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## Are Finance Charges In Islam's Interest?

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Rizwan Kadir liked working in finance, but when he read a verse in the Koran that said engaging in usury was the same as "waging war" against God and Islam's prophet Muhammad, fear struck him.

"When you come across an aya [verse] like this, it makes you start wondering what you're doing with your life," said Kadir, an investment banker in [Chicago](#).

He started reading about Islamic views on interest and talking to workers at Islamic banks that offered interest-free finance as a foundation of their business.

Kadir eventually concluded that the prohibition on interest didn't jibe with Islamic logic and that the "interest-free" arrangements touted by Islamic banks were just usury under another name.

"What they're doing is calling the same thing with a bunch of different names," said Kadir, who has a mortgage and auto and student loans.

The prohibition on charging and paying interest is a cornerstone -- along with withholding investments from trades such as alcohol and pornography -- of the rapidly emerging industry known as "Islamic finance."

There are about 270 Islamic banks with more than \$265 billion in assets, according to sponsors of the International Islamic Finance Forum, a semiannual industry conference that meets in [Switzerland](#) this fall. Most of the banks are found in wealthy Muslim nations, such as [Saudi Arabia](#), [Bahrain](#), [Dubai](#) and [Malaysia](#). In addition, many Western banks, such as industry giants [Citibank](#) and [HSBC](#), have established Islamic finance departments.

But a growing chorus of critics say the idea that Islamic law forbids all forms of interest is incorrect. Moreover, they argue, some of the bankers, lawyers and clerics who draw up and bless "interest-free" transactions are profiting off the pious with arrangements that look a whole lot like usury.

Islamic scripture condemns riba, an Arabic word meaning excess, which is commonly interpreted as usury. Some Islamic law scholars assert that all interest is prohibited. Others say that only excessive interest is prohibited and that interest is an indispensable part of society that a logical God wouldn't condemn.

"The notion that the spirit of the Koran is against modern forms of interest, like on a mortgage or a consumer loan, this to me makes no sense," said Timur Kuran, chairman of Islamic studies at [Duke University](#).

Throughout history, interest was common in the Islamic world in places such as the Ottoman Empire, Kuran said. Controversy over the practice emerged only during the 1940s, when Indian Muslims cited the need for an interest-free banking system as one reason they needed a homeland separate from Indian Hindus, Kuran said.

The Islamic finance sector developed slowly before taking off in the past 20 years, with Islamic financial institutions offering a growing number of transaction models, such as profit sharing, that avoid interest.

One example is a murabaha mortgage. For instance, a Muslim family wanting to buy a house for \$100,000 would go to an Islamic bank, which would buy the house and sell it to the family for \$120,000. The family would then have a certain amount of time to repay the bank. A similar practice was common in medieval [Europe](#) when interest was prohibited by the [Roman Catholic Church](#).

Mahmoud Amin El-Gamal, chair of the Islamic economics department at Rice University, argues that such transactions amount to a bait and switch.

"The whole is, I want to lend but I don't want to call interest 'interest,'" said El-Gamal.

He says such transactions cost more than other financial arrangements and hurt Muslim consumers.

"They're trapped because they're told they'll fry in hell if they go to regular banks," he said.

El-Gamal said obedience to the form of the contract often supersedes the spirit of Islamic economic values, such as serving the poor.

Industry advocates counter that even if some financial transactions serve the same purpose as interest, that doesn't mean they are

forbidden by Islam.

"It's possible, as it is in many ethical and legal systems, for two different actions to have the same outcome but, because of the way they're done, for one to be wrong or illegal in that ethical or legal system, and for the other to be permissible or lawful," said Taha Abdul-Basser, an Islamic law scholar with the Islamic Finance Project at [Harvard Law School](#).

Hussam A. Qutub, a spokesman for Guidance Financial Group, an Islamic bank based in [Reston](#) that offers interest-free mortgages, said Islam draws a difference between monetary lending agreements and agreements based on commodities.

"We're trying to reach the same end result that other financial organizations are trying to reach, which is putting people in homes," Qutub said. "But how are you going to get me there, that's where we differ."

Skeptics like Kadir, the investment banker in Chicago, remain unconvinced. "For me, Islamic finance is nothing more than affinity marketing -- you market your services to someone who you have an affinity with," he said.

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