14304 - Ruling on rent-to-own schemes

the question

What is the ruling on what many companies and banks do nowadays, whereby they rent out a car for a year in return for a specified amount each month, after which time the car becomes the property of the renter, but if he does not complete the agreed-upon rental period, ownership of the car reverts to the company or bank, and the renter has no right to reclaim whatever installments he has paid?.

Detailed answer

Praise be to Allah.

This kind of transaction is known as “rent-to-own”, and the contemporary scholars have differed concerning it. The Council of Senior Scholars has issued the following statement concerning it:

The Council of Senior Scholars has studied the issue of rent-to-own schemes, and after discussing the matter, the majority of the Council thinks that this kind of transaction is not permissible in sharee’ah for the following reasons:

1 – It is a combination of two transactions for one item and is not based on either of them; the two transactions come under two separate rulings and there is a contradiction between the terms of the two transactions.

When something is sold, the item and its benefits or usage must be transferred to the purchaser, so it is not valid for the seller to receive rent for it because it is the property of the purchaser. When something is rented, that means that the usage or benefits of the item (and not the item itself) are transferred to the renter.

Selling something implies that the purchaser both owns the item itself and enjoys usage of it, and

if it is worn out or destroyed he bears the cost of that and the loss of both the item and its benefits; none of that falls upon the seller. But if something is rented, the owner who is renting it out bears the cost of any loss or any wear or tear to the item or its benefits, unless the renter has transgressed the limits or shown negligence.

Secondly: The rental fees are calculated on a yearly or monthly basis in such a way that towards the end of the state term, the value of the item is paid off, but the seller calls these payments “rental fees” so that the purchaser cannot not sell the item until he has paid the whole amount.

For example: If the value of the item in question is fifty thousand riyals and the monthly rent is usually one thousand riyals, he makes it two thousand. In fact this is part of the price until, towards the end of the term, the value of the item is paid. But if the purchaser is unable to make the final payment, for example, the item will be taken away from him on the grounds that it is something rented, and he will not be given back the money that he has paid on the grounds that he has made use of it.

It is obvious that this is wrongdoing and forcing people to borrow money to make the last payment.

Thirdly: This kind of contract leads to the poor being careless about debts until many of them end up heavily in debt. It may even lead to bankruptcy for some of the lenders because of losses incurred because of loans to the poor.

The Council thinks that the two parties should look for a sound way, which is to sell the item and put its price in pledge (rahn) and to protect the seller’s rights by letting him keep the contract document and ownership papers etc.

And Allah is the Source of Strength. May Allah send blessings and peace upon our Prophet Muhammad and his family and companions.

Members of the Council of Senior Scholars who signed this statement include the following:

Shaykh ‘Abd al-‘Azeez ibn ‘Abd-Allah Aal al-Shaykh

Shaykh Saalih al-Lahaydaan

Dr Saalih al-Fawzaan

Shaykh Muhammad ibn Saalih al-‘Uthaymeen

Shaykh Bakr ibn ‘Abd-Allah Abu Zayd.