

09/10/2008 By Lahem al Nasser

Riyadh, Asharq Al-Awsat - The mortgage crisis in America continues to dominate the international media as the aftershocks of this crisis continue to take its observers by surprise on a daily basis from the nationalization of the two mortgage companies Fannie Mae and Freddie Mac and the bankruptcy of the Lehman Brothers, which has been declared the biggest bankruptcy in American history, to the US government's take over of 80 per cent of the stocks of the AIG insurance company in return for a \$85 billion loan to strengthen the company's liquidity.

The latest of these reverberations, but certainly not the last, was the collapse of Washington Mutual, which was sold to JP Morgan after it fell under the control of the Federal Deposit Insurance Corporation, a government institution that insures customer deposits in banks and financial institutions in the United States.

This crisis has broken many of the principles of economic liberalism that America has advocated just as it also proved that leaving everything to the regulations of the market without control and oversight leads to catastrophes striking the heart of the macro economy as a result of the unruly desires of greedy capitalists. Today, the entire world has fallen victim due to the gambles of some Wall Street traders. There is no better way to describe the root cause of this crisis than with the term 'gambling,' which was practiced by numerous parties starting with the monetary policy makers that are represented by the Federal Reserve Board, financial institutions, brokers and borrowers.

The Federal Reserve Board lowered interest rates for a lengthy period in the hope of reviving the American economy after the bubble of dot com companies in Wall Street burst, encouraging the pumping of huge amounts of cash into the American mortgage market, which was characterized by stability making it a safe haven for investors. However, the pumping of this huge amount of liquidity into a stable market resulted in a boom, with which the Federal Reserve Board was pleased. The Board found mortgages to be the main drive behind the American economy; borrowers were being refinanced as the value of the property rose, which encouraged consumer spending, and the continuous growth of the American economy in turn.

However, nobody paid attention to the fact that this boom was not based on a real economic product but on a series of inflated debts. Bonds, securities, derivatives, options and hedging

The Mortgage Crisis – An Islamic View

Written by rana

Saturday, 11 October 2008 05:50 -

contracts were being traded in the secondary market. So, could the same disaster occur in a market that is regulated by Islamic Sharia?

The answer is no; a disaster of this magnitude could not occur in markets governed by Islamic Sharia because transactions in Islamic Sharia are based on the real exchange of goods and utilities. Islamic law forbids usury and outlaws the selling of what you do not own except under strict conditions such as the selling of commodities where the full price is paid in advance whilst that which is valued [the product] is postponed, which reduces the risks in the transaction. Islamic Sharia also forbids the postponement of buying and selling [forward contracts], which is the case with derivative contracts, and debt trading, except under certain conditions that prevent usury, manipulation and deceit. For these reasons, Sharia scholars have condoned trading in securities and derivatives of all kinds, which also explains why Islamic financial institutions have not been affected by the crisis.

This crisis and those that are similar to it highlight the ingenious of Islamic Sharia and the wisdom of the Almighty in prohibiting these types of transactions, and demonstrate the human need to follow the inspiration of this Sharia that brought good to humanity. Such a crisis puts a huge burden on those in charge of Islamic banking to invent Islamic banking tools based on the Quran and the Sunnah [Prophetic traditions] away from cloning and reproducing existing conventional banking tools, in order to provide effective solutions to this economy which has been sent reeling due to its dependence on human trial and error.