110112 - Loans with interest for students and recent graduates

the question

There is something new that is being offered by the banks, which is giving a lump sum to students and recent graduates, with a guarantee from the university or workplace, so that that lump sum is divided into 60% cash and 40% purchases. Interest on cash withdrawals begins on the day of the first withdrawal, and interest on purchases begins forty-five days from the date of withdrawal. I want to know whether this is riba. If it is riba and I have already signed up, how can I expiate?

Detailed answer

Praise be to Allah.

Firstly:

What you have mentioned is a form of riba-based loan that the riba-based banks offer by way of persisting in what is wrong, committing sin openly and spreading corruption on earth. Allah, may He be exalted, has declared war on those who deal in riba and has warned that the consequences of that lead to utter destruction. Hence there are many crimes, terrible incidents, sicknesses and troubles. Some heedless people think that the banks are doing a favour to the youth and unemployed, but they do not realise that riba is one of the causes of their trouble and poverty, and the decline of their societies.

The scholars of the past and present – except those who hold odd views – are agreed that any loan that brings benefit is riba, so loans that charge interest are undoubtedly riba and haram.

Ibn Qudaamah (may Allah have mercy on him) said: Any loan in which it is stipulated that the borrower give back more when re paying is haram, and there is no difference of scholarly opinion concerning that.

Ibn al-Mundhir said: The scholars are unanimously agreed that if the lender stipulates that the borrower should pay back more or give him a gift, and he gives the loan on that basis, taking that extra amount is riba. It was narrated from Ubayy ibn Ka‘b, Ibn ‘Abbaas and Ibn Mas‘ood that they forbade any loans that bring benefits.

End quote from *al-Mughni* (6/436).

It makes no difference whether the loan is money, an item or something bought with money; if it is stipulated that interest be paid on that, it is all prohibited.

It says in a statement of the Academic Research Council of al-Azhar (1385 AH/1965 CE), which included representatives and envoys from thirty-five Muslim countries: Interest on all types of loans comes under the heading of riba, which is haram. There is no difference in that regard between what is called a personal loan and what is called a business loan, because all the texts of the Qur’an and Sunnah definitively prohibit both types… Fixed-term accounts, opening an interest-bearing account, and all other types of loans with interest come under the heading of riba-based transactions and are haram. End quote.

In a statement of the Islamic Fiqh Council belonging to the Organisation of the Islamic Conference issued in 1985 CE, it says: Any additional amount, or interest charged in return for extending the deadline for payment on a loan when the borrower is unable to repay it when it becomes due, as well as any extra amount or interest on a loan that is stipulated from the outset – in both cases this is riba that is prohibited according to Islamic teachings. End quote.

Secondly:

Whoever finds himself involved in such loans must repent sincerely to Allah, may He be exalted, by regretting what he has done and resolving never to go back to it. If he can hasten to pay off the loan, that will be better, so that he may rid himself of riba and its impact. We ask Allah to us safe and sound.

The borrower is not obliged to pay back more than he took. But, unfortunately, he cannot do that,

because he is compelled to pay the interest. So if he has repented from riba, he may pay it as one who is compelled, and let him resolve not to go back to that again. And Allah, may He be exalted, will turn in mercy to the one who repents.

We ask Allah, may He be exalted, to protect us and you from riba and from its dangers and evils.

And Allah knows best.