240066 - Is It Permissible to Take an Interest-Based Loan?

the question

Is it permissible to take a loan from one of the banks in Saudi which has a scholarly committee that allows a specific increase, and to take the money to make a down payment for purchasing a piece of land in my city in Egypt by installments, then take possession of it after a year for the purpose of building on it or selling it?

Summary of answer

It is not permissible for the lender to stipulate in a loan contract that the borrower must pay back the loan with more than he took. It is permissible to make the borrower pay the costs of issuing the loan and other related services, on condition that the amount paid is equal to the real costs involved in issuing the loan.

Detailed answer

Praise be to Allah.

Is it permissible to take an interest-based loan?

It is not permissible for the lender to stipulate in a loan contract that the borrower must pay back the loan with more than he took . The scholars unanimously agreed that any loan which brings a benefit to the lender is Riba.

Ibn Qudamah (may Allah have mercy on him) said in Al-Mughni (4/240):

“Any loan in which it is stipulated that more should be paid back is prohibited , and there is no difference of scholarly opinion on that. Ibn Al-Mundhir said: The scholars unanimously agreed that if the lender stipulates that the borrower must pay back more or give him a gift, and he gives the

loan on that basis, then accepting the extra amount on that basis is Riba .

It was narrated from Ubayy ibn Ka`b, Ibn `Abbas and Ibn Mas`ud (may Allah be pleased with them) that they forbade loans that bring benefits."

Is it permissible to charge a fee for issuing loans?

It is permissible to make the borrower pay the fees of issuing the loan and other related services, on condition that the amount paid is equal to the real costs involved in issuing the loan. If the amount paid is greater than the real costs of issuing the loan, then that additional amount is Riba.

It says in a statement of the Islamic Fiqh Council (no. 13 (1/3)):

"Firstly: it is permissible to charge a fee for issuing loans, provided that it is within the limits of the actual costs. Secondly: anything more than the actual cost of this service is prohibited, because it comes under the heading of Riba , which is prohibited according to Islamic teachings."

What confirms that administrative fees are not greater than the actual costs of administration is when the fees are not increased when the amount of the loan is increased, or when payment is delayed.

Shaykh Yusuf Ash-Shubayli (may Allah preserve him) said:

"If the stipulated increase to be paid to the bank is connected to the length of time taken to pay back the loan, or is connected to the value of the loan, then it is prohibited, whether it is to be paid to the bank in installments (0.5% to be paid annually, for example) or it is to be paid in one go when taking the loan or when paying it back, and regardless of whether it is called interest or services or fees, or any other name. When drawing up the contract, what matters is what the clauses really mean, not how they are phrased.

however, if the extra amount that is stipulated is a set amount and is not impacted by the value of the loan or how long it takes to pay it back – such as if the bank charges a set fee to issue a loan, such as one hundred and fifty Dinars for example – then what appears to be the case is that this

transaction is permissible, whether payment of these fees is separate from paying off the loan, or it is added to the total value of the loan.

That is because in reality, these fees are not additional to the loan; rather they are fees that the bank is entitled to charge in return for the work done in order to issue the loan, such as phone calls, messages, employee salaries, and so on, which is work for which the bank has the right to charge fees, according to Islamic teachings."

And Allah knows best.