INSTALMENT SALES OF HOUSES

Q: 18: "The Fiqh Academy has also allowed installment sales. Does this mean that I can now buy a house in UK on USA on installments bearing in mind that each installment includes repayment of principal" and "interest".

A: Sale on installment should never be confused with a transaction of interest bearing loan. In a sale transaction subject matter of contract is a commodity which should necessarily be owned by the seller at the time of sale and should be in his possession. But in the case of loan the subject matter of the transaction is money which is advanced to the borrower. The house financing schemes generally practiced in the Western countries are based purely on interest. The banks advance money for the purchase of the house and charge interest on it. The house is mortgaged as a security for the repayment of loan. This transaction has nothing to do with a transaction of sale on installments. The house is never purchased by the bank, nor does the bank sell the house to the customer. The customer purchases the house from a third party and owes its price to him. The bank comes in only to finance the buyer on the basis of interest. Therefore, this transaction is a riba transaction which is strictly forbidden and cannot be justified on the presumption that it is a transaction of sale on installments.

However, if the seller himself sells the house on installments and charges a price higher than the cash price, or the bank itself purchases the house from the seller, and after having its ownership and possession resells it at a higher price to the customer on installments, the transaction may be valid in Shariah, if the necessary conditions of sale are fully observed as mentioned in the resolution of the Fiqh Academy. But the transaction generally in vogue in the Western countries is not based on the concept of sale. It is an interest transaction pure and simple, and a Muslim is not allowed to enter into such transactions.

It is thus clear that your understanding of the resolution of the Fiqh Academy is not correct.

Contemporary fatawaa