

Rent-to-own and Islam

What do they have in common?
Quite a lot!

If you are wondering what rent-to-own, a 20th century American commercial notion, could possibly have in common with Islam, a Middle Eastern religion that arose in the middle ages, wonder no more. The answer: quite a lot, actually. There are even Arabic words for rent-to-own—*ijara* (leasing) and *ijara wa aliqtina* (lease ending into ownership). ☒ Rent-to-own arises in the context of the Islamic religion because of interpretations of the Koran and the Hadith (official interpretations of the Koran) known as Sharia law. Sharia is among the most conservative of Islamic interpretations of the Koran and holds sway in several countries where Islam is the predominant religion—Saudi Arabia, Iran and Nigeria, for example. It is an influential doctrine in many other parts of the Islamic world, as well. Sharia law controls many aspects of public and private life for believers and non-believers alike: political, economic, sexual, social, dietary, dress, as well as the more traditional areas of law—civil and criminal. ☒ To Western sensibilities, many aspects of Sharia law seem medieval, often barbaric. Without investigating Sharia punishments such as stoning to death for adultery or amputations for theft, there are aspects of this body of law that control one's economic life. Sharia law prohibits believers from taking *riba*, which is a term akin to interest on a loan or a finance charge on a purchase. The idea is that it is unholy to gain without any effort and beyond the profit that may result from an exchange in the marketplace. Islam teaches that money has no intrinsic value and Sharia law forbids anyone from profiting just by loaning out money. There is some dispute among Islamic scholars whether *riba* means any interest or only interest at usurious rates, although the strict interpretation favors the former.

by Ed Winn III



The same kind of prohibition exists in the Bible. Exodus 22:25, Leviticus 25: 35–37, Psalms 15:5 and Ezekiel 18:13 all condemn charging interest for the loan of money. However, by the time the New Testament was written, the rules of money lending had been relaxed and Jesus' parable of the talents seemingly approves the charging of interest—Matthew 25:14–19. In any case, Christianity and Judaism both were able to rationalize their ways around the Old Testament prohibition against charging interest during the Enlightenment and as the world commercialized in the interests, perhaps, of greater and quicker earthly treasures. This easy rationalization has been harder to come by in Islam.

If loaning money without charging interest is an eco-

also pay rent for its use. Depending upon the deal, the rental rate may be stable or it may be adjusted as often as daily or less often—annually, or every three to five years.

In its purest form, an *ijara* transaction cannot charge a late fee if the rental payment is not made on time, because such a fee would be deemed *riba* and forbidden. However, the agreement can provide for the lessee to pay a certain amount to charity if the *ijara* payment is not made on time. The bank/lessor may control the charitable funds, but must ultimately give those funds away and cannot make them part of the lessor's income.

If the customer breaches any term of the agreement, the bank/lessor can terminate the agreement and claim the property as its own. Once the agreement is terminated, for any reason,

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nomically senseless endeavor—and charging interest can send you to hell—what to do? The answer, in a word, for the most devout Muslims, is *ijara*—rent-to-own. While the motivation of Islamic rent-to-own dealers and customers is entirely different from the motivations underlying the RTO industry in the U.S., the business result and the transactions are the same. It is a *riba*-free transaction that may cost a little more, but one that does so very much more. In U.S. terms, it provides customers with access, flexibility, convenience and terminability. To Muslim believers, it provides goods and services today and nothing less than the keys to the Koranic equivalent of the Pearly Gates.

Islamic populations governed under Sharia law are being told that they cannot enter into transactions where interest is charged. The marketplace response has been rent-to-own and it is an increasingly popular option for housing and vehicles in England, several other European countries with heavy Muslim populations and Canada. There are Muslim financial institutions in these countries that are structuring *riba*-free RTO transactions for the devout. The bank buys the property the believer wants and collects rent on the property, whether real or personal, holding title until the purchase price, plus a little extra, has been paid. By some estimates, Sharia-compliant finance is growing at a rate of 15 percent per year in the Middle East.

Here is how a Sharia-compliant financial institution explains *ijara* financing: the customer identifies the desired property—either real estate or personal property. The bank purchases the property and puts title either in the bank's name or in a trust. The customer enters into an agreement to purchase the property at the bank's cost with payments over time. Title remains with the bank/trustee/lessor until the price has been paid in full. In addition, because the customer is using the property, the customer must

the customer is no longer obligated to make rental payments.

When the agreement runs its course, the bank/lessor transfers title to the property to the customer for no additional consideration, just like a rent-to-own transaction in the U.S.

The practice of structuring financial transactions to comply with Sharia law is not without criticism, even among Muslims. In Canada, the country's Mortgage and Housing Corp. has commissioned a study of Islamic banking and *ijara* there and that proposed study has come under attack. The Muslim Canadian Congress (MCC), a progressive Muslim group, has released a letter stating, "Religion has no place in the banking or mortgage industry."

According to the founder of MCC, "You are taking advantage of the most disadvantaged people. [Sound familiar?] You are telling them that we will charge you more for your total mortgage and when you die you will go to heaven. They are using the holy books to prey on a vulnerable market."

None expects to see prayer rugs in U.S. rental stores any time soon, but stores in areas with heavy Muslim populations may want to investigate the prevalence of Sharia law principles in their communities. If there are a lot of adherents, some careful and respectful marketing and an explanation of rent-to-own, U.S. style, might bring some more business into the store.

Of course, if the Islamofascists, who insist on strict compliance with Sharia law worldwide, finally win the war on terror and Americans either bow their heads to Mecca every day or have them cut off, the rent-to-own business in the U.S. stands to get very, very big, indeed. In the meantime, a better understanding of Sharia law in markets with lots of Muslims might spur deliveries. ■

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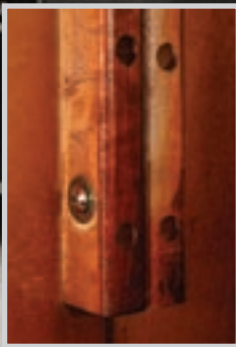
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