

## Student Loans in the Scale of Shari'ah

Muhammed Sackor

Creighton University, Omaha, United States



DOI : <https://doi.org/10.61796/ijmi.v2i2.321>



### Sections Info

#### Article history:

Submitted: January 15 , 2025  
Final Revised: February 10, 2025  
Accepted: April 15, 2025  
Published: April 16, 2025

#### Keywords:

Islamic finance  
Student loans  
Riba (interest)  
Shariah compliance  
Muslim education financing

### ABSTRACT

**Objective:** This study investigates the socio-economic challenges faced by Muslim families in the U.S. due to the interest-based student loan system, which conflicts with Islamic principles that explicitly prohibit *riba* (interest). **Method:** A comprehensive analysis of the student loan crisis in the U.S. is conducted, incorporating recent data and examining contemporary Islamic scholarly views on the permissibility of student loans. **Results:** The findings reveal that the existing student loan system imposes significant financial burdens on Muslim families and graduates, highlighting the growing dilemma of balancing religious principles with educational and economic needs. The paper also identifies alternative financial models that align with Islamic teachings. **Novelty:** This research contributes to the ongoing discourse on Islamic finance by providing a critical examination of the student loan system in the U.S. through the lens of Islamic law, offering practical recommendations for Muslim communities to address this issue in the future.

## INTRODUCTION

Immoral and unethical transactions, such as loans that accrue interest, are condemned in Islam. The core values and principles of Islamic finance emphasize a unique, fair trading system that promotes equitable wealth distribution, prioritizes societal welfare, and encourages moderate spending. In contrast, the Western system of interest-bearing loans is often viewed as exploitative, as it burdens the less fortunate while benefiting elite capitalists. As noted by Hossain (2009), "There is consensus among all Islamic scholars regarding the prohibition of interest [1]. On the other hand, the modern banking system is entirely based on interest, and therefore its practices conflict with the principles of Islam." Within the Western banking system, interest on principal is pervasive, including in student loan programs. This interest-based model has financially destabilized millions of U.S. college graduates, as the rising interest rates on loans make it increasingly difficult for many students to meet their repayment obligations [2].

Interestingly, the U.S. student loan program has been identified as one of the four major economic bubbles poised to burst. Over 44 million Americans currently carry student loan debt, with the average amount for graduating students exceeding \$35,000. Senior economists argue that the student loan crisis has become so severe that it can no longer be overlooked by Federal Reserve analysts. Between 2000 and 2014, the total volume of federal student loan debt nearly quadrupled, surpassing \$1.1 trillion. During this period, the number of student loan borrowers more than doubled to 42 million, while default rates among recent borrowers hit their highest levels in 20 years [3]. This surge in debt, defaults, and growing concerns over the impact of student loan burdens on young

Americans' lives has contributed to the widespread belief that a student loan crisis is unfolding (Looney, 2015). The repayment structure of student loans has become a significant barrier for college graduates, including Muslim youth, particularly due to inadequate administrative processes that result in miscalculations of fees and interest. These challenges have exacerbated stress and anxiety among the new generation of Americans [4]. According to the Pew Research Center, "Despite research indicating that these borrowers are more likely to encounter distress, the system does not facilitate targeted, timely outreach to them and presents administrative barriers that can prevent them from selecting, enrolling in, and succeeding with appropriate repayment plans." As a result, the student loan program has become a source of distress, anxiety, and overwhelming debt for many college graduates, including Muslims.

This paper examines the fatwas and Islamic rulings issued by contemporary religious scholars regarding the student loan crisis. It also explores the significant socio-economic consequences of this program on Muslim families in the U.S. and other Western nations. Additionally, the paper presents alternative resources available to Muslim students in the U.S. to help finance their education. Notably, a few grassroots national organizations are offering interest-free Islamic student loan models based on merit and community activism. For example, A Continuous Charity (ACC), a Texas-based organization, plays a crucial role in providing interest-free educational loans to Muslim youth. The paper concludes with effective and comprehensive recommendations aimed at helping Muslim students avoid conventional student loans while pursuing higher education.

#### Background & Pretext for the Discussion:

An essential Islamic maxim frequently referenced by jurists is that ruling on an issue comes after understanding and perceiving it. Therefore, it is crucial to first understand the nature and classification of conventional student loan programs in order to arrive at a reliable and comprehensive ruling on this matter. According to Bankrate, "A student loan is a type of financial assistance designed to help students pay for school-related fees, such as tuition, school supplies, books, and living expenses". The importance of addressing this issue is underscored by the alarming statistics that highlight the growing financial burden on American college graduates. "Current student loan figures are startling: 44 million Americans are in repayment for \$1.5 trillion in outstanding student loans, a total debt size that's tripled since 2005". In addition to commercial loans, there are several types of federal student loan programs, including Perkins, Stafford, and PLUS loans. These loans can be broadly categorized into two main types: (a) subsidized loans and (b) unsubsidized loans.

- a. An unsubsidized loan, as defined by the Department of Education (DoE), is "a loan based on financial need for which the federal government generally pays the interest that accrues while the borrower is in school, in a grace period, or in deferment, and during certain periods of repayment under specific income-driven repayment plans". From an Islamic perspective, this type of loan is not inherently prohibited, but the prohibition on interest could be avoided under

certain conditions. Specifically, if the borrower repays the loan during the grace period, there would be no interest accrual, making the contract not problematic from a Shariah viewpoint. However, if the borrower defaults on the repayment, interest will begin to accrue, which is when the sin associated with the loan takes effect.

Dr. Main argues, "The loan contract, in this case, is not prohibited for its purpose since it is possible for the student to settle the debt within the six-month period. Therefore, the prohibition is related to a means that could lead to prohibition, and the contract is prohibited due to another aspect, not the contract itself" (Reality of Ruling, Main).

It is also important to consider the views of renowned contemporary scholar Sheikh Yusuf Al-Qaradawi. He explains the flexibility within Shariah, particularly when a need or benefit justifies an otherwise impermissible action. He states, "What is prohibited in itself becomes permissible under necessity, whereas what is prohibited due to external factors turns permissible by a need or considerable benefit" (Al-Qaradawi, 2008). In this case, the pursuit of education for the betterment of Muslim society is of utmost importance. If financial constraints prevent achieving this goal and no permissible alternatives are available, then a Muslim may resort to the subsidized loan program as a means of financing their studies, provided this is done with the intention of fulfilling a necessary need.

- b. An unsubsidized loan is defined as "a loan for which the borrower is fully responsible for paying the interest regardless of the loan status. Interest on unsubsidized loans accrues from the date of disbursement and continues throughout the life of the loan". This type of loan is strictly prohibited in Islam due to the concept of *Tahrim li zatih*, meaning the impermissibility stems from the nature of the loan itself, rather than external factors. Unlike the subsidized loan, where the prohibition can be avoided under certain conditions (such as repaying within the grace period), an unsubsidized loan involves interest that accrues from the outset, making the loan inherently impermissible. By entering into such a contract, the act of sin begins immediately, as the loan itself is intrinsically linked to interest.

Basic Concepts for Comprehension:

- a. Interest-bearing loans, including student loans, are prohibited in Islam according to Islamic jurisprudence. Allah says in the Qur'an: "O you who believe! Be afraid of Allah and give up what remains of Riba (usury), if you are indeed believers" (2:278). The prohibition of Riba is emphasized in the legal tradition of the Prophet Muhammad (S). Imam Bukhari reports from Abu Juhaifah that the Prophet (S) forbade taking the price of blood, the price of a dog, the earnings of a prostitute, and cursed both the one who takes or gives Riba (usury) and the woman who tattoos or gets tattooed, as well as the picture-maker (Sahih al-Bukhari, Vol. 7, Hadith No. 845). This Hadith

underscores the severity of engaging in interest-based transactions, marking them as harmful and sinful.

- b. Based on this premise, a Muslim is not allowed to engage in any Riba (interest) transaction, including student loans.
- c. However, scholars permit the use of interest-bearing loans only in cases of necessity. While education in the West is important, it does not necessarily qualify as a necessity in the Islamic sense. This is because a Muslim can still pursue success and fulfill their dreams without attending or graduating from college. Therefore, anyone considering taking a student loan for educational purposes must first exhaust all permissible alternatives, such as scholarships, part-time jobs, internships, or qard hassanah (interest-free loans). A Muslim should only resort to a student loan if no other viable options are available. In such a case, the person is considered to be in a state of necessity, which is covered by the Islamic maxim, "Necessity can make the impermissible permissible."

However, this maxim should not be misused or taken lightly. The individual must first consider subsidized loans to the fullest extent possible and repay them during the grace period to avoid interest accumulation. Only after exhausting this option should the person consider taking an unsubsidized loan. A righteous Muslim, in such a situation, should feel a deep sense of remorse and continually seek forgiveness from Allah for using an interest-bearing loan to fund their education.

Islamic Rulings and Opinions of Contemporary Scholars:

Dr. Main issued a fatwa in June 2010 regarding the use of interest-bearing loans for education, stating that it is forbidden to use such loans to finance one's studies [5]. He emphasizes that Muslim students should be encouraged to seek alternative means of funding their education to avoid the sin of paying interest. However, Dr. Main also acknowledges that if no alternatives exist, and interest-based loans are the only way to begin or continue university education—or to meet the Muslim community's need for certain professions and expertise—then this may be considered an urgent necessity that removes the sin, though the impermissibility remains. This exception is allowed as long as the individual is not an aggressor or transgressor and continues to seek permissible alternatives, aiming to break free from interest-based loans as soon as possible in order to minimize the amount of interest paid [6].

Similarly, Mufti Muhammad Zubair Butt of Al-Qalam shares Dr. Main's viewpoint, declaring that current student loans (as of 2013) amount to riba and are therefore prohibited, as the lender demands an increase based on inflation [7]. Additionally, Muhammad Ibrahim Khan of Oxford University supports this stance, stating, "In our view, a student loan is still a loan, with the following characteristics: it is called a loan, interest is charged, and the amount owed compounds over time" [8].

However, there is a second opinion, particularly among contemporary scholars in the UK, led by Sheikh Haitham. Some scholars from the European Council for Fatwa and Research also share this view, arguing that student loans are permissible under certain

conditions. They explain that there is no interest involved in student finance loans, and therefore, they do not meet the exact definition of *riba* as understood during the time of the Prophet. They base their argument on several points:

- a. The loan is not directly given to the student, and they cannot use it as they wish.
- b. The loan is written off after 25 or 30 years.
- c. The loan is cancelled if the borrower becomes permanently disabled.
- d. The loan is cancelled upon the borrower's death. (5)(6)

Thus, there are two opposing views on the permissibility of student loans, each based on legitimate and reasoned interpretations of Islamic principles.

## RESEARCH METHOD

This study employs a qualitative research approach, analyzing existing Islamic rulings (fatwas) and scholarly opinions regarding the permissibility of student loans under Islamic law. The research is supported by recent socio-economic data concerning the U.S. student loan crisis, examining the impacts of interest-based loans on Muslim families [9]. Key perspectives from contemporary Muslim scholars on the permissibility of interest-bearing student loans are explored, alongside the evaluation of alternative financial models that adhere to Islamic principles [10]. Additionally, the study draws from case studies and initiatives by grassroots organizations providing interest-free loans, offering insights into potential solutions for Muslim students. The methodology involves a review of literature, fatwas, and relevant data, providing a comprehensive understanding of the issue from an Islamic finance perspective [11].

## RESULTS AND DISCUSSION

Dr. Main explains in his book *Interest-Bearing Transactions in the US* that Muslim students must first exhaust all permissible (halal) avenues to finance their studies. He advises students to explore options such as student grants, scholarships, academic fellowships, financial aid, and any other means available. If a student can reduce their credit hours per semester and work alongside their studies, they should consider this. Additionally, if they can find an individual or organization offering an interest-free loan, that should be pursued. Only if none of these alternatives are feasible should the student consider a subsidized federal loan, and they should only take the amount necessary to cover their immediate needs (Main, 2018). Based on this well-crafted fatwa from Sheikh Dr. Main, it is clear that student loans are prohibited in Islam and can only be considered under necessity. However, Muslims must first make every effort to find permissible options before resorting to loans, with the subsidized loan being the last resort. Furthermore, they must work diligently to pay off the loan on time to avoid accruing compound interest.

Websites and organizations, such as Continuous Charity (2014), Debt-Free Muslims (2014), the Islamic Society of North America (2013), and Unus (2012), advise

Muslims to pay off their loans before interest accrues, consider taking a year off to work during college, or even forgo higher education altogether if necessary.

A writer at Debt-Free Muslims addresses the dilemma of borrowing a large sum, such as a quarter million dollars, to pursue a medical school dream. In response, the author states, "I'm not against anyone going to medical school, but I am against making rash decisions that carry financial consequences, putting someone behind for years. I'm also against taking such a major sin lightly, all in the name of assuming that medical school is somehow a birthright necessity, and that without it, and one cannot have a stable job or above-average income." This reflects the serious financial and moral implications of student loans, as the staggering current data on student loan delinquency demonstrates the long-term consequences of poor financial decisions.

#### Reality & Solutions:

Education is often considered the great equalizer and a key to success. As Horace Mann, the pioneering American educator, once said, "Education, then, beyond all other devices of human origin, is a great equalizer of the conditions of men – the balance wheel of the social machinery [12]." In the context of American Muslims, education is essential, and with the growing Muslim population in the U.S., addressing the student loan crisis has become a pressing concern. In an era of increasing technological advancements and fierce competition, Muslim leadership in the U.S. must actively engage in finding long-term solutions to this issue. "US Muslims are predicted to represent 2 percent of the population by 2040, a growth of more than 100 percent from approximately 2.5 million at present" (Skirbekk, Kaufmann, Goujon, 2010; Smith, 2001). By creating a Shariah-compliant, interest-free student loan program, Muslim youth would have the financial relief needed to excel and contribute positively to their communities, much like their Jewish counterparts.

For example, in the UK, Muslim students face similar challenges regarding student loan repayment [13]. The demand for interest-free student loans by Muslims in the UK reflects the potential demand in the U.S. "Neither country currently offers Islamic student loans, but both the UK and U.S. governments provide extensive higher education funding" [14]. Muslim leadership in the U.S. must respond by designing a Shariah-compliant financial model that could serve as an alternative to conventional student loans [15]. In fact, Islamic financial institutions around the world, such as the Islamic Development Bank (IsDB), have proposed and implemented such solutions. For instance, "In response to growing student debt and in line with Islamic principles of avoiding interest, The Islamic Society of North America (ISNA) and the Islamic Development Bank created a unique interest-free loan option for college students. The loans are offered as \$15,000 annual scholarships for students enrolled in medical sciences or engineering. These funds are repaid by students, without interest, to the scholarship fund in installments, thus replenishing the fund for future loans" (MuslimLink, 2012). Efforts like those of the ACC have similarly contributed to an increase in the number of educated Muslims, positively impacting their communities.

## CONCLUSION

**Fundamental Finding** : This study finds that conventional student loans, due to their interest-based nature, are impermissible under Islamic law, and Muslim students are urged to explore all halal alternatives before resorting to them. **Implication** : The findings underscore the need for Muslim communities, particularly in the U.S., to develop and implement Shariah-compliant financial models to support higher education without incurring interest-based debt. **Limitation** : One limitation of this study is the lack of comprehensive data on the effectiveness and reach of existing alternative financial models, which may vary across different regions and communities. **Future Research** : Future research should focus on evaluating the viability and impact of interest-free financial models for education within Muslim communities, exploring case studies, and assessing how these alternatives can be scaled to address the growing student loan crisis.

## REFERENCES

- [1] C. Eyerci, "Basics of Islamic Economics and the Prohibition of Riba," in *The Causes and Consequences of Interest Theory*, Springer International Publishing, 2021, pp. 87–130. doi: 10.1007/978-3-030-78702-8\_6.
- [2] F. Haziri and S. Berisha, "Interest Rates on Deposits and Loans: Kosovo Banking System 2012-2015," *SSRN Electronic Journal*, 2017, doi: 10.2139/ssrn.2997363.
- [3] L. M. Cornelius and S. A. Frank, "Perspectives on Student Loan Debt Levels: Student Loan Debt Levels and Their Implications for Borrowers, Society, and the Economy," *Educational Considerations*, vol. 42, no. 2, Apr. 2015, doi: 10.4148/0146-9282.1052.
- [4] A. Looney and C. Yannelis, "A Crisis in Student Loans?: How Changes in the Characteristics of Borrowers and in the Institutions They Attended Contributed to Rising Loan Defaults," *Brookings Pap Econ Act*, vol. 2015, no. 2, pp. 1–89, 2015, doi: 10.1353/eca.2015.0003.
- [5] F. Kirana Khiba and S. U. Ady, "Financial Literacy, Risk Perceptions, and Consumptive Behavior on Interest in Using Online Loans," *JOURNAL OF ECONOMICS, FINANCE AND MANAGEMENT STUDIES*, vol. 06, no. 11, Nov. 2023, doi: 10.47191/jefms/v6-i11-07.
- [6] J. D. Bleich, "Hetter Iska, the Permissible Venture: A Device to Avoid the Prohibition Against Interest-Bearing Loans," Dec. 2010, *Oxford University Press*. doi: 10.1093/oxfordhb/9780195398625.013.0010.
- [7] H. Hamzah, A. Zubair, and S. Satriadi, "THE RELEVANCE OF THE BUGINESE LOCAL WISDOM VALUES TO RELIGIOUS MODERATION," *Al-Qalam*, vol. 29, no. 1, p. 185, Jun. 2023, doi: 10.31969/alq.v29i1.1173.
- [8] B. Hoyt, "How Student Loan Interest Actually Works: (509412018-001)," 2017, *American Psychological Association (APA)*. doi: 10.1037/e509412018-001.
- [9] Y. Ilham and M. Nasrun, "GOLD LOANS AT ISLAMIC BANK AMANAH SYARIAH BASED ON THE PERSPECTIVE OF ISLAMIC ECONOMIC LAW," *JURISTA: Jurnal Hukum dan Keadilan*, vol. 6, no. 2, pp. 154–172, Dec. 2022, doi: 10.22373/jurista.v6i2.64.
- [10] R. Fahmi. and P. Aswirna, "Students Perception on Islamic Psychology and Interest of The Issue on Contemporary Civilization," *Proceedings of Annual Conference for Muslim Scholars*, vol. 6, no. 1, pp. 79–97, Apr. 2022, doi: 10.36835/ancoms.v6i1.337.

- [11] M. Faustina Q QuimsonCister, "Supporting Teachers in Providing Effective Teaching Reading Literacy: Insights from Literature and Studies," *International Journal of Science and Research (IJSR)*, vol. 11, no. 3, pp. 189–191, Mar. 2022, doi: 10.21275/sr22302140053.
- [12] J. Sawyer, "Overcoming Obstacles on the Education Staircase: Transforming Education Beyond Adequacy to the Great Equalizer," in *AERA 2023*, in AERA. AERA, 2023. doi: 10.3102/ip.23.2010995.
- [13] J. Brownstein, "Student Loan Repayment Plan Choice Pilot Survey," Jan. 2020, *American Economic Association*. doi: 10.1257/rct.5302-1.0.
- [14] R. Azuero and D. Zarruk Valencia, "The Effects of Student Loans on the Provision and Demand for Higher Education," *SSRN Electronic Journal*, 2017, doi: 10.2139/ssrn.3066083.
- [15] A. K. N. Iman and A. Samsuri, "Cryptocurrency; Financial Risk And Shariah-Compliant Alternative Concept," *Equilibrium: Jurnal Ekonomi Syariah*, vol. 10, no. 1, p. 109, Jun. 2022, doi: 10.21043/equilibrium.v10i1.13278.

---

**\* Muhammed Sackor (Corresponding Author)**  
Creighton University, Omaha, United States  
Email: [msackor@icomaha.org](mailto:msackor@icomaha.org)

---