I am sure he used to make money (I give free Fatwa to those who use it for personal use but those who want to make money from it must also compensate me!) on such a matter!

Best Regards,
Wassalam,
Monzer Kahf

From: Rachida
Sent: Friday, May 11, 2007 2:48 PM

Question

Asalamoe'alaikoemwarahmatullah wa barakatuhu, Dear dr. Monzer, DzaijaAllahuGhairan for your answer again. Firstly I want to apologize for taking your time. I truly understand your point (about the difference of giving fatwa for personal use and for those who want to make money with) and you are really right about that point! I must say that I was ashamed for asking you a new question again.

Please let it be clear that I really don't earn any money with this. I'm a student who's doing research for my master thesis about the possibilities to institutionalize islamic finance in Holland and at this moment I have an internship at the ministry of Finance here in Holland to collect material for my research. During my internship we have several meetings with some Dutch financial institutions that are looking for solutions to offer islamic mortgages that fits within the Dutch law. Some of the institutions came up with some solutions, but they are still not sure about the sharia-compliance. They asked me if I can ask sharia-experts if there solutions are in the right direction, before they really worked the product out, so that's why I mailed you those questions. I didn't send them your fatwa. I just told them about your opinion, but never give them the fatwa.

So I think from now on it would be better for them to contact you and make appointments about the costs of getting a fatwa etc instead of let me be a kind of intercessor. Would you agree if I give your email address to one of the financial institutions, so you can make a compromise (if they want a fatwa/fatwa's/ from you)?

Thank you in advance. Wa'laikoemsalam warahmatullah,
Rachida

My Answer

Dear Sr. Rachida

Assalamu Alaikum wa Rahmatullahi wa Barakatuh

I kind of sensed that you are not a person who is asking to make money out of it. I thought that you are either making a research or a concerned Muslimah who want to know the matter. It is good that you were cautious enough not to give them my Fatwa. Yes I will be glad to help them in finding a suitable solution that is within the law and at the same time Shari'ah compatible.

But please don't worry about your questions, go on and I will be glad to help explaining to you any thing that I can.

Best Regards,
Wassalam,

Monzer Kahf

Islamic Banking and the Banking System in Muslim Countries

Subject: Saudi Arabia banking, is there usury?

From: Holey

Sent: Tuesday, May 08, 2007 4:07 AM

Question

Greetings sir how are you.

As an ex-pat worker in Saudi Arabia, I am confused over the fact that banks and lending institutions here in the Kingdom offer loans calling them interest-free or Shariah compliant and then charge an interest rate maybe 3.5 to 5 percent to be paid back over 5 years. In addition, some banks have a Shariah- board that approves the banks Islamic Shariah program.

I want to know how is this allowed and isn't this riba or usury? Yes I understand that Islam forbids riba and allows financing and that financing should not be free. Also, I read on your webpage to a response that the banks goal is not to make money off these programs; rather, they are trying to help the society etc... (sorry for the poor paraphrase- but you get my point I hope)

But if I want to take a personal loan of 1 million riyals then I should be allowed to pay back only 1 million. Correct! If I wrong can you please EXPLAIN this concept to me and why they allow it etc. You can provide attachments in your email and evidences and proofs and also refer me to web links.

This whole concept is somewhat confusing especially since I thought the terms of interest rate means riba and apparently it doesn't mean that etc.

I need a loan for school finance and personal usage. I know of the idea that plp partake in things based on the necessity but this idea of offering interest rates on Shariah complaint services is the norm instead of the exception of the rule. Apparently, the norm is now that Shariah-compliant programs have these personal loans with interest rates regardless of how little interest and when I call some of the banks for clarification I get no response or they can't explain it other than we have a fatawa from some Saudi based scholars approving our system. But the consensus is that riba is riba. Am I right or wrong? I know that you have answered hundreds of questions like this and I hope you don't hesitate to answer it again.

I would like to open up this dialogue with you and thanks in advance.

Can you please help me to understand this. I just want the truth and facts to allay my confusion over the matter. The aid of course comes from our Lord.

Sorry for the long email.

My Answer

Dear holey,

I could not understand your question. Please be specific and ask a question if you want a clear opinion from me.

Monzer Kahf

From: Holey
Sent: Wednesday, May 09, 2007 5:07 AM

Question

Sorry for the confusion. If I take a loan from a bank under a Shariah-compliant program, for example 50,000 SAR and I'm told that there's an interest rate to repay this back to the bank usually about 4 % with 36 to 60 months to repay isn't this riba? The rate is low but nevertheless it's an interest rate. Isn't this riba? Yes or No? Please explain.

Last, even if I want to buy a car on leasing or finance, for example a 2008 Toyota Camry for 80,000 SAR I'm told by the sales man that I have to pay 9% or more interest that includes (6% interest and 3% for the insurance). I understand that in financing, a company is allowed to make a profit (but the profit is called interest compounded or combined with profit making programs) is this not riba?

Can you please help explain this to me and offer me papers to look at via attachments or provide your explanations? Thank You. I hope this helps

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 Holey

Islamic banks do not offer "LOANS." They offer financing and you said you know that financing is not free. They buy the car for instance and sell it to you on installments and make a profit of the difference in the price. This is ok and permissible and not Riba. For literature please consult the internet including my website www.kahf.net.

A car dealer may charge you interest on a loan, that is interest plain; but to my knowledge the dealership of Toyota (Abd al Latif al Jamil company) does not deal in interest, it is possible that the employee who spoke to you does not know or expressed it wrongly or you misunderstood it. Of course if you want to pay on installment the price would be higher and the difference is not interest here again.

Wa Allahu A'lam

Wa Alhamdu li Allah Rabb al 'Alamin

Wassalam

Sincerely,

Dr. Monzer Kahf

Subject: Islamic accounting tuition

From: Aadila

Sent: Saturday, May 12, 2007 12:15 AM

Question

Dear Dr Monzer, Assalaamu'alaykum wrt wbt.

Would you mind giving me tuition on islamic banking accounts? I saw your qualification as Chartered Accountant.

You have been with IDB and I think you would be able to give guidance to me. I am still not clear about the entries in AAOIFI book. While I am still waiting for the accounting book which will only be ready in July, I am hoping that you can guide me during this period.

On Ijara and Ijara Munthahia Bittamleek. Are both considered as operating lease except that for Ijara Munthahia Bittamleek, it ends with option to purchase? Can Ijara Munthahia Bittamleek be considered a Finance Lease like the conventional one?

I am not sure how the journal entries are for leasing. If you say ok to tuition me, I will try to send my journal entries to you for checking. I pray that you will help me Dr Monzer.

Wassalam and best regards,

Aadila

My Answer

Dear Sr. Aadila

Assalamu Alaikum wa Rahmatullahi wa Barakatuh

Yes of course as much as I can with my 40 years (not updated) knowledge.

Please notice that this Ijarah Muntahiah bittamlik is confused in the AAOIFI and does not represent the reality as it is actually. IMB is a version of Financial leasing. the word financial leasing itself is also a term that has different versions too. Anyway, what is your specific question(s)?

Best Regards,

Wassalam,

Monzer Kahf

From: Aadila

Sent: Tuesday, May 15, 2007 7:36 AM

Question

Dear Dr Monzer, Wa'alaykumsalam and thanks for your willingness to help me.

I'll have to read up more on ijara muntahiah bittamlik before I can ask you about the accounting entries.

Meanwhile, I have other question concerning the transaction date and accounting posting date.

If a deal is transacted yesterday say 14/5/07 and money also deposited to bank account yesterday; but the accounting entries although recorded on 14/5/07 but the computer system can only post on 15/5/07 due to downtime. Does it constitute violation of the shariah principle? My thinking is that the importance is the actual transactions done and as long as the date still recorded as 14/5/07, the system posting date should not affect the

whole transaction. But I am not sure if my thoughts is correct. Please comment. Best Regards, wassalam
Aadila

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. Aadila

Al Salamu Alaykum Wa Rahmatullahi Wa Barakatuh

I don't see any violation of Shari'ah if the accounting system or its facilities are such that we record the accounting entry one day later. The date of transaction is known in its file and that is the basic reference to its date. This applies to all kinds of accounting entries whether they relate to currencies or others as long as the delay of entry is either a normal matter in the accounting system (e.g., when we make it as a system that all transactions from branches are entered next day) or a result of a malfunctioning.

Wa Allahu A'lam

Wa Alhamdu li Allah Rabb al 'Alamin

Wassalam

Sincerely,

Dr. Monzer Kahf

Islamic Banking Windows

Subject: Transacting with Islamic Banking Windows

From: Faiz through Islam on line

Sent: Wednesday, August 15, 2007 7:43 AM

Question

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

Please shed me some light on transacting with 'Islamic Banking Windows' that are in operation within Interest Levying Banking system. Here in our country some RIBA based banks are introducing Islamic Financial Products and deposit accounts. Is it allowed, according to Sharia Rules to transacts with these Islamic Banking Windows for their main business is not interest free. However the Islamic Banking system is overseen by a Board comprising Muslim Theologians in the country. Jazakum Allahu Khairan for your constant help

My Answer:

Bismillah al Rahman al Rahim

Alhamdu Lillahi Rab al Alamin, wa al Salatu wa al Salamu ala Sayyidina Muhammad, wa ala Aalihi wa Sahbihi Ajma'in

Dear Br. Faiz

Assalamu Alaykum wa Rahmatu Allahi wa Barakatuh

When you deal in a financing contract that is based on sale or lease basis, it is always permissible to buy on credit or lease from any person regardless of color, ethnicity and religion and of course regardless of other contracts/relationships this person may have with other entities and regardless of the bulk of the actions/transactions this person, natural or legal, may have. It is permissible to take the sale based and the lease based from conventional banks as long as you are sure that the contract between you and the bank is compatible with Shari'ah.

On the other hand, dealing on sharing basis (Musharakah or Mudarabah) is a different story. You must be sure that your the manager deals in all its transaction related to the Musharakah or Mudarabah, in accordance with Shari'ah because in these financing transactions there is a delegation of authority. Accordingly, you may take Musharakah or Mudarabah financing from a conventional bank because you are the manager and you are sure of yourself that you will make all business in accordance with the Shari'ah. But when it comes to giving funds to the bank on Mudarabah basis (investment deposits in the bank) you have to be sure that all transactions done with your money are completely Halal.

This can be assured if these transactions are supervised by a competent Shari'ah board and are contained within autonomous accounts separate from the the other conventional bank's accounts.

Wa Allahu A'alam
Wa Alhamdu Lillahi Rab al Alamin
Wassalam
Prof. Dr. Monzer Kahf

Different Jurisprudence Views on Islamic Banking

Subject: The Role of the Mathahib in Islamic Banking

From: Annas

Sent: Saturday, July 14, 2007 8:25 AM

Question

Dear Amo Monzer, Assalamu Alaikum Wa Rahmatullahi Wa Barakatuh,

I hope you and your family are doing well, and that you had a safe trip back to the US since we have last talked. Further do I want to express my sincere gratitude and appreciation for the nice conversation we had on the phone back then.

While you were in Germany, I was in Saudi-Arabia (Jeddah) doing a project with the Boston Consulting Group, which was very fortunate for me alhamdulillah, because inter alia this also gave me the chance to visit the Islamic Development Bank and meet some of the scholars over there (incl. Salman Syed Ali and Sami Suwailem). I also had the possibility to meet Rafiq Al-Masri at the University in Jeddah.

As you might remember, I am currently doing some research on the market potential for Islamic financial products in Germany.

If you happen to have a couple of minutes to spare, I would be most grateful if I could again bother you with a small question which concerns the research I am currently doing: While doing my analysis, I wondered how the different views of the different Mathahib (مذاهب) are accounted for in Islamic banking, for so far I have not come across products which are labelled as „permissible by the Imam Malik school, but not by the school of Imam Shafii”.

My questions in this context would be: to what extent do the Mathahib play a role in the products that are on offer today? Do banks consider this when they offer Islamic products in one country or the other? That is, would Islamic financial products be different in different regions of the Islamic world according to the mathhab that is predominantly followed? Or is the main focus on providing “Sharia-compliant” solutions no matter which mathhab?

I hope that the question is not too ambiguous, and I would be most grateful if you could help me in this. At the same time, please feel free to ignore my request in case you are too busy at the moment. Further, if you feel that me calling you would be less stressful and time-consuming for you, I would be happy to call you any time you deem appropriate. Jazakumullahu Khayra Al-Jazaa’,
Wassalamu Alaikum Wa Rahmatullahi Wa Barakatuh,
Annas

My Answer

Dear Br. Annas

Assalamu Alaykum wa Rahmatu Allahi wa Barakatuh

First please feel free to contact me at any time, you are a brother to me but rank like my blood nephew in dearness. don't be bothered by any formalities and always give me good news about your grandpa and mother and uncle, I like to hear their good news. Please give them all my Salam,

Since we talked on the phone last I had several trips and I am now in North Germany going back home on Monday Morning!

The fact is: Mathahid do not affect Islamic finance because real differences are very small and because the OIC Fiqh Academy and the AAOIFI bring some kind of consensus into Islamic finance. The main reason for this is that there is little differences between the Schools of Fiqh in matters of Riba (Riba al Buyu' doesn't come in finance and there where you find differences)

The PRETEND is; Mathahib differences are used to justify certain inappropriate ehaviors in Islamic finance. Examples: the abuse of ""sale of debt"" and ""bay' al 'Inah"" in the hafi'i school by some Malaysians. but notice they also abuse ""bay' al Wafa' "" that is Hanafi in order to justify certain practices that are pure interest-based but given the form of permissibility! Similarly you have the abuse of ""Tawarruq"" and Bay' al 'Urbun"" that come from the hanbali is Saudi Arabia although they do not refer to the Hanbali school but they discuss within its context.

Another example is a past exercise in Iran of What the ""Imam says being the Shari'ah"" and he told them at the beginning that a charge of fixed profit on loans by the government (banks were all nationalized for non-socialist motives) is permissible. This was changed later after the new law of central bank was enacted.

Please feel free to contact me any time by email, which is much easier, by phone or any other means when it is possible.

Best Regards,
Wassalam
Monzer Kahf

From: Annas
Sent: Sunday, July 15, 2007 3:32 AM

Question

Dear Amo Monzer, Assalamu Alaikum Wa Rahmatullahi Wa Barakatuh,

Thank you very much for your kind response!

Alhamdulillah both my mum and my uncle are in the best of conditions. Currently they are both in Jordan, where at present almost the whole family from my mother's side (that is, all descendants of Ali Tantawi Ra7imahu Allah) is assembled.

As to my grandfather, he too is fine alhamdulillah. I am spending a lot of time with him these days, and I will surely convey your salam to him inshallah (today)! In fact, I had told him yesterday already that I had contacted you again for some help, and he instructed me to express his sincere salam and appreciation to you the next time we talk!

Jazakumullahu khayran also for your comprehensive response, that was very helpful!

I am extremely sorry to exploit your generous offer for further help, but I would be very grateful if you could help me in another two quick questions:

The first one is: Turkish Alevites, who count as Muslims in the official government statistics, constitute approximately 15% of the "Muslim" population in Germany. I was told by some of them that Alevites do not know the prohibition of riba. To your knowledge, is that correct? I am asking this because that would have serious implications for the market potential of Islamic financial products in Germany (that is, If 15% of the population that is deemed Muslim in fact does not have any problem with dealing conventional banks even where alternatives are available).

The second one concerns another finding of my research so far: one of the major impediments to the growth of the Islamic finance (retail) industry seems to be that people (especially in non-Muslim countries) do not really know what it is all about, and what Islamic economics is supposed to be (that is the result of some empirical studies in Malaysia, Singapore, UK, and even Jordan). In Germany this problem is amplified, since there is almost no "popular" literature dealing with this subject. While there are some minor publications, they are written for professionals and not for the general public.

Therefore, I have in mind to publish a book in German which in layman language explains what it is that constitutes Islamic economics, finance and banking. To your knowledge, are there any English or Arabic books which go into that direction? In case there are proper English or Arabic books which serve this purpose, I would simply do a translation. Or else, I would do a simplification of some of the available literature.

As said, the target reader would be the average German citizen (both Muslim and Non-Muslim), who has no clue about economics and who is not able to make use of

the literature that is available in English already. The text would have to really easy, very basic and interesting at the same time. The end of this whole undertaking would be to make people understand the basic concepts of Islamic economic thinking and how an Islamic bank can work without employing interest.

Jazakumullahu Khayra al-Jaza' for all your efforts!

Annas

My Answer:

Bismillah al Rahman al Rahim

Alhamdu Lillahi Rab al Alamin, wa al Salatu wa al Salamu ala Sayyidina Muhammad, wa ala Aalihi wa Sahbihi Ajma'in

Dear Br. Annas

Assalamu Alaykum wa Rahmatu Allahi wa Barakatuh

For the first point I think it is not a real issue. The alawites don't have any special Fiqh of their own, they follow either the Jafari school or the different Mathahib of Sunnis. The point is rather that most of them are not religious and this is what they mean when they tell you that interest is not an issue for them. Otherwise you can pin them that if you call yourself Muslims then this is what Islam says regarding interest, a thing that is the same in all schools of Fiqh. To the best of my knowledge there is no statement at all in the alawite tradition to the effect that interest is permissible.

The second point is very important. I suggest that you visit the website of Prof Dr. Muhammad Nejatullah siddiqi, his writings are usually easy for public readers. Also take a look at IDB/ IRTI publications. There are several writings that are suitable to translate or to make good reference for a new simple writing in German. I really think it is an excellent idea to write some thing on this issue and publish it, the market takes more than one piece of literature. Lots of Salam to your grandfather and all other members of the family.

Wa Allahu A'alam

Wa Alhamdu Lillahi Rab al Alamin

Wassalam

Prof. Dr. Monzer Kahf

Are Islamic Banks more Expensive?

Subject: Are Islamic banks charging higher rates?

From: Barakat

Sent: Wednesday, November 07, 2007 9:33 AM

Question

Alsalm Alekom wa rahmato Allah Wa Barakatoh

Dear Dr Kahf:

I am a moslem living in London and want to buy a house. I understand that there is a fatwa by Dr Karadawi to allow non Islamic mortgage if the hose is to be used for living

in to for trading, but I have been told that sheikh Karadawi restricted this only to the absolute emergency where there is no islamic mortgage.

There are four banks offering islamic mortgage in London, but they are more expensive than non islamic mortgage. Also I contacted them and what they told me was that they acctually borrow money from the Bank of England to buy the house in their name and rent it out to the client and that the rent is based on a profit margin above ther Bank of England base rate or above LIBOR (London InterBank Offered Rate). So in reality they are a middle man between the client and a normal non islamic bank. the take a non islamic loan and charge the client for the interest rate plus an additional profit for themselves.

As I see the situation now, the islamic banks are more expensive than normal banks. and they actually purchase the money from the market i.e. non islamic loans and charge an extra fee. Plese advise, what should I do. Thank you

My Answer:

Bismillah al Rahman al Rahim

Alhamdu Lillahi Rab al Alamin, wa al Salatu wa al Salamu ala Sayyidina Muhammad, wa ala Aalihi wa Sahbihi Ajma'in

Dear Br. Barakat

Assalamu Alaykum wa Rahmatu Allahi wa Barakatuh

1. I like you to kindly notice that Islamic banks in UK and otherwise are not simply middle men . CATEGORICALLY, THEIR SOURCES OF FUNDS ARE NOT ON INTEREST AND THEY DO NOT FIVE FINANCING ON INTEREST. whatever you were told is either plain incorrect or misunderstanding or sometime out of ignorance of bank employees and others. Islamic banks get funds from shareholders, Mudarabah-based depositors and also from reassignment of properties they own that is bound to lease contracts for housing and other fixed assets and real estates. This re-assignment of properties leased to persons like you is permissible in Shari'ah because it amounts to sale of what the bank owns.
2. It is possible that an Islamic bank may have a higher rate than other conventional banks for its financing. But usually Islamic banks are within the range of other banks in their rates and charges because they live in the same market and every person does exactly.

Wa Allahu A'alam

Wa Alhamdu Lillahi Rab al Alamin

Wassalam

Prof. Dr. Monzer Kahf

From: Barakat

Sent: Saturday, November 10, 2007 3:03 PM

Question

Dear Dr Monzer alsalamo aleikom wa rahmatu Allah wa barakatuh

Thank you very much for having the time to reply to my query but i wanted to inquire thoroughly about my personal situation. what i understood from some scholars is that fatwa Alsheikh AlKaradawy doesn't apply to Muslims who live in England as

there are about four islamic bodies that do islamic home mortgage. the point is after checking with them i found out that they are charging higher rates than other conventional mortgage suppliers. to give you average figures so you can understand the situation, having a mortgage with HSBC amanah will make me pay 547000 sterling pound for the house purchased at 282500 with me keeping some cash in the bank for my personal use. However, if i paid that cash that i am intending to keep, as an offset type of conventional mortgage i will be paying the total price of the house of less than 370,000 pounds with a difference of about 170000 plus, from the islamic mortgage. as well as reducing the payment term. me and my wife donot want to go for something that has a shobhaa in sharia. we are afraid of haram and Ribba as we cannot afford a war from Allah and the prophet. we need a fatwa Is it halal to take normal mortgage if the islamic ones are of a huge difference than the normal ones or is it not, as long as islamic ones exist even if they are much more expensive Barak Allah feek wa Jazak Allah Khair

My Answer:

Bismillah al Rahman al Rahim

Alhamdu Lillahi Rab al Alamin, wa al Salatu wa al Salamu ala Sayyidina Muhammad, wa ala Aalihi wa Sahbihi Ajma'in

Dear Br. Barakat

Assalamu Alaykum wa Rahmatu Allahi wa Barakatuh

You need to compare apple with apple (with SHBC you keep some money in the bank and with the other you use this money.....). It seems you are not doing it. And with four Islamic banks I am sure there cannot be such a difference. Another point, you also know that the market of house financing does not have a universal rate all over UK, rates differ from one provider to another. When you get a quotation from someone and go for more search, you will always find some other who can beat this quotation. that is not really comparing. It becomes Haram to take conventional if the Islamic contract is within the range of the variation in the market and this range may differ for one eighth or one fourth maximum. such a variation does not create 170,000 for a house price of 282,500. Please reassess your search, rates, compare equal conditions in every thing and you will never find such differences as you thought. But if the difference is as you mentioned, I consider the Islamic as non-existing and apply the Fatwa because the Fatwa does not intend to charge Muslims higher rates. Please do your homework right and I am confident you will find one of the Islamic offers as competitive as conventional banks.

Wa Allahu A'alam

Wa Alhamdu Lillahi Rab al Alamin

Wassalam

Prof. Dr. Monzer Kahf
