99642 - Can You Pay off a Loan in a Different Currency?

the question

I borrowed some money in dollars from a friend, and I paid him back in Saudi riyals in installments based on the rate of exchange at that time (the time of the loan). What is the ruling on that?

Summary of answer

Loans should be repaid in the same currency as they were taken by the borrower unless the two parties agree at the time of repayment to repay it in a different currency. There is nothing wrong with that so long as that is done at the rate of exchange on the day of repayment not the rate of exchange that existed on the day when the loan was given.

Detailed answer

Praise be to Allah.

Can you pay off a loan in a different currency?

The basic principle is that loans should be repaid in the same currency as they were taken by the borrower, unless the two parties agree at the time of repayment to repay it in a different currency.

There is nothing wrong with that, so long as that is done at the rate of exchange on the day of repayment, not the rate of exchange that existed on the day when the loan was given. This applies to every payment; it is permissible for the two parties to agree at the time of repayment that it may be paid in a different currency , at the current rate of exchange.

Haram transactions pertaining to paying off a loan in a different currency

But you should be aware that there are three haram forms of such transactions:

- Where the two parties agree at the time of the loan to pay it back in a different currency. This is haram, because in this case the transaction is actually selling the present currency for another currency to be paid at a later date, which is riba al-nasi'ah .

One of the conditions of selling one kind of currency for another is that it be done hand to hand, as is indicated by the words of the Prophet (peace and blessings of Allah be upon him): "Gold for gold, silver for silver, like for like, same for same, hand to hand… but if these commodities differ, then sell as you wish, if it is hand to hand." (Narrated by Muslim (1578) from 'Ubadah ibn as-Samit)

The currencies that exist nowadays are based on the value of gold and silver, so they come under the same rulings as them.

- Where they do not agree to that initially, but they agree on a different currency at the time of repayment and they work it out based on the rate of exchange at the time of the loan. This is also haram, and it is like the form mentioned above.

The jurists quoted as evidence that it is haram the well known hadith that was narrated by Ahmad (6239), Abu Dawud (3354), Al-Nasa'i (4582), At-Tirmidhi (1242) and Ibn Majah (2262) from Ibn 'Umar (may Allah be pleased with him) who said: I used to sell camels for dinars [i.e., to be paid at a later date] but accept dirhams, and sell them for dirhams but accept dinars. I asked the Messenger of Allah (peace and blessings of Allah be upon him) about that and he said: "There is nothing wrong with taking it based on the current price, so long as you do not separate with something still outstanding."

This hadith was classed as sahih by some scholars, such as An-Nawawi and Ahmad Shakir; others classed the words of Ibn 'Umar, but not the words of the Prophet (peace and blessings of Allah be upon him), as sahih, such as Al-Hafiz Ibn Hajar and Al-Albani. (See: Irwa' al-Ghalil, 5/173)

There is another reason for this prohibition, which is that if you take more than the price on the day of repayment, then you have made a profit on something that is not in your possession, and the Prophet (peace and blessings of Allah be upon him) forbade making a profit on anything that is

not in one’s possession. (Narrated by the authors of Al-Sunan with a sahih isnad)

- Where they agree at the time of repayment to repay it in a different currency, but they part with something till outstanding. For example, if the loan is one thousand dollars, and they agree when the time comes to pay it back in pounds, let’s say 5000, and he takes 4000 but the borrower still owes 1000. This is not permissible, because when selling one currency for another, it is stipulated that it should be done hand to hand, as stated above.

Al-Khattabi (may Allah have mercy on him) said, commenting on the hadith of Ibn ‘Umar quoted above: “It is stipulated that they should not part with anything outstanding between them, because paying off dirhams with dinars is an exchange of currency, and a transaction that involves exchanging currencies is not valid unless it is done hand to hand.” (`Awn Al-Ma`bud)

But if the loan is to be paid off in installments, then there is nothing wrong with agreeing to pay each installment at the rate of exchange on the day it is paid. There are no shar’i reservations about that, because it does not involve any delay in exchanging the currency.

There follow some comments of the scholars concerning this issue:

The scholars of the Standing Committee for Issuing Fatwas were asked: I borrowed some money from someone (French currency) on the condition that I would give it back to him in France, but when he came to Algeria he asked me to give him Algerian dirhams with some extra. What is the ruling on that?

They replied:

“It is permissible to pay him back in Algeria the same amount in French currency or the equivalent at the current rate of exchange in Algerian currency, so long as it is handed over before you part.” (Fatawa al-Lajnah al-Da’imah, 14/143)

They were also asked (14/144): What is the ruling on borrowing money in one currency then paying the loan back a few months later in a different currency, when the price of the currency may have changed during the period of the loan?

They replied:

“If a person borrows money without stipulating any interest to be paid, or he repays it in another currency at the rate of exchange at the time of repayment, without stipulating anything that benefits the lender, that is permissible, because that involves cooperation between Muslims and meeting their needs. But if he stipulates that he has to pay interest on this loan or that he has to give it back in a certain currency or offer any benefit to the lender, then it is haram, because it is riba that is forbidden according to the Quran and Sunnah and scholarly consensus.”

Shaykh Ibn ‘Uthaymin (may Allah have mercy on him) was asked: One of my relatives who lives in Cairo has asked me for a loan of 2500 Egyptian pounds, and I sent him 2000 dollars, which he sold and got 2490 Egyptian pounds. Now he wants to pay back the loan. Please note that we did not agree on a time or method for repayment. My question is: Should I take from him 2490 Egyptian pounds, which is currently worth 1800 US dollars (less than the amount that I gave him in dollars) or should I take 2000 dollars, knowing that this will mean that he has to buy the dollars for approximately 2800 Egyptian pounds (i.e., over 300 pounds more than he actually got)?

He replied:

“What he must do is return the dollars that he borrowed from you, because this is the loan that he got from you. But if you agree that he will give you Egyptian pounds, there is nothing wrong with that. Ibn ‘Umar (may Allah be pleased with him) said: We used to sell camels in al-Baqi’ for dirhams and accept dinars for them, and we would sell for dinars and accept dirhams. The Prophet (peace and blessings of Allah be upon him) said: “There is nothing wrong with taking it based on the current price, so long as you do not separate with something still outstanding.” This is selling one currency for another, which is akin to selling gold for silver. If you and he agree that he will repay you for these dollars in Egyptian pounds, so long as you do not take from him more pounds than are dictated by the rate of exchange at the time when you agree to that, there is nothing wrong with it. For example, if 2000 dollars are equivalent to 2800 pounds now, it is not permissible for you to take three thousand pounds from him, but it is permissible for you to take 2800 pounds, and it is permissible for you to take 2000 dollars only, i.e., you should take it at the current price or

less, and do not take more because if you take more, you will have made a profit on something that is not in your possession, and the Prophet (peace and blessings of Allah be upon him) forbade making a profit on anything that is not in one's possession.. But if you take less, you will have taken some of what you are entitled to, and waived the rest, and there is nothing wrong with that." (Fatawa Islamiyyah, 2/414)

For, more, please see these answers: 23388 , 12541 , 381582 , 109938 , and 217847 .

And Allah knows best.