



Clarification of Shariah Accreditation (Fatwa) for the DBP

Note of the SSB that Adjustable-Rate Mortgage (ARM) is Shariah Compliant

UIF Corporation

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Clarification of Sharia Accreditation

The Shariah Supervisory Board for UIF Corporation (SSB) is engaged to review financial products and services developed by UIF Corporation. On the 15th of June 2020, the SSB has signed the Certificate of Shariah Accreditation (Fatwa) for Declining Balance Partnership (DBP). The SSB was led by the late Chairman Prof. Hussein Hamed Hassan, Ph.D. (1932-2020) and the current Chairman Sheikh Nizam Yaquby, Ph.D. as the Vice-chairman.

Basis for Shari'ah Accreditation

Shari'ah Standard No. 9, articles (5/2/3) of the Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI):

"In case the rental is subject to change (floating rental), it is necessary that the amount of the rental of the first period of the Ijarah contract be specified in lump sum. It is then permissible that the rentals for subsequent periods be determined according to a certain benchmark. Such benchmark must be based on a clear formula which is not subject to dispute, because it becomes the determining factor for the rentals of the remaining periods. This benchmark should be subject to a ceiling, on both maximum and minimum levels".

Appendix (B) The Shari'ah Basis for the Standard states the following:



- The basis for the permissibility of using a certain benchmark or price index to determine rentals of subsequent periods after the expiration of the first period of an Ijarah contract is that the rentals will subsequently be known. This is similar to the principle of Ujrat al-Mithl (prevailing market rate of rental) and does not lead to dispute. Again, using a benchmark to determine the rentals is to the benefit of all parties since there is possibility of rental fluctuation that may be in favour of either the lessee or the lessor in view of the fact that the contract remains binding on both parties throughout its term.
- The basis for the permissibility of restructuring the rentals for the future periods is that such an act is deemed to create a new contract for a new term for which the rentals are not yet due. Hence, the rentals are not regarded as a debt, in which case the prohibition of rescheduling rentals in return for higher payment is not applicable to this. However, increasing previously agreed rentals in exchange for deferred period of payment is a form of Riba.

Sharia Accreditation

ARM programs used in the DBP are Shari'ah compliant because they comply with conditions required for our Shari'ah approval.

May Allah's peace, mercy and blessings be upon you.

Sheikh Nizam Yaquby, Ph.D.
Chairman of the SSB

Abdulbari Mashal, Ph.D.
The Executive Member of the SSB

Mufti Abdullah Nana
Member of the SSB

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