106245 - The American Express card: definition, types and rulings

the question

I hope that you can advise us about this issue:

I have been a user for a while of the well-known American Express card, and I used to pay off what I owed on this card regularly, therefore I had no financial problems with it until it so happened that I was travelling for a year outside the Kingdom. I applied for a new credit card and I sent a request to American Express asking them to waive the outstanding balance – approximately 250 riyals – or cancel my card, but I got no response. I got distracted from following up on my request because I was busy with some business whilst I was abroad, and I trusted that they would either cancel my card with nothing outstanding except the amount mentioned, which I could pay off later with no increase, or that they would waive that amount and I would have nothing outstanding. Then I was shocked to receive a statement approximately two months ago asking me to pay the outstanding balance that was overdue. The problem is that they have charged interest on that overdue amount which was delayed for a few months, and the amount has reached 500 riyals!

I am confused and I wonder: is it allowed in Islam to pay the extra amount that they are demanding as interest for the delay on payment of the original amount? Is that regarded as riba? If the answer is yes and it is not permissible to pay that interest to them, then what should I do? Please note that if I do not pay the outstanding balance, they are threatening to add my name to the list of those who defaulted on payments, which is circulated among Saudi banks and financial institutions, which could harm me in the future in my financial dealings with those institutions. I hope that you can advise me.

Detailed answer

Praise be to Allah.

Firstly:

A charge card or credit card is a metal or plastic card with a magnetic strip; the card carries the name of the cardholder, the date of issue, the date of expiry, and a secret number that no one knows except the cardholder.

It is like a document that the issuing body gives to an actual person or a company – based on the contract between them – that enables him to pay for items and services from companies that accept the card without paying the price on the spot, because the issuing body is committed to pay it.

Bitaqat al-I'timan by Shaykh Bakr Abu Zayd, p. 3, 4.

Secondly:

American Express issues three types of cards:

1. The green American Express card
2. The gold American Express card
3. The platinum American Express card.

Cards of this type can be divided into two categories: The first category is the regular credit card, which is described as a monthly payment card.

This is a local or international card which is issued with a membership fee and renewal fees. It enables the cardholder to make purchases in shops or pay for services in airline offices, hotels, restaurants and so on.

It enables the user to withdraw money from ATMs or make e-transfers, and it does not require the one who applies for it to have an account with the issuing bank; rather the bank lends him money up to a certain amount, which in their terminology is called a line of credit.

The issuing bank requires the cardholder to pay off what he withdrew within a period of no longer than one month in most cases. In the event of any delay, the bank will demand payment, cancel

the card and charge interest for the delay.

This kind of card is based on the following:

1. The customer is not required to have a bank account for the American Express card or the Diners' Club card, although some banks that issue these cards may require that.
2. The bank lends the customer – the cardholder – an amount of money that has an upper limit called the line of credit.
3. The cardholder must pay off what he owes within a month in most cases.
4. The cardholder is required to make four payments: a membership fee, a renewal fee, interest on the loan, and interest for any delay in payment. If payment is not made, the company may take him to court, cancel his membership and withdraw the card from him.

The second category is the credit card which facilitates loans or payments by instalments.

This is the most widespread kind of card, and it is the most recent type to be issued and the most popular, especially in industrialized and developed countries. The term credit card usually refers to this type when used without qualification.

In reality, they are like monthly payment cards, as mentioned above.

The difference is that anything owed does not have to be paid off within a month; rather it is ongoing credit that may be paid off in instalments, as the customer – or cardholder – is given the ability to use the card so long as he is regular in paying the interest due every month. This type of card charges the highest interest rate to the cardholder, thus it is very profitable for the issuing body.

This kind of card has the following features:

1. The issuing body does not stipulate that the customer should have an account with them.
2. The bank – which is the issuing body – lends the customer – who is the cardholder – an amount with an upper limit which is called a line of credit.
3. Payment is made by instalments, and there is no one-month limit.

4. The cardholder is required to make four payments: a membership fee, a renewal fee, interest on the loan, and interest for any delay in payment.

Bitaqat al-I'timan, p8-11.

After learning about the nature of this card, signing up for it is prohibited, because there is a loan which brings a usurious benefit [to the lender], and because there is a penalty which is stipulated in the case of late payment once the grace period has expired.

The scholars of the Permanent Committee were asked:

There is a card that facilitates financial transactions in Western countries, which means that there is no need for the individual to carry cash with him. With this card, he can buy anything he wants, then at the end of each month he receives an invoice stating the amount that he has spent, which he can then pay off in full without paying any interest. This card protects the individual from theft of his money, but there is a condition that is stipulated in order to get this card, which is that in the event of a delay of more than twenty-five days in paying off the invoice, they have the right to charge a percentage as interest for every day of delay. Is it permissible to apply for this card, noting that it is very possible to avoid riba by paying the invoice during the twenty-five day grace period which is given to allow time to pay it?

They replied:

If the situation is as described, it is not permissible to engage in the transaction mentioned, because it involves agreeing to and entering into a riba-based transaction which includes paying interest as stipulated by the issuer of the card in the event of any delay in payment.

End quote from *Fatawa al-Lajnah ad-Da'imah*, 13/524

Shaykh `Abd al-`Aziz ibn Baz, Shaykh `Abd ar-Razzaq `Afifi, Shaykh `Abdullah ibn Ghadyan, Shaykh `Abdullah ibn Qa`ud

Shaykh Muhammad ibn Salih al-`Uthaymin (may Allah have mercy on him) was asked:

There is a kind of card that is issued by some banks that is useful when travelling abroad, with which a person may pay what he owes to the bank or make some purchases from shops and markets, then when the invoice comes it is deducted from his balance in the bank. But sometimes his bank balance does not cover it, so he will owe money to the bank, and the bank charges interest at a certain rate, and sometimes this happens without the person intending that, so what is the ruling? What should the one to whom this has happened in the past do?

He replied:

This transaction is prohibited, because it is based on a commitment to pay riba (interest). Even if he pays before interest becomes due, he has still committed himself to pay it, and that is prohibited. If that happens and he is the beneficiary (meaning that interest is paid to him), he should give the interest in charity with the intention of ridding himself of it. If he is the one who is wronged (by being forced to pay interest) and the one who took it from him is the wrongdoer, then it is sufficient for him to repent, because he is the one who has been wronged and he is not the wrongdoer.

End quote from *Liqa'at al-Bab al-Maftuh*, question no. 19.

Shaykh Bakr Abu Zayd (may Allah preserve him) said:

Charge cards and credit cards of different types – Visa, American Express, MasterCard, and so on – are all in reality riba-based contracts which conceal the nature of the deal to which the three or four parties concerned agree, which is cooperating in sin and transgression, and consuming riba. Allah, may He be Glorified, says:

{But if they intend to betray you - then they have already betrayed Allah before, and He empowered [you] over them. And Allah is Knowing and Wise} [Al-Anfal 8:71].

They betrayed Him before by openly lending on the basis of riba but concealing the nature of the transaction by calling it a credit card, then they concealed it again by calling it a line of credit. Both of these are tricks aimed at transgressing the sacred limits of Allah, and Allah became angry

with and cursed those of the Jews who turned what is prohibited into something permissible by means of trickery, as He, may He be Glorified, says:

{So for their breaking of the covenant We cursed them and made their hearts hard. They distort words from their [proper] usages and have forgotten a portion of that of which they were reminded. And you will still observe deceit among them, except a few of them} [Al-Ma'idah 5:13].

End quote from *Bitaqat al-I'timan* by Shaykh Bakr Abu Zayd, p. 24.

Thirdly:

Now that you know the ruling on the card asked about, you must repent sincerely.

With regard to the penalties, it is not permissible for you to pay them, because they are riba. So if you can avoid paying them, then do that, and there will be no blame on you. But if you could be harmed as a result of not paying them, then pay them and seek compensation from Allah. We ask Allah to compensate you with something better than that.

See also the answer to question no. 824.

And Allah knows best.