

Muslim Visa Card!

Few questions were raised regarding the credit cards. One question was about the MEF (Muslim Educational Foundation), a Muslim company, issuing Visa Credit Card, with low APR, and is inviting the Muslims to sign up for the card. The question raised was whether issuing this card, according to the Shariah, is Halal or Haram. Another question was regarding using the Credit card by the cardholder.

To address this issue, we need to look at the Hukm Sharii in this regard. In order to give the Hukm Sharii in any issue, first we first need to discuss three issues:

1. Studying the issue at hand (the subject).
2. Studying the evidences (daleel) related to the subject.
3. Applying the rule to the subject.

In the case of studying the Hukm Sharii regarding the Visa card, we need to study the following points:

1. The reality of the issue at hand (In this case it's issuing a Visa Card)
2. The Hukum Sharii of the Riba.
3. Applying the Hukum Sharii to the reality of the issue.

First, let us deal with the reality of the issue at hand, which is the Visa Card. When one purchases something and uses the card to pay for it, this means that the issuer of the card (Visa) will pay the merchant that charged the card the value of the transaction. For example, if you buy something for \$50 and use your card to pay for it, The card company will pay the merchant \$50, minus the agreed upon transaction fees, which varies depending on the merchant and the company. Now, the cardholder owes the visa, the surface value of the amount, in this case the \$50. If the cardholder pays the full amount within the grace period, then he will just pay the \$50, without extra charges. However, if he does not pay the full balance, and paid, for example, only the minimum monthly dues, he will be charged interest at whatever rate that is agreed upon, in this case 3.9%. In addition he will pay late payment fees if the payment was late. This means that there is difference between the amount you will pay to the visa, and what you originally owed the visa.

Now let us look at the issue of Riba. Regarding the Riba, it is well known that Riba is prohibited (Haram) in Islam. Let us first discuss what Riba is. Is it "usury" or is it "interest"?

First, we must remember that Qur'an was revealed in Arabic. Therefore, we must know what the definition of Riba is from linguistic perspective and from Sharii perspective. The discussion should not simply be about the Usury or interest, because Qur'an is not an English book. It is an Arabic book and we first need to look at the definition of the Arabic term, that is, Riba, and then see the relationship between Riba and Usury, or Interest.

Linguistically, Riba is any increase. In this regard, Allah (SWT) says in the Qur'an that:

"And among his signs, that you see the earth barren, but when We send down the water (rain) to it, it is stirred to life and *rabat*" (TMQ 41:39)

The word "*Rabat*" in the ayah means, "increased". The Ayah talks about the effect rain has in increasing the production of the earth.

However, from the Sharii point of view, Riba is of two types:

1. Riba an-Naseeah: This is the additional amount of money you pay when you return a loan, over and above the original amount that you owed. Usually, this increase in the original amount is related to the delay in time in returning the loan. This means, that if you borrow anything, and then when you pay, you pay more than the principal you took from the lender. For example, if you borrow \$100, this means that you owe \$100. However, when you return the loan, if you pay \$103, then the difference, which is \$3, is Riba, since it is an increase over the principal which was \$100.
2. Riba al-Fadl: This is any increase in exchanging some specific items such as Gold, Silver or wheat, etc. For example, if you want to exchange 20 grams of 21-Karat gold with 25 grams of 18-Karat gold, then the difference is Riba (which is the increase of 5 grams, even though the Karat value differs). You must exchange with equal amounts, or if you want, you can sell your gold and buy whatever you want. This applies when the exchange is between the items which are of the same nature such as, exchange of gold with gold, or silver with silver, and does not apply otherwise, such as in the exchange of gold with silver.

These are the 2 known types of Riba and both are prohibited. The first type is prohibited in Qur'an while the second type is prohibited in Sunnah. However, the second type, Riba al-Fadl, is not our topic of discussion here.

So we see that Riba is when you owe something and you pay more than what you owe. Thus, if you borrow anything, you must pay back exactly what you borrowed. If you paid more than what you owe, then the difference is Riba and it is Haram.

We should remember that there is no limit on the Riba. Any increase, big or little, is Haram. This is what Allah said in the Qur'an clearly. Allah (SAWAT) says that:

"Oh you who believe, fear Allah and leave whatever is left from Riba" (TMQ 2:278)

In this Ayah, Allah did not prohibit the big amount only but rather, the Ayah is general and prohibits any amount of Riba.

Riba, therefore, is not restricted only to what is called usury (exorbitant amount of increase on a loan). It is also not restricted to transactions between individuals only. If the Riba transaction takes place between a individual and a company or a financial institution, or between two companies, or between any two entities, nations, or individuals, it is still Riba, and it is Haram.

Now let us look at the reality of "interest." Interest is a charge for borrowed money, usually calculated by a percentage of the amount borrowed. (Webster's Dictionary). Looking at this definition, we find that the definition of Riba applies to the "interest", the way it applies to the "usury". Therefore the rule of Riba applies to "interest" as well. And therefore, interest and usury are both Riba, and thus they are both prohibited, regardless of the percentage.

After defining the terms, and after defining the Riba, now let us look at the visa card, and see if the increase in payments is Riba or not. It is very clear, that when you buy something, you owe the Visa Company only the amount that you borrow, and they pay on your behalf to the merchant. Additionally, the cardholder may transfer some balance to the card and there is interest collected in this case as well. The visa card does not collect money from the cardholder only. They even collect money from the merchants, by deducting a small percentage from what they owe the merchant. For example, when you buy a commodity or a service worth \$50 from a merchant and you charge it on the visa, the merchant may only receive from the visa card, lets say \$49. And the Visa Company from the merchant will retain \$1.

In this way, the card issuing company collects money form the merchants as well as the cardholder.

However the cardholder may not always pay interest. If the bill is paid within the grace period, no interest is charged. Whereas, if you pay after the grace period, you pay more than the principal and they compute it based on the APR, which is the interest. In actual situation, majority of the cardholders does not pay within the grace period, and thus the card issuer is able to make money by charging interest.

Now let us apply the rule. We find that the definition of Riba is present in whatever the company collects. Therefore, it is Haram for the company to offer such a card.

Regarding the second question:

The cardholder can use the card provided he must pay the full balance within the grace period, in order to avoid Riba. If he is late, then the additional amount he pays is Riba, and it is Haram. The question is what about the condition to pay interest if he paid the balance after the grace period? Is it allowed to have such condition or not?

In order to answer this question, background about the following is required:

1. Types of contracts
2. The effect of having conditions in any contract

First: Types of Contracts

Contracts in general (according to many jurists) can be divided to three types:

1. The valid contract
2. The invalid contract (or the void contract)
3. The incomplete contract.

A valid contract (Sahih contract) must fulfill all requirements associated with having a contract in Islam. It must meet both the basic requirements as well as other secondary requirements. Each contract must involve two eligible parties who hold the legal capacity that allows them to be involved in the said contract. The contract must pertain to a commodity or service that is lawfully permitted in Islam. As an example, you may not sell wine and you may not hire some one to commit an unlawful act. The price for the commodity or service (whether bought, rented or leased) must be lawful. You may not sell wine nor exchange it under any circumstance. If all of the above conditions are met, then the contract is valid and correct.

An invalid contract (Batil contract) is one that does not meet all the *basic* requirements. As an example, a contract to sell wine is invalid. Also, a marriage contract with a woman whom you are not allowed to marry is invalid. Signing a contract under duress is also an invalid contract. There is no corrective action that can validate an invalid contract. Once a contract that has invalid conditions has been signed, it becomes invalid.

The incomplete contract (Fasid contract) is one that meets all basic requirements of the contract but it does not meet other secondary requirements. As an example: if some one sells something lawful to an eligible party and they agreed on a price without specifying it in the contract, then the contract is incomplete or Fasid. It is not considered an invalid contract since all the basic requirements have been met. However, the agreed upon the price (a secondary requirement), is not in the contract. Another example would be if someone signed a marriage contract without specifying the dowry (which must be part of any marriage contract).

The difference between an invalid contract and an incomplete contract is that the incomplete contract can be rectified and corrected. In the example of selling something without specifying the price, both parties must agree on the price before they can execute the contract. In the example of marriage, both parties

must agree on the dowry before they can consummate the marriage and so on. If they fail to agree on these conditions, then the a judge would specify the price or the dowry according to the market price of the commodity or the customary dowry in the case of marriage. However, in the case of an invalid contract there is no stipulation that can validate the contract.

Second: The effect of having conditions in any contract

Both parties are allowed to add terms or conditions to the contract. These conditions must be adhered to and executed. For example, to sell something under the condition that there is a 3-day period in which the contract may be cancelled is allowed. In a marriage contract, both the husband and wife are able to add terms to the contract. However, there are some conditions that cannot be added to any contract. If they are added, they cannot be executed. For instance, a woman cannot have a marriage contract that states she and her husband will not live together. As mentioned earlier, if a contract includes an invalid condition, however it meets all the basic requirements, then that condition cannot be executed but the contract itself is still valid

Going back to the question:

In the contract between the credit card company and its customers, the customer agrees to pay the credit card company (or the bank who issues the credit card) the balance in full within a specific grace period to avoid incurring interest charges. However, if the customer fails to pay within that period, then he or she will accrue interest on the unpaid balance, which is calculated in a specific manner. Of course, Riba (interest) is unlawful and Haram. Likewise, it is Haram to sign any contract dealing with Riba, since Riba is Haram. Therefore, a Riba contract is considered invalid contract.

In this case, however, the basic requirements do not include dealing with Riba. That is because borrowing money without Riba is permitted if the amount borrowed is paid back in full within the specific time allotted. Thus, it is allowed and such contract is valid. What makes a contract, in the case of Riba, Haram is when one borrows money and must pay it back with interest. However, the contract with the credit card company is different than this. It says that you may borrow money and that you are allowed to pay it back *without* interest under one condition, which is that you must pay it back within a specific time.

If we can distinguish between the two types of contracts, then it becomes clear that this is different than taking a loan that has interest. In the case of taking a loan from a bank, it is agreed upon in the contract to borrow money and pay it back with Riba, which is calculated from the date the loan commences. This indicates that the Riba is not merely a condition in the contract, rather it is a basic requirement in the contract. In the case of the credit card contract, Riba is not a basic requirement. It is a conditional upon not paying back the amount borrowed within a given time.

In this case, the contract is valid while one (secondary) condition is not. You may sign the contract, but you are not allowed to execute the contract to the extent that involves that invalid condition. It was reported that Aisha (ra) said,

"Bareerah once came to me while she was negotiating about getting her freedom. She said to Aisha: buy me and give me my freedom. Aisha agreed on that. But, Bareerah continued saying that her owners would sell her under one condition: that her loyalty remains in their hands even if Aisha buys her. Aisha refused to buy her. Then Aisha reported that to the Prophet who told Aishah that such condition is not valid and the Prophet advised Aishah to buy Bareerah and agree on that condition. The Prophet told Aisha: "the loyalty is for the one who gives the freedom even if they added 100 conditions."

(This Hadith is reported in different ways. It was reported by Muslim and Bukhari and An-Nasaee and Abu Daoud.)

In this Hadith the Prophet (saaw) mentioned clearly that the invalid condition has no value and cannot be executed. Furthermore, it mentions that a contract that contains an invalid condition is *not* invalid. This indicates that an invalid condition does not necessarily make a contract invalid. Therefore, you are allowed to sign the credit card application even if it mentions a condition that is not valid in Islam. Nevertheless, you must make certain to pay the full balance on time, since any delay would result in Riba being applied to your account.

This question brings the issue of the position of Riba in the economic system to the front of any discussion. Due to the application of the Capitalist System, Riba has become the basis of nearly all financial transactions between parties, whether they are individuals or nations. This has prompted some people to believe that Riba is essential to modern day living. They cannot imagine life today without the current economic system prevailing in the world. They cannot think of an economic system that has no Riba. However, it must become known that Riba has no place in the economic system of Islam and that the economic system of Islam addresses the issue of Riba thoroughly and comprehensively.

In conclusion, Muslims are addressed by the Hukm Sharii, and their point of view in life must be based on this Hukm Sharii, whether it is related to the Ibadah, prayer, food stuff, Halal meat, the dress code, or conducting financial transactions. Complying with the Hukm Sharii is essential in the life of the Muslim individual as well as to the Muslim Ummah at large. It is the Hukm Sharii that creates consistency in our behavior and in our society. Unfortunately, many Muslims nowadays do not realize the importance of

abiding by the Hukm Sharii. Some may apply rules that are restricted to the Ibadaat only, while others may apply rules based upon what they perceive to be their own benefit, and not based upon the legal evidence. There are others still, who apply some rules according to their convenience, and in the end, there is discrepancy in the life of the Muslims and the Ummah at large. Therefore Muslims must realize the importance of adhering to the Hukm Sharii, in the individual life, as well as the life of the Ummah. It is based on this that we will be judged in the hereafter.

Nowadays, due to the application of the Capitalist System, Riba is the basis of most of the financial transactions amongst individuals and nations. This causes some people to start thinking that Riba is essential in modern life. They cannot imagine life without the current economic system prevailing in the world. They cannot think of an economic system that has no Riba. However, it must be known that the Riba has no place in the economic system of Islam and the economic system of Islam addresses the issue of Riba thoroughly and comprehensively.

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