

281553 - Can the Bank Sell Cars by Instalments?

the question

I work for a government department, and the service department has made a deal between Bank As-Salaam and a car dealership. The bank has offered us services whereby, if we pay 30% up front, what remains of the price of the car will be spread over five years, on condition that every year an extra amount, equal to 5% of the price of the car, will also be paid. My question is: is this transaction permissible or not? The transaction is described as an easy way of selling by instalments.

Summary of answer

1- The bank can sell cars by instalments with three conditions: 1- The bank should take possession of the car before selling it to the employee, 2- The bank does not charge interest on instalments; 3- The bank does not impose a penalty for late payment.
2- If the bank does not meet these conditions, the transaction would be considered Riba which is prohibited in Islam.

Detailed answer

There is nothing wrong with the bank selling cars in the manner mentioned, subject to three conditions:

1. The bank should take possession of the car and acquire it from the company before selling it to the employee because it is not permissible for a person to [sell what he does not possess](#) .

An-Nasa'i (4613), Abu Dawud (3505) and At-Tirmidhi (1232) reported that Hakim ibn Hizam (may Allah be pleased with him) said: I asked the Prophet (blessings and peace of Allah be upon him), saying: O Messenger of Allah, a man may come to me and ask me to sell something that I do not have. Can I sell it to him then buy it for him from the marketplace?

He (blessings and peace of Allah be upon him) said: “**Do not sell that which you do not possess.**” This Hadith was classed as authentic by Al-Albani in Sahih An-Nasa’i.

According to another report, “If you buy an item, **do not sell it until you take possession of it.**” (Narrated by Ahmad (15316) and An-Nasa’i (4613); classed as authentic by Al-Albani in Sahih Al-Jami` (no. 342).

1. There should be no stipulation of **interest on instalments**, making it separate from the price. So it is not permissible to say that 5%, for example, will be added every year in return for **selling by instalments**, because this makes the transaction akin to Riba.

It says in a statement of the Islamic Fiqh Council regarding sales by instalments:

“When selling for payment at a later time, it is not permissible, according to Islamic teachings, to mention in the contract interest that is separate from the price of the item if it is paid for instantly, in such a way that it is connected to deferred payment, whether the two parties agree on a rate of interest or they connect it to the current bank rate.” (Majallat Majma` Al-Fiqh issue 6, vol. 1, p. 193)

1. The contract should not **stipulate a penalty in the event of late payment**, because that is Riba.

It says in the statement of the Fiqh Council referred to above:

“Firstly: it is permissible to increase the price if it is to be paid later on (in instalments), making it more than the price if it is paid instantly. It is also permissible to mention the price if it is paid instantly and the price if it is paid in instalments over a known period. But the transaction is not valid unless both parties state whether it is to be paid now or at a later date.

Secondly: If the sale is done with uncertainty as to whether it is to be paid now or later, meaning that there is no firm agreement on one definite price, then it is not permissible according to Islamic teachings.

Thirdly: if the purchaser who owes the money delays paying any instalment at the time when it is due, it is not permissible to impose anything in addition to the debt whether on the basis of a previously-stipulated condition or without such a condition, because that is Riba, which is prohibited.”

All of this applies only if the bank is going to buy the car from the dealership, then sell it to the employee. However, if the bank’s role is merely financing the purchase, meaning that it pays cash to the car dealer, then collect that money from the employee by instalments, with that extra amount, then this [transaction is Riba](#) , because in reality the bank is lending the price of the car to the employee and stipulating that he must pay it back with something extra, and this is [Riba](#) , according to scholarly consensus.

And Allah knows best.