198148 - Is it permissible for him to take a secured loan, pledging gold as collateral, in order to obtain money so that he and his wife can go for Hajj?

the question

I got married recently, and my wife and I want to go and perform the obligatory Hajj before we start a family. We have run out of some money, but we still have some of the gold that we received as gifts. We want to take a secured loan, pledging it (the gold) as collateral, in order to obtain money so that we can go for Hajj.

Is it permissible to do Hajj in this way and with money like this? Or is it better to sell (the gold)?

Is zakah due on this gold if it is pledged as collateral?

Detailed answer

Praise be to Allah.

Firstly:

there is nothing wrong with you doing Hajj with this money that you borrow, so long as you have gold or other wealth which will enable you to pay off the debt if you are not able to pay it off otherwise.

Taking secured loans is permissible according to the Qur'an and Sunnah, and scholarly consensus.

The purpose behind it is to secure the debt and guarantee that the lender will get his rights back from the borrower.

Allah, may He be exalted, says (interpretation of the meaning):

"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 entrust 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 2:283].

There is nothing wrong with pledging gold or silver, or other kinds of wealth, as collateral for a secured loan, because of the general meaning of the words “then let there be a pledge taken (mortgaging)”

The scholars of the Standing Committee were asked:

A friend comes to us, who has some gold, and he asks us for some money, so we give him the money and we take the gold in return for that money until he pays off the debt. What is the ruling on that?

The scholars of the committee replied:

Pledging gold as collateral for silver, or silver as collateral for gold, is permissible.

End quote from Fatawa al-Lajnah ad-Daa’imah (13/480)

The scholars of the Standing Committee were also asked:

I have a company that sells electrical equipment by instalments, by way of secured loans. When a customer comes to buy an electrical device for a certain amount, I ask him for collateral of gold equivalent in value to that price, or slightly less than that, which I keep as collateral until he has finished paying off all the instalments required of him during a set period. When the customer has finished paying off those instalments during the period agreed to, I return the collateral to him in full, just as I received it from him. Is what I am doing the correct prescribed way of dealing with secured loans?

They replied:

Your asking those who purchase items from you on credit to give collateral to secure that credit that is similar in value, whether it is gold or anything else, is permissible according to sharee'ah. (The permissibility of) secured loans is proven in the Qur'an and Sunnah, and by scholarly consensus. The purpose of the collateral is to guarantee the debt with something that it is permissible to sell according to sharee'ah, so that the debt will be repaid from the collateral or its price, if the borrower is unable to pay off the debt. But you have to take good care of the collateral, because it is a trust that has been placed in your keeping. If the borrower does not pay off the debt that he owes, or he does not sell the collateral in order to pay you back from its price, then the issue of selling the collateral and taking what is owed to you from its price should be referred to the Islamic court.

End quote from Fatawa al-Lajnah ad-Daa'imah (11/140-141)

See the answer to question no. 132648 for information on the wisdom behind the permissibility of secured loans.

Secondly:

If the value of this gold that is given as collateral reaches the nisaab (minimum threshold at which zakah becomes due), or you have other gold which, when added to it, will reach the nisaab, then zakah must be given on it when one full year has passed since it came into your possession. The fact that it is being held as collateral for a debt does not mean that the obligation of giving zakah on it is waived, because you still have full ownership of it.

For more information, please see the answer to question no. 99311.

And Allah knows best.