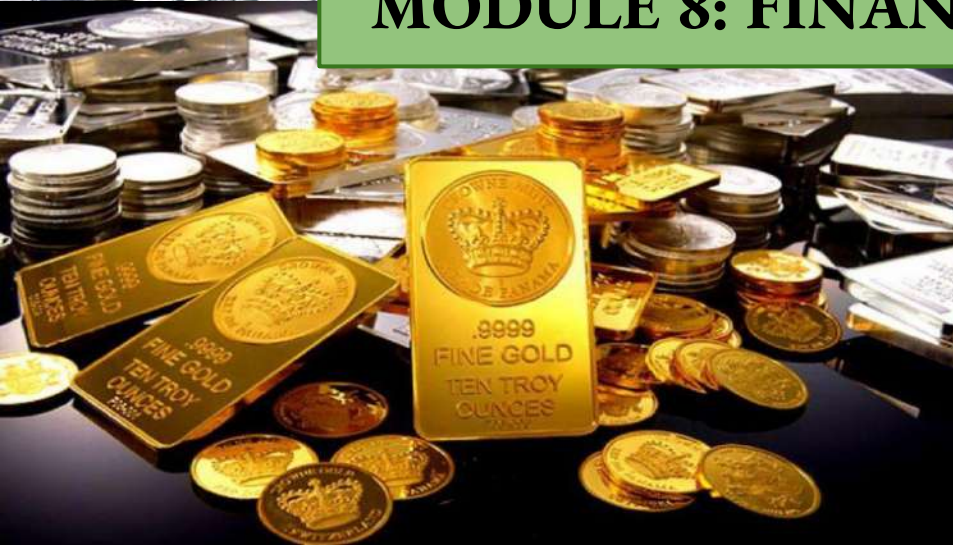


## MODULE 8: FINANCIAL TRANSACTIONS



# WHAT WE'VE LEARNED

- The default about sales
- The conditions of a valid sale
- General permissible transactions
- General prohibited transactions

# PROHIBITED TRANSACTIONS

- 1] Riba
- 2] Gharar
- 3] Selling/purchasing prohibited products
- 4] Selling halal items to one who will use them for haram



# RIBA–INTEREST/USURY

- **Linguistically:** ‘Increase or increment.’
- **Legally:** ‘An increase in one good for another in an exchange without compensation for the increase.’



# THE MENTION OF RIBA IN THE QURAN

1] Sura Rum: وَمَا آتَيْتُمْ مِّن رَّبًّا لِّيَرْبُوَ فِي أَمْوَالِ النَّاسِ فَلَا يَرْبُو عِنْدَ اللَّهِ

*‘That which you give in usury that it might increase through other people’s wealth does not increase with Allah.’*

The majority of scholars say it means when one gives a gift with the intention of receiving something greater, they will not receive a reward from Allah. Accordingly, riba was not dealt with in Mecca.

It is not called haram here.



# THE MENTION OF RIBA IN THE QURAN

2] Sura al-Nisa': وَأَحْذِهِمُ الرِّبَا وَقَدْ نُهُوا عَنْهُ

*“And for their taking usury, though they had been forbidden it...”*

When the Prophet went to Medina in the first year of Hijra, Allah revealed these verses. Allah is saying He prohibited them from it. There is no direct prohibition to the Muslims, but Allah is preparing them (just as the prohibition of alcohol came gradually in stages).

# THE MENTION OF RIBA IN THE QURAN

3] Sura Al 'Imran: يَا أَيُّهَا الَّذِينَ ءَامَنُوا لَا تَأْكُلُوا الرِّبَا أَضْعَافًا مُّضَاعَفَةً ۖ وَاتَّقُوا اللَّهَ لَعَلَّكُمْ تُفْلِحُونَ

*“O you who believe, do not consume interest, multiplying it many times over.  
And be mindful of Allah, so you may prosper.”*

This was just before Uhud (3<sup>rd</sup> year after the Hijra). Allah addresses the believers with a prohibition.

# THE MENTION OF RIBA IN THE QURAN

4] Sura al-Baqara. The severest verses about riba came shortly before the Prophet (Allah bless him and give him peace) passed away. In Sura al-Baqara:

الَّذِينَ يَأْكُلُونَ الرِّبَا لَا يَقُومُونَ إِلَّا كَمَا يَقُومُ الَّذِي يَتَخَبَّطُهُ الشَّيْطَانُ مِنَ الْمَسِّ ذَٰلِكَ بِأَنَّهُمْ قَالُوا إِنَّمَا الْبَيْعُ مِثْلُ الرِّبَا ۚ وَأَحَلَّ اللَّهُ الْبَيْعَ وَحَرَّمَ الرِّبَا ۚ فَمَنْ جَاءَهُ مَوْعِظَةٌ مِنْ رَبِّهِ فَانْتَهَىٰ فَلَهُ مَا سَلَفَ وَأَمْرُهُ إِلَى اللَّهِ ۖ وَمَنْ عَادَ فَأُولَٰئِكَ أَصْحَابُ النَّارِ ۖ هُمْ فِيهَا خَالِدُونَ

يَمَحَقُ اللَّهُ الرِّبَا وَيَرْبِي الصَّدَقَاتِ ۚ وَاللَّهُ لَا يُحِبُّ كُلَّ كَفَّارٍ أَثِيمٍ

يَا أَيُّهَا الَّذِينَ ءَامَنُوا اتَّقُوا اللَّهَ وَذَرُوا مَا بَقِيَ مِنَ الرِّبَا إِن كُنْتُمْ مُّؤْمِنِينَ

فَإِنْ لَمْ تَفْعَلُوا فَأْذَنُوا بِحَرْبٍ مِّنَ اللَّهِ وَرَسُولِهِ ۖ وَإِنْ تُبْتُمْ فَلَكُمْ رُءُوسُ أَمْوَالِكُمْ لَا تَظْلِمُونَ وَلَا تُظْلَمُونَ



# THE MENTION OF RIBA IN THE QURAN

*“Those who devour usury will not stand except as stands one whom the Shaytan by his touch has driven to madness. That is because they say: ‘Trade is like riba’, but Allah has permitted trade and forbidden riba. Those who after receiving direction from their Lord desist shall be pardoned for the past; their case is for Allah (to judge); but those who repeat (the offense) are companions of the fire. They will abide therein...God will deprive usury of all blessing, and He will give increase for deeds of charity. For He loves not creatures ungrateful and wicked. O you who believe! Fear God, and give up what remains of your demand for riba if ye are indeed believers. If you do not [give up riba], take notice of a war from God and His Apostle; but if you turn back you shall have your capital, without increase or diminution.”*

# THE MENTION OF RIBA IN THE SUNNA

1] The Prophet (Allah bless him and grant him peace) said, **‘Indeed, every usury from the usury of jahiliyya has been abolished, and the first usury that I abolish is the usury of al-‘Abbas b. ‘Abd al-Muttalib.’** (Bukhari)

Imam Fakhr al-Din al-Razi said, ‘As for the usury of credit, it is a matter that was well-known and customary in jahiliyya. They would give money on the basis that every month they would take a specific amount while the principal remained unchanged. When the specified time had passed, they would reclaim the principal from the borrower. If he was unable to pay it, extra time would be granted and there would be more monthly payments.’

# THE TYPES OF RIBA

- 1] Riba al-Nasi'a (delay)
  - 2] Riba al-Fadl (surplus exchange)
  - 3] Riba al-Duyun (debts)
- Riba al-Qard (loan)
  - Riba al-Jahiliyya (default)

## RIBA AL-NASI'A (DELAY)

This is loan for a stipulated period with a stipulated interest charge, payable by the debtor.

- Zayd gives 100 grams of gold to Khalid today, and Khalid gives him 100 grams of similar gold tomorrow. This is a form of riba because Khalid is **deriving extra benefit from it**. This transaction must be 'hand-to-hand' (on the spot).
- Zayd goes to the bank to exchange 1000 US dollars for Canadian dollars. The transaction must be on the spot. The bank cannot say 'Come back and take your money tomorrow.' This is called 'real possession' (*qabd haqiqi*). But if the bank transfers it to your account and you have access to your account, this is called 'virtual possession' (*qabd hukmi*), and it is halal.

# RIBA AL-FADL (SURPLUS)

***Currency:*** Gold and silver

***Staples:*** Dates, barley, wheat, and salt.

If the commodities are different then it is allowed.

**WHY?**

What is the *'illa* (effective cause) here? Does *riba* in trade only apply to these things?

# THE TYPES OF RIBA

**CURRENCY:** The scholars said the '*illa* (effective cause) for gold and silver is they are a '**medium of exchange**'. Anything that is considered a medium of exchange in society is considered like gold in silver in this regard. This is the position of the majority.

**FOOD ITEMS:** The '*illa* for the food items is that they are staples that are suitable for long term storage. Prohibiting *riba* in these items prevents injustice in the trade of these items needed by the people in everyday life.

(Others say the '*illa* is because they are food. Others say it is because they are sold by weight and volume.)

This is not something we really have to worry about in our everyday life when buying and selling.



## **RIBA AL-DUYUN (DEBTS)**

This riba is a type of debt interest that arises when people lend or borrow money. It is any increase in borrowing or lending money, paid in kind or in money over the loan amount, as a lender-imposed condition or willingly by the borrower.

## RIBA AL-DUYUN (DEBTS)

There are 2 types of *riba al-duyun*.

- a. ***Riba Al Qard***: Riba is imposed from the start and is dependent on the length of time the borrower takes to repay the loan. For example, Ali borrowed \$100 from Khalid on 10% interest for one year. Upon maturity, Ali will pay \$110 (Principal amount: \$100; Interest: \$10) to Khalid.

## RIBA AL-DUYUN (DEBTS)

b. *Riba al-jahiliyyah*: Riba that happens because of the default of payment, and **there is no riba at the beginning of the contract**. This occurs when a creditor in a deferred exchange contract asks the debtor for additional money on the original debt. In exchange for an increase in debt, the creditor agrees to allow the debtor to **postpone the debt payment**.

*For example*: Harith owes Marwan \$1000 on January 1. Then, Harith cannot pay Marwan on the agreed date, so Marwan agrees not to collect Harith's debt until February 1, in exchange for Harith agreeing to pay him \$1200 instead of \$ 1000. The Shariah strictly prohibits this transaction.

# MODERN RIBA TRANSACTIONS

**Note:** It is not *fard 'ayn* to know all of the details of these transactions; however, a Muslim is required to know the ruling of Allah for everything they do. If they are involved in a particular transaction, it is *fard* for them (not everyone) to know the ruling on it in the Shariah and act accordingly.

- 1] Commercial bank interest
- 2] Credit card interest for late payment
- 3] Home and car loans
- 4] Student loans