13180 - What Is the Correct Way of Lending Money in Islam?

the question

Can you please tell me what is the correct procedure for giving debt (Lending money to a person)?

Will I be committing a mistake/sin if I don't keep a witness and lend some money to another person?

Summary of answer

The correct way of lending money in Islam is: 1- To specify the period of the loan. 2- Writing down the loan. 3- If the one who writes down the loan is a person other than the debtor, then the debtor is the one who should dictate to him the details of the loan. 4- If the debtor is unable to dictate because of sickness or some other reason, then the one who should dictate on his behalf is his guardian. 5- The loan should be witnessed, and the witnesses should be two men, or one man and two women. 6- The lender has the right to ask the borrower to guarantee the loan with a pledge which the lender will keep.

Detailed answer

Praise be to Allah.

The correct way of lending money in Islam

The correct way of lending money is that mentioned by Allah in Surah Al-Baqarah, in the verse on debt, where Allah says (interpretation of the meaning):

“O you who believe! When you contract a debt for a fixed period, write it down. Let a scribe write it down in justice between you. Let not the scribe refuse to write as Allah has taught him, so let him write. Let him (the debtor) who incurs the liability dictate, and he must fear Allah, his Lord, and

diminish not anything of what he owes. But if the debtor is of poor understanding, or weak, or is unable to dictate for himself, then let his guardian dictate in justice. And get two witnesses out of your own men. And if there are not two men (available), then a man and two women, such as you agree for witnesses, so that if one of them (two women) errs, the other can remind her. And the witnesses should not refuse when they are called (for evidence). You should not become weary to write it (your contract), whether it be small or big, for its fixed term, that is more just with Allah; more solid as evidence, and more convenient to prevent doubts among yourselves, save when it is a present trade which you carry out on the spot among yourselves, then there is no sin on you if you do not write it down. But take witnesses whenever you make a commercial contract. Let neither scribe nor witness suffer any harm, but if you do (such harm), it would be wickedness in you. So be afraid of Allah; and Allah teaches you. And Allah is the All-Knower of each and everything.

And if you are on a journey and cannot find a scribe, then let there be a pledge taken (mortgaging), then if one of you entrusts the other, let the one who is entrusted discharge his trust (faithfully), and let him be afraid of Allah, his Lord. And conceal not the evidence, for he who hides it, surely, his heart is sinful. And Allah is All-Knower of what you do." [Al-Baqarah 2:282-283]

So the correct way of lending money is:

1. To specify the period of the loan, i.e., the length of time after which the loan must be repaid.
2. To write down the loan and the time when it is to be repaid.
3. If the one who writes down the loan is a person other than the debtor, then the debtor is the one who should dictate to him the details of the loan.
4. If the debtor is unable to dictate because of sickness or some other reason, then the one who should dictate on his behalf is his guardian.
5. The loan should be witnessed, and the witnesses should be two men, or one man and two women.
6. The lender has the right to ask the borrower to guarantee the loan with a pledge which the lender will keep. The benefit of the pledge is that if the time comes for the debt to be repaid

and the borrower refuses to pay, the item in pledge may be sold and the debt paid with that money; anything left over is to be given to the owner of the pledge, namely the debtor.

Is it necessary to write down the loan in Islam?

Guaranteeing a debt in one of these three ways (writing, witnesses or pledge) is recommended and is preferable, but it is not obligatory. Some of the scholars are of the view that it is obligatory to write down a loan, but most of the scholars say that it is recommended, and this is the more correct view. (See Tafsir Al-Qurtubi, 3/383)

The reason for that is to protect people's rights so that they will not be exposed to loss because of forgetfulness or confusion, and as a precaution against those who do not fear Allah.

If a loan is not written down and not witnessed, and no pledge is taken, that does not mean that it is a sin. The verse itself indicates that:

"then if one of you entrusts the other, let the one who is entrusted discharge his trust (faithfully), and let him be afraid of Allah, his Lord." [Al-Baqarah 2:283 – interpretation of the meaning]

Trust means not guaranteeing the loan by writing it down, having it witnessed or asking for a pledge. But in this case it is essential to fear Allah. Hence in this case Allah commanded the one who is in debt to fear Allah and discharge his trust: "let the one who is entrusted discharge his trust (faithfully), and let him be afraid of Allah, his Lord". (See Tafsir As-Sa`di, 168-172)

If the loan is not written down and the debtor denies it or takes a long time to repay it, then the lender has no one to blame but himself, because he exposed his property to loss. It was narrated from the Prophet (peace and blessings of Allah be upon him) that if a loan is not written down, the Du'a' of the lender against the debtor will not be accepted if he takes too long to pay or he denies the loan. He (peace and blessings of Allah be upon him) said: "There are three who call upon Allah but their prayer will not be answered:… a man who lent money to another man but he did not have (the loan) witnessed." (Sahih Al-Jami`, 3075)

Whoever thinks about these rulings and others will see the perfection of the Islamic Shari`ah and

how concerned it is to protect people’s rights and not expose them to loss. For Allah commands the one who has wealth to protect it and not to expose it to loss, no matter how little it may be:

“You should not become weary to write it (your contract), whether it be small or big, for its fixed term.” [Al-Baqarah 2:282 – interpretation of the meaning]

Is there any other law that combines the interests of this world and the Hereafter in such a perfect way as the Islamic Shari`ah does?

Could anyone come up with anything more perfect than these rulings?

Allah the Almighty indeed spoke the truth when He said (interpretation of the meaning):

“And who is better in judgement than Allah for a people who have firm Faith.” [Al-Ma'idah 5:50]

We ask Allah to make us steadfast in adhering to His religion until we meet Him adhering to it.

And Allah knows best. May Allah bless our Prophet Muhammad and grant him peace.

For more details, please see the following answers: 74986 , 148458 , 49015 , and 50016 .