125909 - Renting Cars or Properties in Rent-to-Own Contract

the question

Here in Tunisia there are many companies which call themselves rent-to-own companies. Their services are based on buying the item that the customer wants (such as cars or properties) and registering it in the name of the company, then it rents it to the customer for a previously agreed-upon amount of money, for a limited time, as defined in the contract, which will end in the sale of the item.

Please note that interest is charged, and the one to whom the item is rented does not receive money in his hand; rather the company buys the thing in its own name, and ownership is not transferred to the customer until after he has paid the last installment, as agreed in the rental contract. Is doing this transaction Islamically permissible, or does it come under the heading of implicit Riba?

Summary of answer

If the company rents out the car to the customer for a particular period, then ownership of the car is transferred to the customer automatically, without drawing up a new contract, so that the rental contract, at the end of the stipulated period, automatically turns into a sale contract, then this kind of transaction is prohibited.

Detailed answer

Praise be to Allah.

Forbidden forms of rent-to-own contracts

What you have mentioned comes under the heading of what is called rent-to-own , of which there are some forms that are permissible and others that are prohibited.

- If the company rents out the car , for example, to the customer for a particular period, then ownership of the car is transferred to the customer automatically, without drawing up a new contract, so that the rental contract, at the end of the stipulated period, automatically turns into a sale contract, then this kind of transaction is prohibited.
- The same applies if the company draws up a rental contract with the customer, and a sale contract at the same time. This is not permissible, because two contradictory contracts cannot be combined for the same item at the same time.

Permissible forms of rent-to-own contracts

- As for the permissible ways of doing that, one of them is a rental contract that may be accompanied with a promise to sell, then when the rental period ends, the two parties draw up a new contract of sale on the basis of whatever price they agree on. This is permissible.
- Another form is when the rental contract is accompanied by a contract giving the item (the car, for example) as a gift, on condition that the full rental amount is paid, or it may be accompanied by a promise to give it as a gift after payment of the full amount of rent. This is permissible.

Conditions of rent-to-own contracts

In all permissible forms of this transaction it is stipulated that the rent should be real, and it should not be a cover-up for a sale. So the liability for the rented item – that is, a car or property – is to be borne by the one who is renting it out (the company), not by the renter or tenant. The same applies to maintenance expenditure; it is to be borne by the one who is renting it out, not by the renter, for the duration of the rental contract, in contrast to a sales contract, in which liability and maintenance costs are all to be borne by the purchaser, because he takes possession of the item when the sales contract is drawn up.

It says in Al-Mawsu`ah Al-Fiqhiyyah Al-Kuwaitiyyah (2/286):

“It is not permissible to stipulate that the renter should cover the costs of maintenance, because that makes the amount of rent ambiguous. Therefore the rental contract is rendered invalid if this

condition is stipulated, according to the consensus of all Schools of Fiqh.”

A statement was issued by the Islamic Fiqh Council regarding rent-to-own contracts, which discussed the permissible and prohibited forms of such contracts. We have quoted that in the answer to question no. 97625 .

If the company stipulates a down payment in advance , to be deducted from the rent, there is nothing wrong with that, but it is not permissible for the company to keep the down payment if the renter does not complete the rental period, except for the period that remains outstanding only.

Our advice is to take a picture or make a copy of the company’s contract and show it to specialists.

And Allah knows best.