444666 - Is it permissible to pay off someone else’s loan in return for a product?

the question

I owe someone five thousand riyals, but at present I am not able to pay it off, and the lender is asking me to pay my debt. After discussing the matter with him, I found out that he does not mind receiving an iPhone as payment of the debt owed to him. The cash price of this mobile phone in the market is approximately five thousand riyals, or maybe a little more or less than that. My question is: I do not have five thousand riyals; is it permissible for me to buy the mobile phone on instalments for more than six thousand riyals, and give the phone to the lender in order to pay off the debt? Or is there something wrong with that?

Detailed answer

Praise be to Allah.

Firstly:

There is nothing wrong with you buying a mobile phone by instalments, then giving it to the lender to pay off the debt, if he agrees to that, because it is permissible to sell a debt in return for an item to be handed over now. But it is not permissible for do that in return for an item to be delivered later, because that comes under the heading of selling a debt for a debt, which is prohibited.

In *al-Mudawwanah* (2/357) it says: I said: How about we come to an agreement regarding a debt, so he bought the debt in return for some item to be delivered later on – is that permissible according to the view of Malik?

He said: That is not permissible, because this is selling debt for debt, which is not permitted. End quote.

It says in *Kashshaf al-Qina'* (8/283):

Making a deal with regard to debt means settling the debt by giving something of a different type of wealth. In that case it is an exchange, i.e., buying and selling, such as if he acknowledges that he owes him a particular item or has some debt that he owes him, then he gives him instead of that something that is permissible to give.

This may be divided into three categories, which he discussed when he said: If it is currency in exchange for another currency, then it is an exchange that comes under a particular ruling, because it is selling one of the two currencies (gold and silver) for the other. Therefore it is stipulated that the exchange should take place immediately.

If it is selling a product in exchange for currency, or exchanging currency for products, or it is exchanging one product for another, then it is like buying and selling, so it is stipulated that the precise specifications of the items in question should be known, because this is exchanging wealth for wealth.

Reaching a deal regarding a debt is valid and it is permissible to pay the debt with a different type of wealth, whether it is of greater or lesser value than the loan, because it is a sale transaction, on condition that it be delivered immediately, so that it does not turn into selling debt for debt. End quote.

Secondly:

It is stipulated that your purchase of the mobile phone by instalments should be free of any haram elements, such as the stipulation of a penalty in the event of late payment, because that is a stipulation of riba and it is not permissible to accept that condition, even if you are determined not to delay any payment.

And Allah knows best.