

HECS

SIMPLICITY

The HECS clearly spells out that it is an interest-free loan to students which they are required to pay when they are able to earn more than \$50K a year. The HECS loan in Australia is different to student loans in US or other countries which are straight loans from banks and involves interests.

COMPLEXITY

The catch in HECS is that the government however adjust the outstanding loan amount every year to take into account the inflation or CPI (Consumer Price Index) in the country. By rights, because the government is taking more money than the principal amount loaned out means it is incorporating "Riba" (Interest) hence the HECS may not be permissible for Muslim students.

PERMISSIBILITY

The fact that a Muslim student is entering into a contract which clearly says "interest-free" loans yet the lender applies the CPI indexation is like putting in annual loan maintenance fees or services charges etc nonetheless it's a mechanism to protect the value of money loaned out by government as against an interest based loan by banks or financial institutions which incorporates this CPI to keep value of money intact with inflation plus money-making for the lender ie Interests, the student has little choices to exert pressure on government asking them to take out even this CPI adjustment on the loan which is in fact making the loan arrangement "Haram" (Forebidden) reason being the CPI adjustment which allows government to get back more money than the original amount loaned out leads to Riba implication whereas the government's stand is they are not getting more money than the original amount loaned out because the value of the money deteriorated over the time of loan so they are only using CPI indexation to protect the value of the amount loaned out but from Islamic point of view it will be "Haram". Only Allah knows best from a laypersons point of view he/she getting into an interest-free contract with some financial pegging to keep the value of the value of the money loaned out by lender intact.

TIME VALUE OF MONEY

The essence of loaning out an amount and getting back the same amount (say) after a year and losing the value of the money by (say) 5% keeps the loan halal. The fact in Islam is you shouldn't mind losing 5% value of money when you get the loan back after a year because had it been with in your vault or under the bed for a year you would have lost the value of it by 5% anyway, in this case when you loaned out you helped someone. Others may argue you can put money in bank and get interest and protect the value of the money which then becomes Haram for a Muslim and yes had you done some business then you could have earned 5% or more or you could have lost 5% or more which then makes your 5% gain as Halal as you converted the money into goods or services and have undertaken certain degree of risk.

RIBA (INTERESTS) AND BIYA (TRADING)

Government while giving out HECS is giving out "interest free" loans to student is trying to safeguard the value of the loan given out which then casts doubt that the lender is trying to get back more money than the principal amount which then makes it a Riba proposition on the other hand because the government is not try to benefit from HECS and only safeguarding their original amount hence adjust as per CPI but from an Islamic point of view the lender is trying to get more money than original principal amount because Riba is actually trying to make money without converting the money into goods and services if you do convert money into goods and services then you are Trading and the money that you make is Halal because you take risk in converting the money into goods and services

Banks or Financial institutions lending is always backed by some form of collaterals and they take absolutely zero risk hence the interest they charge has built in CPI plus money making for them

RISK MANAGEMENT OF HECS BY GOVERNEMENT

Government lending out HECS loan on the other hand are investing on Human Resources and taking risks as many students won't work and many would work but may not be earning more than the threshold earnings that triggers HECS repayment and at the end many would die without paying back their HECS and Government has no collaterals from students to sell off and get their loaned amount back like as in mortgage. Even if a student inherits a house worth millions of dollars but he/she not earning the government can never force the student to pay back the loan yes if he/she want to return the loan on their own it's a different story so there is certain degree of risk Government is taking to loan out HECS and is doing because the government wants the men and women of the country to be better educated hence the CPI adjustment while it's more money than original principal amount loaned can be considered as money being made while converting the money into services of providing education simulating a trade or business undertaking certain degree of risk mentioned above hence making the CPI indexation more like "profit" in a trade than demanding a straightforward Interest and the government is making sure it's an Interest-free loan. A mufti is better placed to remove the doubt present in HECS that is making it "Haram" due to CPI indexation. A similar connotation can be used to justify banks and financial institution offering mortgages and the Interest they charge as "Profit" making mortgages 'Halal' but this may not be simply true as in mortgages the contract clearly spells out "Interest" whether it be Fixed or Variable plus it engages the house as collaterals to make their investment absolutely risk free. It is simply a way of making money by money without converting it into goods or services which involves risk hence forbidden in Islam.

GOING FORWARD

As Muslim we should pursue the matter with the government to make them understand how even though HECS is an Interest-free loan casts doubt of it becoming Haram (forbidden) for Muslims because of the simple fact this CPI indexation is allowing government to get more money than the original amount loaned out.

The Muslim population is hardly 2.5% in Australia and assuming the Muslim tertiary students taking out loans is in proportion to the Muslim demographics means there will be only 2.5% HECS that need to be free of CPI indexation. This is not a huge number of HECS and this is not discriminatory as the government is trying to respect the sensitivities of Muslims trying to get HECS ensuring that it is "Halal" as it is Interest-free and also CPI pegging free.

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