1847 - Is Paying in Installments Prohibited in Islam?

the question

What is the ruling on paying in installments, and what is the Shari`ah solution in dealing with late payments on the part of some purchasers?

Summary of answer

It is permissible to charge more for purchases by installment than when a person is paying in full at the time of purchase. It is also permissible to name one price for cash sales, and another for payment by installments made within certain periods.

Detailed answer

Praise be to Allah.

· It is permissible to charge more for purchases by installment than when a person is paying in full at the time of purchase. It is also permissible to name one price for cash sales , and another for payment by installments made within certain periods. The sale is not valid unless both parties are certain about either cash or installments. If there is some indecision with regard to cash or installments, and the two parties fail to reach an agreement on one specific price, then the sale is not permissible according to Shari`ah.

· According to Shari`ah, it is not permissible in the case of payment by installments, to state interest rates as a separate item based on the length of time taken to repay, regardless of whether the two parties agree on the rate of interest or it is based on the current rate.

· If the purchaser is late in paying the installments, it is not permissible to make him pay extra , whether or not this is arranged as a prior condition, because this is a form of forbidden Riba.

· It is forbidden for a debtor who can afford the installments to delay payment when they are due. At the same time, according to Shari`ah it is not permissible to set a condition that he should pay compensation in the event of late payments.

· According to Shari`ah, it is permissible to set a condition that the debtor has to bring forward the payment, if he delays some of the payments , so long as the debtor agrees to this condition at the time when the contract is drawn up.

· The vendor does not have the right to keep the purchaser's property after the item has been sold, but it is permissible for the vendor to stipulate some security as a guarantee that the purchaser will pay the installments. (Majma Al-Fiqh Al-Islami, p. 109)

· It is permissible according to Shari`ah to reduce the amount owing in order to expedite the settlement of the matter, whether this is done by request of the vendor or the purchaser. This is not counted as forbidden Riba so long as it is not based on a prior agreement and so long as this agreement between the two parties is reached on a one-on-one basis, without the involvement of any third party, because in that case the rulings on the settlement of business accounts would apply.

· It is permissible for the two parties to agree that all installments should be paid immediately if the debtor fails to make one payment, unless he is in difficulty and has no means of paying.

· If the debt becomes due because the debtor dies, becomes bankrupt or delays payment, then in any of these circumstances it is permissible to reduce the debt so that the matter may be settled quickly to the mutual satisfaction of both parties.

· The definition of hardship which means that the vendor should wait for payment is: that the debtor should not have more wealth or property than he needs to meet his basic requirements and pay his debt.

And Allah knows best.