265282 - Is it permissible to rent property in order to give it as collateral for a loan?

the question

I needed to take a loan from the bank, and the bank asked me to give a property as collateral. Unfortunately I do not have any property, so I consulted a friend, and he suggested the following to me: he would give me his property so that I could give it to the bank (as collateral), in return for interest that I would pay to my friend, namely ten percent of the value of the loan, to be paid annually until I pay off the loan. Is that halaal or haraam?

Detailed answer

Praise be to Allah.

What appears to be the case is that there is nothing wrong with this transaction, if it is done by way of renting, in the sense that you rent the property from your friend, in return for a known amount of money to be paid annually or according to whatever is agreed upon, then you give it as collateral for your loan with the bank.

Shaykh Mansoor al-Bahooti said:

The one who gives something as collateral must own it, even if he only owns its usage and not the item itself, such as if he rents something in order to give it as collateral, or he owns the right to use an item, such as if he borrows it to give it as collateral, and that should be with the consent of the owner in both cases. In that case it is valid to give it as collateral even if the debtor does not tell them – namely the landlord or the lender – the amount of the debt for which it is serving as collateral. But the debtor should tell the landlord or the lender what he is giving it as collateral for, and the length of time for which he is giving it as collateral, so that there will be no ambiguity or deceit.

End quote from Kashshaaf al-Qinaa‘ ‘an Matn al-Iqnaa‘ (8/154)

We put this question to our shaykh, ‘Abd ar-Rahmaan al-Barraak (may Allah preserve him), and he said:

It is permissible so long as it is done by way of rental, that is, you rent your friend’s land during the collateral period.

And Allah knows best.