

Fixing a percentage on a loan?

Darulifta Ahlesunnat

(Dawateislami)

Question

What do the religious scholars and muftis say about the following issue: a housing finance scheme has been launched by a house building finance company to provide houses to people with a low and average income, in which a loan of up to Rs. 4,500,000 is being given for the construction and purchase of houses and flats, and the repayment period is up to 20 years. The interest rate has been fixed at 12% which the borrower has to pay in addition to the original borrowed amount. For example, if someone has taken 1 million Rupees from the company, he will have to pay an additional Rs. 120,000. What is the Islamic ruling regarding this scheme? Can we take a loan under this scheme or not?

بِسْمِ اللَّهِ الرَّحْمَنِ الرَّحِيمِ

الْجَوَابُ بِعَوْنِ الْمَلِكِ الْوَهَّابِ اللَّهُمَّ هِدَايَةَ الْحَقِّ وَالصَّوَابِ

The scheme mentioned in the question is interest-based, as the additional 12% fixed by the company is a conditional profit on the loan and according to Hadith, the conditional profit on a loan is Riba (usury); just as it is unlawful (Haraam) to take Riba (interest), it is also unlawful to pay interest and to form an interest-based agreement without a Shariah-necessitated reason. Hence, it is not permissible to take a loan under this scheme. However, if a person is really in need, that is, his need is such that even Sharia recognizes it as a need, and it is not possible to solve it without an interest-based loan, then he will be allowed to take an interest-based loan according to his need.

A house for residing which protects one from cold, heat, etc. is a human need. If one does not have a house to live in and does not have other means to buy a house suitable for living, and if he is not able to get a loan without interest from anywhere, then in this case due to having no other choice, it will be permissible for him to take an interest-based loan for a residential house. Likewise, if there is a house but it needs construction, e.g. it has no roof or windows or doors through which protection can be sought from cold, heat and theft, then even in this case, one will be allowed to take a loan with the above conditions.

However, if there is a house which fulfils the need, but there is a desire for a bigger house, or one wants to paint the house, add tiles, decorate it with marble, etc., or he has jewellery, etc., by means of which he can meet his need, or an interest free loan is available from elsewhere, then in all these cases, it is not permissible to take an interest-based loan.

Important Note: Recognising a Shariah-necessitated reason is not easy for the public due to their lack of knowledge. Therefore, it is safe that instead of taking a decision based on your own intellect, you should contact a reliable Sunni Mufti, tell him all your condition and have him tell you the ruling. And then, the verdict he has stated should be acted on. Otherwise, there is a strong likelihood of falling into sin as many needs which the people consider as

needs are not actually classified as needs and taking an interest-based loan for them is Haram (forbidden)

وَاللّٰهُ اَعْلَمُ عَزَّوَجَلَّ وَرَسُوْلُهُ اَعْلَمُ صَلَّى اللهُ تَعَالَى عَلَيْهِ وَاٰلِهِ وَسَلَّمَ

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