

# [Lease to own in islamic countries](https://assignbuster.com/lease-to-own-in-islamic-countries/)

IJARAH – (Lease to Own) In mode of financing, lease is simply a transaction in which transfer of a property from one person to another person for an agreed time period on rental basis. Ijarah is an Islamic leasing contract, representing one of the most common modes of Islamicfinancecurrently practice. Its popularity is due to strong parallel to convential leasing concept. The process of ‘ Ijarah’ is very simple and easy to understand. This has been derived from the Arabic term " Ujr" or " Ujrat" which means 'consideration' or 'return' or 'wages'.

In simple words ‘ Ijarah’ defines; contract of hiring, renting and leasing. This mode of financing is use in case of equipment as well as property. This mode of financing is better for both lessee and lessor. According to Islamic Shariah based rule, Ijarah is an agreement between the two parties (Lessor and Lessee. In this mode of financing; an owner (Lessor) transfers its usufruct to Lessee for an agreed time period on contract basis. In return, lessee obligation is to pay specific rent or rental for a fixed period. Period of lease and rental determined at the time of agreement.

In Pakistan, this mode of transaction gained popularity to purchase car. Several products have been introduced by banks and institution to facilitate customers and provide car on affordable prices and rental prices. Key words 1. The Lessor (Mujjir) - The individual or organization who leases out/rents out the property or service is called the Lessor. 2. The lessee: (Mustajir) - The individual or organization who hires/takes the lease of the property or service against the consideration rent/wages/remuneration is called the lessee (Mustajir). . The Benefit (Maajur) - The benefit that is leased/rented out is called the benefit (Maajur). 4. The rent (Aj'r or Ujrat) - The consideration either in monetary terms or in quantity of goods fixed to be paid against the benefit of the goods or service is called the rent or Ujrat or Aj'r. Some important aspects of Ijarah Financing • Subject of lease should be clearly defines in the agreement with the mutually understanding of the both parties. • At the time of Ijarah transaction, asset or equipment in the ownership of the lessor. Only consumable items are permissible to lease out. Non consumable items are strictly prohibited to lease out. Example: Money, Wheat. E. g • Duration of lease must be mentioned clearly in the agreement. • Lessee acts as an ‘ Ameen’. In case of any damage to asset will be borne by the lessee. On the other hand, any other loss or harm outside the control of the lessee, lessor is liable. • Rent should be known at the time of contract. The lessor can not increase the rent unilaterally. Rent will start after the delivery of the asset. Process Flow 1.

In first step customer find the bank with the request for financing and enters into an agreement with the bank. 2. The Bank buys an item (car or equipment) from the vendor. 3. Bank takes delivery of the car and title of ownership from the vendor. 4. The bank makes payment to vendor. 5. The bank signs the agreement of lease with the customer and transfer usufruct. 6. The customer makes periodic rental payment as per the contract. 7. According to the agreement, at the time of maturity customer can purchase the asset from the bank with the help of separate agreement.

Only Difference 1. In sale transaction, title of property usually transferred to buyer. 2. But in case of Ijarah, title remains with the lessor. 3. Only the use of the property is transferred to the lessee. 4. Lessee pays rent to the lessor as per as the agreement. 5. At the time of maturity bank signed another agreement with the lessee and lessor gift the asset to the customer. After this transaction, lessee becomes the owner of the asset. This practice is known as “ Ijarah – Wal – Iqtina “ Basic Elements of Ijarah Agreement

According to Shariah, there are three general terminology used for Ijarah agreement as follows: 1. Wording of the agreement: Offer and acceptance word must be included in the agreement. 2. Contracting Parties: This includes a Lessor, the owner of the property, and a lessee, the party that benefits from the use of the property. 3. Subject matter of the contract: This includes the rent and the benefit. Rent Calculation 1. Islamic banks calculate the cost of purchasing the asset that is to be leased and intend to earn an amount equal to the rate of interest. . Agreement between the parties provides that the rental will be equal to the rate of interest or in addition to something. 3. While the rate of interest is variable, it cannot be set for the whole duration of the lease. 4. It is permissible to divide the cost price of the Asset and ownership of the Lessor to the Asset into several parts and to sell each part of ownership on payment of proportionate price/equity of the Lessor under a separate sale contract.