



Non Interest Checking Account Earning Service Credit

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<QUESTION>

Is it permissible to earn 'service credits' in a current non-interest bearing checking account? For example service fees for a given month totals \$500 and this charge is offset by a 'earnings credit' allowance based on the average daily balance. At the end of the month, I have the same money without interest or service fees.

Second related question, since the banking institution earns money on my non-interest checking account funds by loaning portions of (fractional reserve banking) it out to others or using it in interest bearing investments, wouldn't it be better to convert it to an interest bearing checking account and have the interest earnings distributed to charities rather than leaving the funds fully available for the bank to freely use to earn cost free interest.

<ANSWER>

In the name of Allah, Most Compassionate, Most Merciful,

1) An Earnings-Credit checking account earns a credit to reduce or offset monthly service charges assessed. This credit is based on the average available balance in one's account during a statement cycle. An Interest-Earning checking account, however, earns interest. Normally, a minimum balance is a requirement for both types of accounts (Earnings-Credit and Interest-Earning) in order to earn the credit or interest.

Since Earnings-Credit accounts do not accrue any interest or dividend, the bank provides the account holder Earnings Credit Allowances--dividends that one could have earned through one's account balance--and use them to offset account fees. One's monthly statement summarizes account fees and earnings credit allowances that may offset these fees.

Depending on the average daily balance, one may be able to earn a credit that may cover one's monthly fees. At times, it may only reduce the monthly fees or service charges. The earnings rate is variable and may change at any time without notice.

From the above, it seems there is no significant difference between the Earnings-Credit account and Interest-Earning account. The term "interest" has been replaced with "earnings-credit". In other words, rather than give the interest accrued on the account to the account-holder, it is instead used to offset his monthly service charges and account fees.

Given this, it seems that these types of accounts are not permitted. It would not be permitted to earn "credits" on one's account and then have them used in offsetting one's account fees. And Allah knows best.

2) Giving and taking of interest are both decisively impermissible in Islam. As such, it is not permitted to have any kind of interest accruing account. Only in cases of necessity--when non interest accruing accounts are unavailable--will it be permitted to open an interest accruing account. If an interest accruing account is opened, it will be necessary to give the interest away to the poor with the intention of removing the burden of this unlawful filthy money from one, and without the intention of reward. (See: al-Fatawa al-Hindiyya 5/349) and Radd al-Muhtar)

One must always remember that opening an interest accruing account even with an intention to give away the interest to charity is not permitted. Giving interest to charity is only when one has no other alternative except opening an interest accruing account. Likewise, if one opened an interest accruing account out of negligence and then realized his/her mistake thus repented, then one will be advised to give away the interest to charity rather than leave it with the bank. But to intentionally open an interest accruing account even with an intention of giving the interest money to charity will not be permitted.

And Allah knows best

Muhammad ibn Adam

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