10958 - Selling before taking possession and selling by installments

the question

It has become widespread among people to buy through the banks by installments in return for paying an additional amount on the price of the item being sold. The bank does not own the car or building, but the purchaser chooses it after signing the contract with the bank and agreeing to pay the installments, then the item being bought is handed over. The question is: is this transaction permissible, because we have heard from you and from other scholars, and we have read in the hadithh, that it is not permissible for a man to sell something unless he has taken possession of it. But in fact the bank does not take possession of this car or building; it does not buy it for itself, it is buying it for the purchaser who has asked for it specifically. They try to justify this by saying that the purchaser is not obliged to buy it if he changes his mind, but they know that he is determined to buy it, otherwise they would not have bought it. The second question is: The bank sets out a condition that if the purchaser changes his mind, he has to pay whatever the bank loses as a result of that. Is this condition valid?

Detailed answer

Praise be to Allah.

This question was answered by the Standing Committee for Issuing Fatwas. The text of their reply is as follows:

After studying the matter, the Committee for issuing Fatwas replied that it is not permissible to engage in the transaction described, because it is essentially a loan with an extra amount to be paid when the loan is paid off. The form described is no more than a trick which ends up being the same as the ribaa which is forbidden by the Quran and Sunnah and according to scholarly consensus. It is essential to forego dealing in such transactions, in obedience to Allah and His Messenger (peace and blessings of Allah be upon him).