

# ***Riba, Interest, and Usury***

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Interest has become one of the most contentious issues among Muslims. The traditional scholars consider any excess charge on the principal sum as '*Riba*' and therefore unlawful. They make no distinction between reasonable (interest) and exorbitant (usury) rates of interest.<sup>1</sup> On the other hand are those who consider reasonable interest rates acceptable.

The term '*Riba*' literally means increase, growth, addition, or expansion.<sup>2</sup> The Quran has itself taken it to mean in the same sense.<sup>3</sup> Technically it refers to the 'premium' that must be paid by the borrower to the lender along with the principal amount as a condition of the loan or for an extension in its maturity.<sup>4</sup> But is any increase a '*Riba*'?

## The Historical Perspective:

According to the historian Baladhuri, the people of Taef were heavily involved in usury practices. The Meccan traders in the pre-Islamic Arabia used to borrow money from Taefeans on interest which was paid in cash and in kind. The main component of the deal was the extension of period of repayment of the principal sum. According to Tabari, whenever the Taafeans advanced a loan to the debtor, if the debtor failed to pay the debt at the end of one year, the creditor would increase or even double the amount and extend the due date by one year. For example, if one hundred dirhams or dinars were payable at the end of one year, the extension of one year required a payment of two hundred dirhams or dinars. At the end of second year, if the period was extended for another year, the payable amount was also doubled. If the due payment at the end of one year was one year old camel, it was converted into a two-year old camel for one more year of extension and a three-year old camel for another year of extension.<sup>5</sup>

The Jews of Median were also well known for their usurious practices. They would sell the commodities such as wheat, barley, dates, and salt to the peasants of Medina during off season or during scarcity on deferred payment and would charge a larger quantity of the same commodity at the time of repayment. This would create scarcity. They would then resell these commodities on deferred payment. This practice would create a vicious cycle.<sup>6</sup>

The Quranic term '*Riba*' has normally been translated either as interest or usury. The term '*Riba*' literally means increase, growth, addition, or expansion.<sup>7</sup> The Quran has used the term in the same sense:

030.039 That which ye lay out for increase (*Riba*) (so that it may increase (*yarboo*)) through the property of (other) people, will have no increase (*yarboo*) with God: but that which ye lay out for charity (*zakah*), seeking the Countenance of God, (will increase): it is these who will get a recompense multiplied (*mudh-ayfoon*).

The following are the Quranic injunctions about '*Riba*':

002:274 Those who (in charity) spend of their goods by night and by day in secret and in public have their reward with their Lord: on them shall be no fear nor shall they grieve.

002:275 Those who devour usury (*Riba*) will not stand except as stands one whom the Evil One by his touch hath driven to madness. That is because they say: "Trade (*Bai'*) is like usury but Allah hath permitted trade and forbidden usury (*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 offence) are companions of the fire: they will abide therein (forever).

002:276 Allah will deprive usury (*Riba*) of all blessing but will give increase for deeds of charity (*sadaqa*): for He loves not creatures ungrateful and wicked.

002:277 Those who believe, and do deeds of righteousness, and establish regular prayers and regular charity, will have their reward with their Lord: on them shall be no fear, nor shall they grieve.

002:278 O ye who believe! fear Allah and give up what remains of your demand for usury if ye are indeed believers.

002:279 If ye do it not take notice of war from Allah and his Apostle: but if ye turn back ye shall have your capital sums; deal not unjustly and ye shall not be dealt with unjustly.

002:280 If the debtor is in a difficulty grant him time till it is easy for him to repay. But if ye remit it by way of charity that is best for you if ye only knew.

002:281 And fear the day when ye shall be brought back to Allah. Then shall every soul be paid what it earned and none shall be dealt with unjustly.

003:130 O ye who believe! Devour not usury (*Riba*) doubled and multiplied; but fear Allah; that ye may (really) prosper.

004:160 For the iniquity of the Jews We made unlawful for them certain (foods) good and wholesome which had been lawful for them; in that they hindered many from Allah's way.

004:161 That they took usury (*Riba*), though they were forbidden; and that they devoured men's substance wrongfully; We have prepared for those among them who reject faith a grievous punishment.

030:039 That which ye lay out for increase (*Riba*) (so that it may increase (*yarboo*)) through the property of (other) people, will have no increase (*yarboo*) with God: but that which ye lay out for charity (*zakah*), seeking the Countenance of God, (will increase): it is these who will get a recompense multiplied (*mudh-ayfoon*).

#### Chronological Order of Verses Regarding '*Riba*'

Verse 030:039 was the first verse revealed at Mecca in the fourth year of Prophethood. This verse only passes a moral stricture on '*Riba*'.

Verse 003:130 was revealed soon after the Prophet<sup>SAW</sup>'s migration to Medina when Islam became politically dominant. Through this verse *Riba* was not only quantified, but categorically prohibited.

Verses 002:275 through 002:277 only re-asserted the prohibition:

Verses 002:278 through 002:281 were revealed after the conquest of Mecca. The Prophet<sup>SAW</sup>, immediately after the conquest of Mecca in 8<sup>th</sup> year, signed a peace treaty with the people of Taef that they would stop all '*Riba*' based transactions, would also give up all claims involving '*Riba*', and would not pay others claims involving '*Riba*'. When the Prophet left for Madina, after signing the treaty, there was a dispute between some traders of Mecca (Banu Mughirah) and the Taefeans (Banu Thaqif) about the payment of certain outstanding pre-Islamic claims. The Judge of Mecca dismissed the claim, but on the insistence of the claimant, referred the case to the Prophet. Upon this the verses were revealed.<sup>8</sup>

### Analysis

The Quranic verses suggest the following:

- Allah<sup>ST</sup> has permitted '*bay*' and forbidden '*Riba*'. (2:275, 4:161).
- Charging double and multiple in '*Riba*' will promote poverty (3:130)
- Allah<sup>ST</sup> will deprive '*Riba*' of all blessing, but will give increase to '*sadaqah/zakah*'. (2:276. 30:39)
- Those who had been charging '*Riba*' were commanded to forgo usury and demand for the principle. (2:278)
- Demanding '*Riba*' amounts to waging war against Allah and the Prophet<sup>SAW</sup> (2:279)

### Why '*Riba*' is Illegal and '*Ba'y*' Legal?

'*Riba*' is forbidden (*haram*) and '*bay*' is permitted (*halal*) (2:275). Literally '*bay*' means to sell (for a price).<sup>9</sup> The Quran has used this term on the following occasions:

002:254 O ye who believe! Spend out of (the bounties) We have provided for you, before the Day comes when no bargaining (***bay'***) (will avail), nor friendship nor intercession. Those who reject Faith they are the wrong-doers.

014:31 Speak to my servants who have believed, that they may establish regular prayers, and spend (in charity) out of the Sustenance we have given them, secretly and openly, before the coming of a Day in which there will be neither mutual bargaining (***bay'***), nor befriending.

024:37 By men whom neither trade (***bay'***) nor sale (business) (*tijarah*) diverts from the Remembrance of God, nor from regular Prayer, nor from the practice of regular Charity: Their (only) fear is for the Day when hearts and eyes will be transformed (in a world wholly new),-

062:9 O ye who believe! When the call is proclaimed to prayer on Friday (the Day of Assembly), hasten earnestly to the Remembrance of God, and leave off business (and traffic) (***al-bay'***): That is best for you if ye but knew!

Another term which has also been used for trade in the Quran is '*tijarah*':

002:282 O ye who believe! When ye deal (*tadadayantum*) with each other, in transactions (*dayn*) involving future obligations in a fixed period of time, reduce them to writing. Let a scribe write down faithfully as between the parties: let not the scribe refuse to write: as God has taught him, so let him write. Let him who incurs the liability dictate, but let him fear His Lord God, and not diminish aught of what he owes. If the party liable is mentally deficient, or weak, or unable himself to dictate, let his guardian dictate faithfully, And get two witnesses, out of your own men, and if there are not two men, then a man and two women, such as ye choose, for witnesses, so that if one of them errs, the other can remind her. The witnesses should not refuse when they are called on (for evidence). Disdain not to reduce to writing (your contract) for a future period, whether it be small or big: it is juster in the sight of God, more suitable as evidence, and more convenient to prevent doubts among yourselves. But if it be a transaction (***tijarah***) which ye carry out on the spot among yourselves, there is no blame on you if ye reduce it not to writing. But take witness whenever ye make a commercial contract; and let neither scribe nor witness suffer harm. If ye do (such harm), it would be wickedness in you. So fear God; For it is God that teaches you. And God is well acquainted with all things.

004:29 O ye who believe! Eat not up your property (*amwal*) among yourselves in vanities: But let there be amongst you traffic and trade (***tijarah***) by mutual good will: Nor kill (or destroy) yourselves: for verily God hath been to you Most Merciful!

004:30 If any do that in rancour and injustice,- soon shall We cast them into the Fire: And easy it is for God.

009:24 Say: If it be that your fathers, your sons, your brothers, your mates, or your kindred; the wealth that ye have gained; the commerce (***tijarah***) in which ye fear a decline: or the dwellings in which ye delight - are dearer to you than God, or His Messenger, or the striving in His cause;- then wait until God brings about His decision: and God guides not the rebellious.

035:29 Those who rehearse the Book of God, establish regular Prayer, and spend (in Charity) out of what We have provided for them, secretly and openly, hope for a commerce (***tijarah***) that will never fail:

035:30 For He will pay them their meed, nay, He will give them (even) more out of His Bounty: for He is Oft-Forgiving, Most Ready to appreciate (service).

061:10 O ye who believe! Shall I lead you to a bargain (***tijarah***) that will save you from a grievous Penalty?-

061:11 That ye believe in God and His Messenger, and that ye strive (your utmost) in the Cause of God, with your property and your persons: That will be best for you, if ye but knew!

061:12 He will forgive you your sins, and admit you to Gardens beneath which Rivers flow, and to beautiful mansions in Gardens of Eternity: that is indeed the Supreme Achievement.

062:9 O ye who believe! When the call is proclaimed to prayer on Friday (the Day of Assembly), hasten earnestly to the Remembrance of God, and leave off business (and traffic) (*al-bay'*): That is best for you if ye but knew!

062:10 And when the Prayer is finished, then may ye disperse through the land, and seek of the Bounty of God: and celebrate the Praises of God often (and without stint): that ye may prosper.

062:11 But when they see some bargain (**tijarah**) or some amusement, they disperse headlong to it, and leave thee standing. Say: "The (blessing) from the Presence of God is better than any amusement or bargain! and God is the Best to provide (for all needs)."

Literally '*tajara*,' the root verb for '*tijarah*' means to trade, to do business, to deal.<sup>10</sup> The term '*bay*' is thus a component of the term '*tijarah*'.

Compared to Zakah, where money flows from the rich to the poor, in trade merchandise and money flows in both directions. It is basically an exchange. In Verses 2:254 and 14:31, it is implied that we can buy hereafter by spending in this life. It is exchanges of money spend in the way of Allah in this life with a good life in the Hereafter.

The trade has the following characteristics<sup>11</sup>:

- It is the transfer of the ownership of goods or services from one person or entity to another in exchange for other goods or services or for money.
- It is a value-added activity, since profit is added to the cost to come up with the final price, which is determined by law of demand and supply.

The Quran adds the following:

- It should be done based on mutual goodwill (4:29).
- If it is done with future obligation, the contract should be reduced to writing (2:282).

The very fact that '*bay*' should be based on mutual goodwill implies that there is no coercion in it. The buyer only buys the merchandize he finds beneficial and agrees with the price. The price in '*bay*' is normally dictated by market forces which are based on the law of demand and supply.

'*Riba*' either as interest or usury has the following characteristics:

1. It is the transfer of the ownership of money from one person or entity to another in exchange of IOU or promissory note.
2. Since interest is added to the principal to come up with IOU, it is also a value-added activity.
3. Since it involves future obligation, it is usually reduced to writing.

The Quran adds another characteristic to '*Riba*':

4. The added values is exorbitant or outrageous (doubled and multiplied) (3:130)

Whereas the first three characteristics of '*Riba*' are the same as that of '*bay*', it is the fourth characteristic that makes it different from '*bay*'. The price and therefore profit in '*bay*' is determined by the market forces; it is normally a fraction of the cost and not two to four folds. The profit in '*Riba*' is exorbitant and outrageous (doubled and multiplied), which is exploitive. It is the exploitive nature of profit that makes it opposed to '*bay*'

It is surprising that scholars have completely ignored the verse (3:130) which quantifies '*Riba*'. A holistic approach tells us that this verse should be included in defining and quantifying '*Riba*'.

In modern finances the profit charged on loan are of two types: interest and usury.

### **Interest:**

Interest is the extra amount a borrower pays for the use of money (principal) they borrow from a lender and the return a lender receives for deferring the use of funds, by lending it to the borrower. It is based on an interest rate that is normally expressed as a percentage rate over the period of one year.

Interest rate is basically the time value of money which takes into account the following<sup>12</sup>:

The risk-free cost of capital: depending upon how the economy is performing, there is an expectation that the investment should on average yield certain return. It also depends upon the money supply in the economy. Higher the money supply, lower the cost of capital and vice versa.

Inflationary expectations: Most of the economies are inflationary in nature. Investors make sure that their buying power remains intact.

The level of risk in the investment: There is a risk associated with every investment, higher the risk, higher the probability of defaulting. This is compensated by charging higher interest rate for high risk investment. This is to insure that the investor, on average, will get the return he expects with an investment with an average risk.

The costs of the transaction: This covers the overhead needed to run the financial institutions.

### **Usury:**

In Old English law, the taking of any compensation whatsoever was termed usury. With the expansion of trade in the 13<sup>th</sup> century, however, the demand for credit increased, necessitating a modification in the definition of the term. Usury then was applied to exorbitant or unconscionable interest rate. In 1545 England fixed a legal maximum interest; any amount in excess of the maximum was usury.<sup>13</sup>

In modern economy interest rate is a financial instrument to meet the demand for money. It is nominal and is regulated by the government. Usury is an amount in excess of the interest rate. It is considered illegal, exorbitant, and unconscionable interest rate. Considering the exploitive nature of usury, it has all the characteristics of interest rate except that:

- the profit is exorbitant and
- it is not based on mutual goodwill.

While the definition ascribed to usury in the West is vague, the Quran has a more precise definition for it: If the profit is double and multiple of the capital sum it falls under the category of usury. (3:130)

Thus whereas nominal interest rate determined by market forces falls under the category of '*bay*', usury (double and multiple of capital sum) falls under the category of '*Riba*'. Viewing the Verses 2:278-279 suggests the following:

The usurers have already gouged the borrower enough and do not deserve any more profit on their lending. They can only demand the principle (2:278)

Considering the exploitive nature of '*Riba*', demanding it amounts to waging war against Allah and the Prophet<sup>SAW</sup> (2:279)

### **Why '*Riba*' stands opposed to charity (Zakah/ Sadaqah)?:**

Since '*Riba*' stands opposed to charity (2:276, 30:39), lets ask ourselves who deserves charity? Financially speaking, a society can be divided into three categories:

- Category 1: The poor and the needy, who cannot meet their basic needs. They need financial assistance (*sadaqah*) just to survive.
- Category 2: Those who earn just enough to barely meet their basic needs, but they are prone to falling below poverty line if they incur unexpected expenses. They may need '*qardh-e-hasana*,' which they may or may not be able to pay off.
- Category 3: The middle class, who earn more than their basic needs, but not enough to pay lump sum for house, car, etc. They are not qualified to accept Zakah and Sadaqah.
- Category 4: The wealthy who earn well above their basic needs and are in a position to not only pay Zakah but can also lend others.

It implies that those deserving financial assistance (Categories 1 and 2) should be helped through Zakah and Sadaqah by the middle class and the wealthy. Charging them '*Riba*' will amount to their exploitation and hence waging war against Allah and the Prophet<sup>SAW</sup> (2:279).

Charity (Zakah) has the following characteristics:

- Money flows from the well-to-do (those who pay Zakah) to the poor and needy (those who deserve Zakah).
- The well-to-do do not get any material benefit in return from the poor and needy, except for dua.

The main intent of the commandment seems to eliminate the exploitation of the poor and the needy. When the rich give charity to a needy, the money flows from the rich to the needy. When a rich charge '*Riba*' from the needy, the needy are expected to return not only the principal, but an additional amount. Thus the net flow of money is from the needy to the rich. This is pure exploitation. The poor and needy should be helped with Zakah and Sadaqah instead of being charged '*Riba*'

In situations where the wealth of one party (wealthy) is used to create wealth (house, car, and etc.) for another party (middle class) who has regular earning and is not qualified to accept Zakah, the lender must be compensated for the lost opportunity. Interest rate is a reflection of that lost opportunity. It takes into account the average profit

the lender could have made, the inflation, and the transaction expenses. Time value of money or lost opportunity has been recognized by Islamic scholars causing them to modify and promote the concept of *Murabahah*.

It is a common practice in the modern economy to borrow money on interest to buy big ticket items or for a new venture. Even big corporations borrow money for their projects and for their expansion. Most of the feasibility study for any venture or project is measured against interest rate. The venture or the project is considered feasible if its rate of return is significantly higher than the prevailing interest rate. Even Shariah compliant financial institutions use the prevailing interest as the yardstick to determine their profit payment to investors.<sup>14</sup> Most of the people who work on wages cannot buy big ticket items (a house or a car) on cash. Since the price of house mostly goes up, waiting to save enough money to buy a house almost becomes an unachievable dream. Borrowing money is the most convenient form for financing big ticket items. The fact is interest is the bread and butter of the modern economy.

We will now analyze some of the Islamic institution in view of understanding about '*Riba*'.

### **Murabahah (Mark-up):**

Time value of money has been recognized by Islamic scholars and is the backbone of Islamic financing. Most of the Islamic banks use *Murabahah*, usually called cost plus, as their instrument for lending.<sup>15</sup> When a client (borrower) wants to own a tangible asset e.g. a machinery or a house, the bank buys the asset and then instantaneously sells the client (borrower/buyer) at a mark-up price to be paid (in installment) over a certain period. In many cases it is the buyer who identifies the property and negotiates the price. Only then does the bank enter into the picture, pays the price and adds the mark up to convert it into *Murabahah*. For example, if I wanted to buy a car that is priced at \$15,000, but cannot afford it. I can go to the bank. They will buy it for \$15,000 and then instantly sell it to me for \$20,000 to be paid over five years.

The concept *Murabahah* is still evolving. *Murabahah* was originally developed for a transaction in which a buyer purchased items from a trader at a specified profit margin. In this type of transaction, the traders acted on behalf of another party in buying goods and *Murabahah* (mark-up) may be seen as a payment for the trader's service in locating, transporting, and delivering the goods.

Islamic banks are using this concept for a transaction in which a bank or financier buys an item and simultaneously sells it at a profit to a customer. To some commentators, this type of transaction 'is a controversial technique since it can easily be used as a means of circumventing the prohibition on '*Riba*'. Here the objective is to rent money, not to trade goods, and as with most modern Islamic finance transactions the objective is achieved by means of a combination of otherwise halal contracts'<sup>16</sup>: buying the property and selling the property with some profit. 'Although both transactions are permissible under Shari'ah when viewed separately, when combined, they produce the equivalent of an interest-bearing loan from a bank's perspective.'<sup>17</sup> Compared to the original concept where traders located, transported, and delivered the goods, the banker is just sitting on a heap of money. The buyer is the one who is locating the item and negotiating the price. The banker only steps in to write the check. He is making money on money under the guise of a property. The only difference being, *Murabahah* has been blessed by respected scholars, interest is not.<sup>18</sup>



*Murabahah* has the following characteristics<sup>19</sup>:

- Both parties agree upon a profit margin.
- The purchase and selling price, other costs, and the profit margin are clearly stated at the time of the sale agreement.
- The bank is compensated for the time value of its money in the form of the profit margin.
- This is a fixed-income loan for the purchase of a real asset (such as real estate or a vehicle), with a fixed rate of profit determined by the profit margin.
- The bank is not compensated for the time value of money outside of the contracted term (i.e., the bank cannot charge additional profit on late payments); however, the asset remains as a mortgage with the bank until the default is settled.

*Murabahah*, except for circumventing the Islamic injunction that money cannot be simply traded for money, is not much different from interest rate (especially fixed interest rate). In interest based transactions:

- Both parties agree upon the interest rate (a profit margin).
- The principal (purchase price), the total payment (selling price that includes the profit margin and other costs) are clearly stated at the time of the agreement.
- The bank is compensated for the time value of its money in the form of interest rate (the profit margin).
- This is a fixed-income loan for the purchase of a real asset (such as real estate or a vehicle), with a fixed interest rate (rate of profit determined by the profit margin).

The only difference is that in *Murabahah*, the bank is not compensated for the time value of money outside of the contracted term (i.e., the bank cannot charge additional profit on late payments). Usmani<sup>20</sup> goes in detail about what do in case of default. He proposes all kinds of penalties and punishments. He fails to realize that the defaulter may not be able to pay for a genuine reason for example, loss of a job. Financial institutions are in the business of making profit, not to dole out punishment or run a charity. They will have to recover their investment to survive. Since *Murabahah* system of financing is still evolving, in case of a default, ultimately they will either opt for a foreclosure or will renegotiate a new mark-up price. Either option will be not much different from what regular banks do. Thus, except for circumventing the Islamic injunction that money cannot be simply traded for money, *Murabahah* is not much different from interest based transaction. The difference between the interest based financing and *Murabahah* is only on paper, the real test is when the borrower defaults and that is where Shariah based financing will show its true color. The Quranic term for circumventing is '*heelah*.' following the letter of the law, but not the spirit. *Murabahah* system of financing follows the letter, but not the spirit as per defined by the traditional scholars.

### ***Musharakah (Declining Balance Co-ownership / Rent-to-Own):***

In *Musharakah* financing, also known as Declining Balance Co-ownership and Rent to Own, the investor and the buyer of the property co-own the property and share the profit according to their share in the property. The buyer makes monthly payment to the investor. A part of the payment goes towards the rent the buyer owes to the investor based on the investor's share in the property and the rest goes towards increasing the ownership in the property. When the buyer's share reaches one hundred percent, the buyer becomes the owner of the property.

This method of financing is good as long the price of the property does not increase faster than the interest rate. In interest based financing the borrower is counting on the fact that the price of the property will rise faster than the interest rate and the borrower will be able to build equity in the property, which normally happens. *Musharakah* financing will become a Catch 22, if the price of the property increases faster than the interest rate, which normally happens, since the rent has to go up to keep up with the price. If the payment is fixed, more of the buyer's payment will go towards the rent than towards the ownership of the property. For example, let us say that the owner's monthly payment is \$1500, \$1000 of which is rent and \$500 goes towards the ownership of the property. Let us assume that with this schedule, the buyer will own the property in 15 years. If the price of the property goes up by 20%, the rent will also go up by the same percentage rate. The rent will thus increase to \$1200. The buyer is now only paying \$300 towards the ownership of the property. Assuming other things do not change, it will take buyer 25 years to own the property. This is a simplistic calculation, actual calculation is little complicated.

As mentioned earlier, the difference between interest-based financing and Shariah compliant financing is only a paper shuffle. The real test comes in case of default. According to the prospectus of one of the *Musharakah* based investor (Guidance), in case of foreclosure, the investor (co-owner) "recovers the funds that it would have obtained, had the customer fully bought out its share of the property as well as other amounts that may be due. After the co-owner (investor) has been compensated, any surplus from the sales proceeds would be given to the customer."<sup>21</sup> Let us assume that the price of the property was \$100,000, the investor's share was 60 percent (\$60,000) and the buyer's share was 40 percent (40,000). In case of a foreclosure, if the property was sold for \$80,000, the investor will keep \$60,000 and give the buyer only \$20,000. The proceeds from the sale in true *Musharakah* should have been divided based on percent ownership i.e. the investor should have received only \$48,000 and the buyer should have received \$32,000. Just like mortgage lender, the *Musharakah* based investor is only interested in recovering its share. Only the leftover is given to the borrower/buyer. Here again Shariah based financing show its true color when the borrower defaults.

### ***Financing Non-Material Items:***

Not only is *Murabahah* or *Musharakah* on a slippery slope, it is not a cure-all for all the financial needs. There are situations when money is needed not to buy things but for other purposes, for example student loan, paying bills, home improvement, and etc. I can borrow money on interest and take care of these issues. How would *Murabahah* or *Musharakah* deal with it?

One of the intent of *Shariah* is to ease the hardship.<sup>22</sup> Would the hardship be eased by not allowing the student to take loan for higher education and let him have a low paying job for the rest of his life or by allowing him to take loan, get good education to lead a comfortable life? What if I need an extra room to ease my family's living accommodation? Would the hardship be eased by adding an extra room by borrowing money if I can afford it or by living miserably?

### **Conclusion:**

The analysis suggests the following:

- The term '*Riba*' stands for not any excess, but exorbitant excess charged on loans and is equivalent to the modern term usury.
- The nominal interest rate determined by the law of supply and demand and regulated by government does not fall under the category of '*Riba*'.
- The poor and needy should not even be charged nominal interest rate. Instead they should be helped through the institution of Zakah.
- In situations where the wealth of one (rich) is used to create the wealth for others (middle class), interest based financing should be acceptable. Even then charging exorbitant interest rate, also known as usury, is condemnable and is prohibited.

Earlier in the chapter we summarize the commandments regarding Riba as follows:

- Allah<sup>ST</sup> has permitted '*bay*' and forbidden '*Riba*'. (2:275, 4:161).
- Charging double and multiple in '*Riba*' will promote poverty (3:130)
- Allah<sup>ST</sup> will deprive '*Riba*' of all blessing, but will give increase to '*sadaqah/zakah*'. (2:276. 30:39)
- Those who had been charging '*Riba*' were commanded to forgo usury and demand for the principle. (2:278)
- Demanding '*Riba*' amounts to waging war against Allah and the Prophet<sup>SAW</sup> (2:279)

Having defined what '*Riba*' is we can re-state the above commandments as follows:

- usury is forbidden
- Allah<sup>ST</sup> will deprive usury of all blessing, but will give increase to charity.
- Trade which also includes regulated interest is permitted, but usury is forbidden.
- usury will promote poverty.
- Those who have been charging usury will only get their principle back.
- Demanding usury amounts to waging war against Allah and the Prophet<sup>SAW</sup>.

### **About the Writer:**

Mahmood Jawaid is an engineer by profession and writer by avocation. He is a published author of "Secrets of Angels, Demons, Satan, and Jinns – Decoding their Nature through Quran and Science," "Atom to Adam – How, When and Where in the Light of Quran, Bible and Science (A Study of Human Origin)," and "Hunting to Cloning – Unearthing Civilizations through Quran," and "Lessons from the Qur'an." He has also published many essays on religious issues in the Charleston Gazette, West Virginia and has written research papers on Islamic issues from modernist perspective. He has also written quite a few Islamic satires and poems. His writings can be found on MahmoodJawaid.com. He is a Chemical Engineer and possesses Bachelor and

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<sup>1</sup> Ali, A. Y., "The Meaning of the Holy Quran," Amana Corporation, Maryland, Explanatory Note No. 326.

<sup>2</sup> Cowan, J. M., "Wehr's Arabic-English Dictionary," Spoken Language Services Inc., New York, 3<sup>rd</sup> ed., 1976, p. 324.

<sup>3</sup> That which ye lay out for increase (*yurboo*) through the property of (other) people, will have no increase (*yurboo*) with God: but that which ye lay out for charity (*Zakah*), seeking the Countenance of God, (will increase): it is these who will get a recompense multiplied (*mudhefoon*). (The Quran 30:39)

<sup>4</sup> "All Pakistan Legal Decisions – Supreme Court Judgements on Riba, (1) PLD 2000 SC 225, (2) PLD 2000 SC 76, (3) PLD 2000 SC 770," Lahore, Pakistan, p. SSC 459.

<sup>5</sup> "All Pakistan Legal Decisions – Supreme Court Judgements on Riba, (1) PLD 2000 SC 225, (2) PLD 2000 SC 76, (3) PLD 2000 SC 770," Lahore, Pakistan, p. SSC 448.

<sup>6</sup> "All Pakistan Legal Decisions – Supreme Court Judgements on Riba, (1) PLD 2000 SC 225, (2) PLD 2000 SC 76, (3) PLD 2000 SC 770," Lahore, Pakistan, p. SSC 449.

<sup>7</sup> Cowan, J. M., "Wehr's Arabic-English Dictionary," Spoken Language Services Inc., New York, 3<sup>rd</sup> ed., 1976, p. 324.

<sup>8</sup> "All Pakistan Legal Decisions – Supreme Court Judgements on Riba, (1) PLD 2000 SC 225, (2) PLD 2000 SC 76, (3) PLD 2000 SC 770," Lahore, Pakistan, pp. SSC 447-448.

<sup>9</sup> Cowan, J. M., "Wehr's Arabic-English Dictionary," Spoken Language Services Inc., New York, 3<sup>rd</sup> ed., 1976, p. 86.

<sup>10</sup> Cowan, J. M., "Wehr's Arabic-English Dictionary," Spoken Language Services Inc., New York, 3<sup>rd</sup> ed., 1976, p. 91.

<sup>11</sup> "**Trade** is the transfer the ownership of goods or services from one person or entity to another in exchange for other goods or services or for money. ----

Trading is a value-added function: it is the economic process by which a product finds its end user, in which specific risks are to be borne by the trader." <http://en.wikipedia.org/wiki/Trade>

<sup>12</sup> [http://en.wikipedia.org/wiki/Interest\\_rate](http://en.wikipedia.org/wiki/Interest_rate)

<sup>13</sup> Encyclopedia Britannica (on-line)

<sup>14</sup> <http://www.guidanceresidential.com/learning-center/white-papers>, "The Declining Balance Co-ownership Program." P.4, Item No. 2.

"The Declining Balance Co-ownership Program has been designed to provide a Sharia-compliant alternative to conventional mortgage lending. Despite the distinct nature of this program, customers will naturally insist that their monthly payments be competitive with what they would have to pay in the conventional market. For this reason, Guidance determines the Profit Payment offered to its customers to be competitive with prevailing interest rates. -----

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Profit Payments may even be adjustable and linked to an interest rate index (subject to certain caps).”

<sup>15</sup> [www.intracen.org/publications/Free.../Islamic Banking.pdf](http://www.intracen.org/publications/Free.../Islamic_Banking.pdf)

“Islamic Banking – A Guide for Small and Medium-Sized Enterprise,” International Trade Center.

[www.accountancy.com.pk/docs/islam\\_murabahah.pdf](http://www.accountancy.com.pk/docs/islam_murabahah.pdf) (*Murabahah by Maulana Taqi Usmani*)

[http://www.islamic-finance.com/item\\_murabaha\\_f.htm](http://www.islamic-finance.com/item_murabaha_f.htm)

<sup>16</sup> [http://www.islamic-finance.com/item\\_murabaha\\_f.htm](http://www.islamic-finance.com/item_murabaha_f.htm)

<sup>17</sup> [http://www.islamic-finance.com/item\\_murabaha\\_f.htm](http://www.islamic-finance.com/item_murabaha_f.htm)

<sup>18</sup> See past reference on Murahabah.

<sup>19</sup> [http://en.wikipedia.org/wiki/Islamic\\_banking](http://en.wikipedia.org/wiki/Islamic_banking)

<sup>20</sup> [www.accountancy.com.pk/docs/islam\\_murabahah.pdf](http://www.accountancy.com.pk/docs/islam_murabahah.pdf) (*Murabahah by Maulana Taqi Usmani*), pp. 19-23.

<sup>21</sup> <http://www.guidanceresidential.com/learning-center/white-papers>, “The Declining Balance Co-ownership Program,” p. 5, Item No. 5.

<sup>22</sup> Alwani, T. J. “The Ethics of Disagreement in Islam,” The International Institute of Islamic Thought, Herndon, Virginia, 2000, p. 64.

El Fadl, K. M. A, “Conference of the Books,” University Press of America, New York, 2001, pp. 295-297.