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Credit cards and borrowing money from banks

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Fatwa no. 3675

Q: In the USA, there is a type of contract that is concluded between individuals as a first party, and the company that serves those individuals as the second party. The contract states the following:

A- The company shall issue a card with the number and the name of the participant. A person can use this card in purchasing from stores, restaurants, hotels as well as to buy tickets from airlines and suchlike. The stores from which the card owner buys goods will send the value of these purchases to the company which issued the card in order to pay the amounts that are due on the card owner.

B- At the end of the month, the company which issued the cards sends a bill to the card owner demanding him to pay the due amounts which the company paid to the commercial stores. He should pay these amounts within a month.

C - The holder of the card should pay the due amount of the current month within 15 days from the date of sending the bill. If the person does not pay these amounts within the mentioned period, the company sends the bill to him again with the same value of the due amount plus an extra 10 dollars as delay charges. When the person does not pay after having received the second bill, the company sends a third and final bill demanding that he pays

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the due amounts plus an extra amount that equals 2.5 % of the value of the amount as delay charges. In this case, the contract is cancelled and the card is taken away.

D - The term of the contract is only for one year and the owner of the card should pay 30 dollars per year as a subscription charge for issuing the card.

E- The payment and sent bills are in US currency and when a person uses the card outside the USA, the company sends the bill in US currency by converting the value of the due amounts from other currencies to US dollars and the conversion price will be decided on the day of sending the bill; not the price in which the owner of the card used his card to buy from outside the USA. The person shall be asked to pay the due amounts in US dollars with an increase that is equal to 1 % as conversion and exchange charges.

F- It is permissible for every party to cancel the contract at anytime after notifying the other of the cancellation. Could you kindly advise whether or not this contract is permissible. If it is permissible for a Muslim to participate in this contract, could you explain the nature of the contract or the reason for its permissibility? Is it a contract of agency, guarantee or lease between a person and the company that issues the cards? If it is not permissible, could you explain the reason which nullifies the contract.

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A: If the matter is as you have mentioned, the extra amount which the company takes is a form of Riba (Usury). It is not permissible for it to take this amount because Riba is Haram (prohibited) according to the Qur'an, the Sunnah and consensus. If this contract does not bear interest, then it is a guarantee contract, which is one of the contracts of Irfaq (things which contain lenience of providing utilities to others). If it bears interest when the payment is delayed, then it is not permissible because of what has been stated previously. It is not permissible to pay 30 dollars per year in return for this participation because this is a form of lease in return for a guarantee.

May Allah grant us success! May peace and blessings be upon our Prophet Muhammad, his family and Companions!

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