

## Usury and the Global Financial Crisis

This article is the amended note form of a lecture delivered by hafiz Gul Muhammad at the Islamic Centre on the 2<sup>nd</sup> October 2011 on 'Usury and the Global Financial Crisis'.

Hafiz Gul Muhammad is the dean of the Islamic Sciences at Jamia al-Karam, the UK's premier Dar al-Ulum. After completing the memorisation of the Holy Qur'an, he studied at Jamia al-Karam under the guardianship of M.I.H. Pirzada Sahib and Moulana Abdul Bari Sahib. He then travelled to Pakistan to study at Dar al-Ulum Muhammadia Ghousia, Bhera Sharif. There he had the honour of being one of the last students to be taught directly by Huzur Zia al-Ummah Pir Muhammad Karam Shah al-Azhari before his demise in 1998. He completed his 'Daura Hadith' qualification at Bhera Sharif and then spent three years at al-Azhar University Cairo. He then returned to England to study BA Accountancy at the University of Staffordshire.

### Defining Usury.

- Halsbury's Laws of England, Vol. 23, S. 253 defines interest as follows:--

"Interest when considered in relation to money denotes the return of consideration or compensation for the use of retention by one party of a sum of money or other property belonging to another."

- Ibn al-Athir, in his famous work *Kitab al-Nihayah fi-Gharib al-Hadith wa'1-Athar* (Cairo, 1322 A.H. Vol. 11, p. 66) says: "The original meaning of Riba is excess and in the terminology of the Shari'ah."
- Ibn 'Arabi in his noted work, *Ahkam al Qur'an*, (Cairo, 1957, Vol. 1, p. 242) has defined Riba to be the name of every increase in lieu of which there is no consideration viz. property.
- The *Hidayah* (book of Riba) states:
  - Literal Meaning: An Increase/ Excess
  - The Legal Definition: "An Excess according to a legally recognised standard of measurement or weight in of two homogeneous articles traded against one another without a medium of exchange, where the excess is stipulated as an obligation within the contract on one of the trading parties."
- Imam Fakhrud-Din Al-Razi (d. 606 A.H.) in his well-known *Tafsir al Kabir* writes that the meaning of the word Riba is increase but it does not mean that to recover every kind of increase is Riba and is unlawful . The forbiddance of Riba relates to a special kind of contract which was known amongst the Arabs as Riba al Nasiyah i.e. increase on debt. (The other kind of riba called "Riba al-Fadl" is outside the scope of the present discussion).

## Usury in the Qur'an and Sunna.

- In the Qur'an, Allah Almighty reminds us of the dangers of usury.

“Those who swallow usury will not stand except as one driven insane by the touch of the Shaytān, that is because they say that ‘usury is only like profits’, and Allah has made Profits lawful and usury unlawful” (Baqarah: 275)

- Hafiz Ibn Hajr writes in his commentary of Sahih al-Bukhari *Fathul Bari*, (Vol. IV p.264):

Imam Malik reports on the authority of Zaid Ibn Aslam that in the period of ignorance (pre-Islamic times) interest was changed according to the following scheme. One person had a right to the property of another person. It may have been a general right because of the amount lent or the price of something purchased or in any other form. A time was set when the claim would be settled. When the appointed time arrived the creditor would ask the debtor if he wanted to settle the claim or pay interest with an extension of time. If the claim was settled then there was no increase in the payment. Otherwise the debtor would increase the amount payable and the creditor would extend the period further.

- In a Hadith recorded in *Sahih al-Bukhari* (2.468) Samura bin Jundab (may Allah be pleased with him) speaks of a dream related to the Prophet (peace and blessings of Allah be upon him) that there is a river of blood and a man was in it, and another man was standing at its bank with stones in front of him, facing the man standing in the river. Whenever the man in the river wanted to come out, the other one threw a stone in his mouth and caused him to retreat back into his original position. The Prophet ﷺ was told that these people in this river of blood were people who dealt in Riba (usury).

- Hazrat Jabir (may Allah be pleased with him) has reported that the Messenger of Allah ﷺ cursed the devourer of usury, its payer, its scribe and its two witnesses. He also said that they were equal (in sin). (*Mishkat al Masabih*)

- Hazrat Abu Hurairah (may Allah be pleased with him) reported that the Prophet ﷺ said: A time will certainly come over the people when none will remain who will not devour usury. If he does not devour it, its vapour will overtake him. (*Ahmad, Abu Dawood, Nisai, Ibn Majah*)

- Hazrat Abu Hurairah (radiyallahu anhu) reported that the Messenger of Allah ﷺ said: I came across some people in the night in which I was taken to the heavens. Their stomachs were like houses wherein there were serpents, which could be seen from the front of the stomachs. I asked: O Gabriel! Who are these people? He replied these are those who devoured usury. (*Ahmed, Ibn Majah*)

## The roots of the current financial crisis.

- Since early 2000 wealth has steadily been growing amongst the people – in the developed countries people saw a steady growth in the markets, this led to good employment opportunities, many areas witnessed record numbers of people in employment.
- The Internet boom was just coming to its peak, allowing thousands of first-time entrepreneurs to set up businesses, whilst simultaneously allowing other existing businesses to expand their marketing power beyond any geographical bounds.
- More people in employment and growing businesses meant more purchasing power for people. Those who could never have previously realistically considered purchasing property started to look at the markets keenly, as this option became a viable opportunity of home ownership.
- More people turned to lenders who saw this as a profitable opportunity like none they had seen before in recent times.
- Financial analysts suggest that in every community there are 20% people who can be described as free riders, people who wish not to invest money but are pleased to take their share from the income.
  - Ribā seems to work well.
- The market becomes so confident in lending that it starts lending with little or no deposit:
  - Initially this was achieved by superficially increasing house prices.
  - A company that is only willing to lend 75% of the house price so the mortgage sellers revalue a house of £75,000 as £100,000 and the lender will give you £75,000.
  - The problem is that house prices rise superficially and do not correspond to the rise in value in any other commodity.
  - Just because you say a house is worth £100,000 does not make it worth that amount.
  - Banks have found that it has led to negative equity on defaulted payments.
- In 2007 federal-reserve dropped interest rates and thus lenders saw an opportunity to make even more easy money:

Ribā returns to its origin: exploiting the desperation of the poor.

- Sub-prime mortgages
- What is a sub-prime?
  - o Lending money to low income families
  - o People that would otherwise have been rejected
  - o Lower introductory rates
  - o Sold with security of 'hedging'<sup>i</sup> – Lehman Brothers are a good example of mortgage sellers who perfected this technique, this is why a lot of the current crisis has been attributed to them.
- What's in it for the lender?
  - o The less likely you are to qualify for a mortgage the more interest they can charge you.
  - o The greater the risk the greater the gain
- Federal-reserve increases interest rates
  - o Lower introductory rates come to an end
  - o People are hit with high levels of interest
  - o Start defaulting on payments
  - o Market begins to worry
  - o People try to sell the mortgages to others but everyone has been doing the same
  - o People stop buying all luxury goods and decide to shop carefully. Businesses begin to suffer as a result
  - o Markets begin to crash
  - o Lenders find they have given more money than the value of the houses

In the Qur'an, Allah states in Surah Baqarah (276):

Allāh will **DESTROY** Ribâ (usury) and will give increase for Sadaqât (deeds of charity, alms, etc.) And Allāh likes not the disbelievers, sinners.

- o People no longer have the confidence or money, they stop buying markets generally start to slow (worried people only buy essentials).
- o American government tries to restart the economy by giving a generous \$500 to low income families just before Christmas to get people spending. This, in essence, was a form of Sadaqa which the above verse encourages.

## The Islamic solution.

- A bitter pill for the investors in Riba ; the Qur'an states:
- Verse 278. O you who believe! Be afraid of Allâh and give up what remains (due to you) from Ribâ (usury) (from now onward), if you are (really) believers.
  - o You should not start with something that is detrimental for you, what appears profitable is not always a good investment
- Verse 279. And if you do not do it, then take a notice of war from Allâh and His Messenger but if you repent, you shall have your capital sums. Deal not unjustly (by asking more than your capital sums), and you shall not be dealt with unjustly (by receiving less than your capital sums).
  - o Write of mortgages regain the invested capital and no one will be at loss
- Verse 280. And if the debtor is in a hard time (has no money), then grant him time till it is easy for him to repay, but if you remit it by way of charity, that is better for you if you did but know.
  - o Write off debts for those who cannot afford
- Verse 281. And be afraid of the Day when you shall be brought back to Allâh. Then every person shall be paid what he earned, and they shall not be dealt with unjustly.
  - o Remember that you are only in this world temporarily nothing of what you earn will ever go with you, your riches here are for the people who come after you, the Prophet (peace be upon him) said:
    - The only property which is truly yours is the food which you have consumed, the clothes which you have used and worn out and the charity which you have given'.
  - o Whatever good you do, you will find it with Allah.

---

<sup>i</sup> Hedging is a term which reflects a financial insurance, it is a company's ability to prove that it is able to honour its loans and debts using other resources within its setup.