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بسم الله الرحمن الرحيم

5th Sha'ban 1442

19th March 2021

As-salāmu 'alaykum wa-rahmatullāhi wa-barakātuh.

RE: Zero Mortgage Final Fatwa

The Darul Iftaa has been in contact with Zero Mortgage since December 2017. At the time, Mufti Ebrahim Desai Saheb's name was erroneously being used in promoting their product. A concerned individual forwarded the contracts to the Darul Iftaa. The Darul Iftaa concluded the product was not Shariah compliant. The management contacted Mufti Ebrahim Desai Saheb to assist and review the product. The discussions lasted for over a year. However, in view of the complexities involved, it was concluded to suspend communication until a time the Zero Mortgage management could visit the Darul Iftaa.

In the interim, Zero Mortgage requested that the task be assigned to Mufti Saheb's Canadian representatives to expedite the process. Mufti Mirza-Zain Baig and Mufti Hammad Jogiat were assigned to deal with Zero Mortgage. They were initially in contact with Maulana Nabeel Khan. While in Toronto, they met with Brother Omar Kalair and Brother Awais Surahyo from the Zero management, and local scholars. After holding multiple meetings in person, it became clear that the concerns of the Darul Iftaa could not be addressed by the management or local scholars. It was mutually decided that the Darul Iftaa would draft its concerns in a document to be presented to the Shariah board members.

On December 3rd 2020, the Darul Iftaa sent an official correspondence outlining the concerns regarding Zero Mortgage's product. The Darul Iftaa requested a written response from the Shariah board on their respective letterheads bearing their signatures. It was a reasonable request to ensure academic integrity.

Unfortunately, one-hundred and six days later we have not received any response from the Shariah board. Throughout our waiting period, we allowed Zero Mortgage reasonable time to organize a response. We initially set a **fourty-six** day deadline. Zero Mortgage did **not** respond or follow up with the Darul Iftaa throughout this time. Once the deadline had passed, we sent the management an email to terminate our correspondence. The management responded asking for some time to respond. We accepted and gave them some more time. This occurred repeatedly and we have not received a response from the Shariah board till now.

The Darul Iftaa serves over 100 countries worldwide. Our services are gratis for the sake of Allah. Hundreds of hours have been spent dealing with Zero Mortgage. The Darul Iftaa continues to receive questions on a weekly basis regarding Zero Mortgage. We have a duty to the public to respond to those concerns. Given this duty, we can no longer delay. Hence, we are releasing this statement to the public. We have outlined in detail our concerns and have explained thoroughly our standpoint. Keeping with academic honesty, we have listed the questions posed to the Shariah board and we have added our reasonings for raising such questions. We ask the readers to read the following in a constructive way.

We were provided with the following documents for our review:

1. Musharakah Home Financing Agreement
2. Mortgage Commitment
3. Solicitor Instructor Package
4. Standard Charge Terms
5. Corporate Agreement

This statement will address the following points:

1. A comparison between Guidance Residential and Zero Mortgage,
2. Questions addressed to the Shariah board,
3. Our view and concluding remarks.

Comparison

The Darul Iftaa was informed in our meetings that Zero Mortgage follows Guidance Residential's model of financing. The Darul Iftaa was told that we could not understand Zero's model until we had looked into Guidance Residential. In fact, one of our email correspondences contained a recommendation to study Guidance Residential and their procedure. Nevertheless, we were able to get a hold of Guidance Residential's contracts. We have analyzed both contracts and have discussed below where they are similar and where they differ. We have attempted to be as accurate as possible. As such, we have consulted the official websites of these companies. Furthermore, we have contacted U.S. based Muftis who have purchased their homes through Guidance to also understand the Guidance model better.

We note that not all differences between the two companies warrant a Shar'i issue. Therefore, this chart is solely meant to highlight some differences. In the next section, we will elaborate on the potential issues that manifest from these differences.

Comparison between Guidance Residential and Zero Mortgage		
Item	Guidance Residential	Zero Mortgage
Mode of Finance	Diminishing Musharakah	Diminishing Musharakah
Source of Funding	Conventional	Conventional
Name of Funding Institution	Freddie Mac	CMHC Approved lender
Legal Status of Funding Institution	Government sponsored enterprise that operates in the secondary mortgage market by providing liquidity to lenders so that money can continue to flow. Freddie Mac in all cases does not ever directly provide loans to borrowers. However, they buy loans from different lenders. [i]In Guidance's case, Freddie Mac purchases their equity share once Guidance has entered into a co-ownership agreement.	Mortgage lender and servicer. Primary business is to lend money to clients. The funding institution working with Zero Mortgage has received lender status from the CMHC.[ii]
Legal Status of Islamic Institution.	Licensed Mortgage banker, servicer, and lender. (NMLS#2908)[iii]	Referral Institution/Mortgage Broker[iv]
Does the institution handle the funds?	Yes, Guidance Residential is the party advancing the funds. According to the government, Guidance Residential is providing the financing.	No, Zero Mortgage is an intermediary between the client and lender. Zero is not providing any lending. The lender according to the government is the bank.
Who is registered as the lender?	Guidance Residential is the lender. Freddie Mac provides liquidity and Guidance in turn advances the funds to the client.	The funder.
What is the relationship	The client does not deal directly	On closing, among the

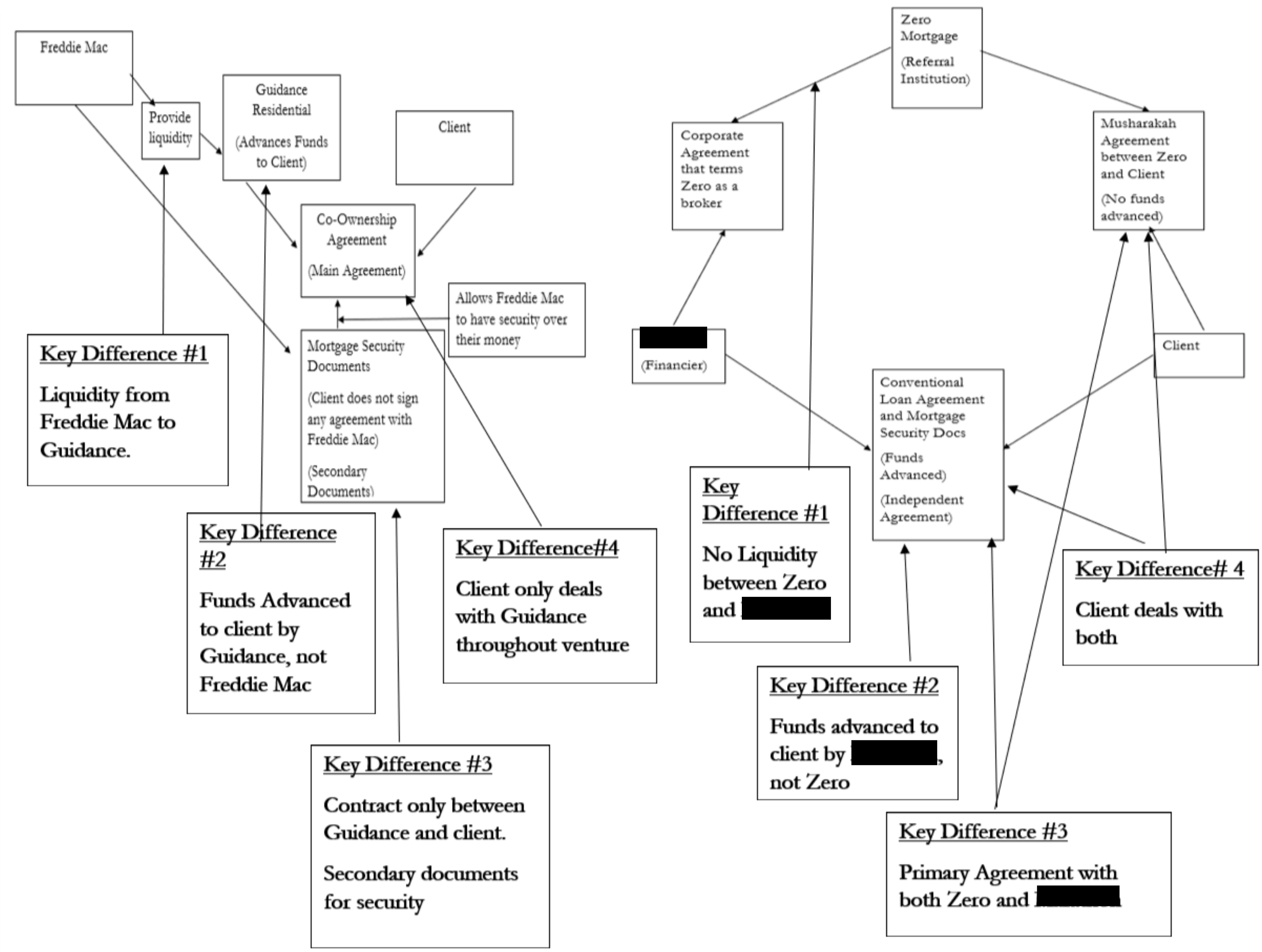
between the client and Freddie Mac/Lender?	with Freddie Mac. Guidance Residential assigns their mortgage (rahn) rights to Freddie Mac. This is so that Freddie Mac has a lien over the property and that the government is aware the avenues the money is being invested. Note: There is no loan agreement between any of the parties. The client does not sign any loan agreement with Freddie Mac. The security documents are secondary documents.	documents, the client proceeds to sign a **conventional loan** document. Thus, in the government's perspective, the funder is providing the client a loan. Note: The government requires that the financing be set out in the form of a contract. That is already being achieved through the first agreement. However, specifically signing **a loan agreement** is **not** a legal requirement. For instance, when UM financial was operating, there were no loan agreements in place. Rather, like guidance, only mortgage/security documents in favor of the financier. (Kindly refer to endnote)[v] Hence, the loan documents signed by Zero clients is the normal procedure followed by the lender, **whether the client comes directly, or is referred to by Zero.** As such, these documents **cannot** simply be considered as secondary documents. Refer to the conversation forwarded to me by Zero Management.[vi]
Relationship between the Islamic Institution and Funder	Freddie Mac purchases Guidance's equity share in the property.	Corporate contract between Zero and Funder. Zero acts as a broker.
Documents signed	Two: Co-ownership Agreement and Mortgage Security	Three: Musharakah Home Financing Agreement, Conventional Loan agreement and Mortgage Security
Who are the parties mentioned in the first agreement?	Guidance Residential (Co-Owner) and Client (Consumer)	Zero Global Limited (Zero), Financier (Funding Institution), and Client (Client)

Is the co-ownership in the <u>**property**</u> explicitly established?	Yes, the contracts make mention of partnership and co-ownership in clear unambiguous terms	Yes, however, it is not as explicit. That is, the words of partnership and co-ownership are not explicitly used.
How are expenses borne?	Expenses borne by homeowner. Provisions provided for home insurance.	Expenses borne by homeowner
Late fees	$50 flat fee	Lender does not profit from late charges.
Prepayment of full balance.	Client can pay the outstanding balance at any time without any fee or penalty.	Standard prepayment charges one can expect from an interest-bearing loan apply. **Note:** Charging this amount is not a governmental law.
Can client sell their home before maturity?	Yes, the procedure is clearly mentioned in the contracts. The client makes an application of sale, and guidance grants the consumer a buyout notice. <u>**Note:**</u> Guidance has a two-step process. The first step is a sale between Guidance and the client, and the second step is a sale for the client on the market.	Zero's FAQ mentions the following: "In our contract we have a buy-out option where, before the sale, you can buy-out our share from the Musharakah contract. This happens right before the actual sale of the property so that you can keep all the capital gains." However, there is no mention in any of the contracts how the buyout procedure works. Is there an actual offer and acceptance or is it simply like any other conventional mortgage where the borrower is liable to pay the principal?
How are insurance proceeds/loss in value divided?	Guidance excludes itself from losses during sale or when it is a default situation. In those cases, Guidance will recover its full share. This is acceptable as it is a	No mention of how division will occur. However, as Zero clients deal with the bank, the bank will first secure its full principal.

	shirkatul milk and not shirkatul 'aqd. However, Guidance clearly states that it shares in loss in cases of expropriation or total destruction. The guidance white paper states: "Although the Program is not intended for the two co-owners to trade the property in the market while they own it jointly, this can happen if the government were to impose on the co-owners to sell the property in order to make room for a road, a park or another public project. In that case, the Co-ownership Agreement specifically stipulates that the two co-owners would share the gains or losses from such a forced sale according to their ownership shares. As a result, Guidance may end up with proceeds that fall short of the amount of financing it had provided, in contrast with what would be owed under a conventional mortgage loan. The principle that the two co-owners should share in the gains and losses of their respective shares in the property applies to situations other than a sale. Consider the example of a property that suffers total destruction and cannot be repaired using available insurance proceeds. In this case again, the Co-ownership Agreement stipulates that the two co-owners would share the insurance proceeds according to their ownership shares, resulting in an outcome quite different from that of a loan." . Note: **The contracts at our disposal we obtained was from 2003. Hence, this clause has been in place since the inception.**	
Governed by the Laws of…	The United States of America	The United Arab Emirates

For further clarity, kindly refer to the following diagram.

Note: Name of financier has been omitted for reasons of confidentiality.



Below we list the questions that were posed to the respected Shariah board members of Zero Mortgage. In the comments, we explain the context behind these questions.

Questions

1. How has the Shariah board established Zero's role in the transaction? Who is the client's sharīk? For more clarity, what Shar'i *takyif* has the Shariah board determined for the transaction? Namely, what role does each party play at different stages? If you had to relate Zero's version of Diminishing Musharakah to whatever has been mentioned in our books of fiqh, which contract(s) exactly would apply and how would we tie in all the roles and relationships that you exhausted above to this/these contract(s)?

Comments: During a webinar, it was mentioned that Zero acts as the financier's wakīl (agent). However, coining Zero as a wakil is not very clear. Wakālah is composed of two main elements *niyābah* (authority to act on the principal's behalf) and *tamlīk at-tasarruf* (control over the commodity) . Hence, it is imperative that the wakīl (agent) be given the capacity to fully act on behalf of the *muwakkil* (principal) (according to the stipulations of the wakalah), and that the agent be handed over the *muwakkal* (subject matter of wakalah) and be able to advance it. The fuqaha have explicitly mentioned that when the wakil is not given *haqq at-tasarruf*, the wakil is merely considered a *rasul* (messenger or referral agent) and **not** a wakil.

In Zero's case, Zero never possesses any funds nor do they advance any funds. The funds are advanced from the financier. Furthermore, as the client signs a contract with both the wakil (Zero) and muwakkil (the financier), the entire scenario of wakalah becomes void, as the muwakkil is dealing directly with the client. Hence, the aspect of *niyabah* is absent.

Nonetheless, if we assume that Wakalah is established in present form, then a further question arises. In a trade-based agency, the transaction is to be attributed to the wakil (agent) and not the muwakkil (principal), as the wakil is the party involved in the transaction. Hence, in the Musharakah scenario, if Zero enters a Musharakah agreement, acting as the financier's wakil, **then the partnership cannot be valid without Zero advancing any funds, as an intrinsic element of a valid partnership is that both parties advance funds.**

Furthermore, if one were to treat Zero and the financier as partners, and hence, one party in the transaction, then another question arises. Zero would not be contributing any capital, hence, how can a partnership be valid without capital contribution from both Zero and the financier? Moreover, this cannot be considered a mudharabah, as handing over the capital to the mudharib is an intrinsic element. Therefore, we can not find a suitable interpretation for the roles of the parties involved.

Accordingly, we can conclude that the financier themselves can only be the sharik, as they are advancing the funds. Hence, whether or not Zero is mentioned in any of the contracts would be irrelevant, as the partner is the financier. Thus, the entire Musharakah is put into doubt due to the loan agreement.

In our view, this is the **main element** that distinguishes Zero and Guidance Residential . Guidance Residential is a licensed mortgage servicer that advances funds to the clients and enters into a Musharakah agreement. Freddie Mac provides internal funding and is not mentioned in **any** of the co-ownership agreements. Whereas, Zero is a referral institution and acts as a broker (as mentioned in the corporate agreement). They merely connect both parties. As the bank is in the business of advancing interest-based loans, **doubt of legitimacy** is cast over the entire "Musharakah" agreement.

2. **On what basis has the Shariah board allowed the signing of conventional loan agreements? What formal documentation were received to back the claim that it is a legal requirement?**

Comments: Clients that subscribe to Zero Mortgage are required to sign **two agreements/contracts**. The first agreement/contract signed is a Musharakah agreement. This agreement is signed between Zero and the client. The second **contract** is a conventional loan agreement. Zero Mortgage has mentioned in its webinars that these are merely secondary documents required by law and it is similar to the mortgage/security documents signed by Guidance Residential clients. This claim can be examined in three ways:

a. Is the loan document a secondary document?
b. Legal requirement?
c. Comparison to Guidance.

a. **Is the loan document a secondary document?** In our understanding, the loan document is an independent document signed between the client and the financier. It is independent of the client's relationship with Zero.

Should the client choose to cancel his agreement with Zero Mortgage while keeping the contract with the financier, does the cancellation of the Musharakah agreement automatically cancel the agreement with the financier? Or does the client continue his agreement with the financier as normal? On the other hand, if a client **directly** cancels his agreement with the financier, without first contacting Zero, does the Musharakah agreement have any standing?

While explicit answers to these questions from Zero's Shariah board would have been better, a principled answer based on the Canadian regulatory framework is that the client's agreement with the bank holds an independent status. As such, unilaterally cancelling the Musharakah agreement does not cancel out the agreement with the bank and cancelling the bank agreement leaves the Musharakah agreement without any standing. Yes, there is an agreement between Zero and the financier that binds the financier to deal with the client during distress fairly, and not to profit from late payments. However, this does not take away from the independency of the loan agreement.

Accordingly, the loan agreement cannot be considered a secondary agreement. Rather, it is a main agreement holding legal status. The mere fact that the agreement with the financier can remain, despite annulling the Musharakah agreement, is enough to convey that the loan agreement is not dependant or secondary to the Musharakah. Thus, both contracts are primary contracts that are signed. It is not farfetched to assume that the loan document **is** the primary agreement, as the existence of the Musharakah agreement is not possible without the loan document. To this effect the Musharakah agreement grants the financier priority over the Musharakah agreement.

b. **Legal Requirement?** If we assume that the loan document is a secondary document, the question arises as to why the client is still required to sign a conventional loan agreement? In Canada, it is a legal requirement to sign documents that outline the financing facility provided. This is being achieved through the Musharakah agreement which according to Zero is the main agreement. Thus, why is there a need for another primary loan agreement? In the past, UM financial did not require the clients to sign a formal loan agreement (See footnotes). Rather, the clients signed a mortgage document (not an agreement) in favour of the financier. Why is this not being implemented here?

c. **Comparison to Guidance:** To address this, we can refer to a conversation between Zero and Nabeel Eid that was sent to us by the Zero Management.[1]

> **"My Text Q:** Ok I am clear now. Is it ok I share our chat if they ask
>
> **Nabil Eid Response:** : Of course Br.
> **My Text Q:** How should I answer the issue of 2 contracts. A Musharakah contract with guidance but then a mortgage contract on the property. Which contract has priority
> **Nabil Eid Response:** Sorry , I don't understand what do you mean by 2 contracts. **The only contract is with Guidance and nothing will change until it is paid off or the property sold.**
> **My Text Q:** Contract yes but also a mortgage security on the property that is registered on the property
> **Nabil Eid Response:** **That is not a contract**
> **My Text Q:** So the best way to explain to others is that the Musharakah contract with guidance is the only contract and the registered mortgage with Freddie Mac funds is just a security registered on the property with the same numbers from the Musharakah contract
> **Nabil Eid Response:** Correct"

As one can notice, the mortgage security documents signed by Guidance Residential clients is not a legal contract, as opposed to a loan agreement. Rather, it is registered as a security. The mortgage security is dependent on the Main agreement signed between the client and Guidance, and it cannot be treated independently.

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[1] This conversation between Zero and Nabil Eid was shared by the Zero Management with us via email on August 24th, 2020. Given this was a correspondence between the Darul Iftaa and Zero Mortgage, we have shared the content of this text and cited it. We can obviously not confirm the veracity of this conversation as we were not a party to this conversation. We are sharing it here as it was shared by Zero.

Although Freddie Mac purchases Guidance's share in equity, the client **never** deals with Freddie Mac directly. Kindly refer to the notice Freddie Mac sends to clients upon purchasing equity. This is a standard document found on Freddie Mac's website.

FreddieMac
We make home possible®

Tel: (703) 903-2000
www.FreddieMac.com

Corporate Headquarters
8200 Jones Branch Drive
McLean, VA 22102

[Date of Notice]

[Borrower One Name – First, Middle, Last]
[Borrower Two Name – First, Middle, Last]
[Mailing Address – Street Number, Street Name and Unit Number]
[Mailing Address – City, State, Zip Code]

Borrower Notification: Freddie Mac Has Purchased Your Mortgage Loan

This letter is for informational purposes only. No action is required on your part.

What You Need to Know

1. Your mortgage loan on [Merge Address] was sold to Freddie Mac on [Date]. Selling mortgage loans to Freddie Mac is a standard part of the mortgage business for many of the nation's mortgage lenders. The sale of your mortgage loan to Freddie Mac does not affect any term, payment, or condition of the mortgage, deed of trust, or note.
2. Your Servicer at the time of this notification was [Name of Servicer], [Address of Servicer], [Servicer's Customer Service Phone #]. Your servicer is the company you currently make your mortgage payments to. This may or may not be the same company who made your mortgage loan.
3. If your name(s) or address requires any corrections, please contact your Servicer.
4. Please continue to make your payments to your current Servicer as you do today. When or if there is a change in who collects your payments, your Servicer will contact you and provide necessary guidance. Do not send your mortgage payments to Freddie Mac as we do not service mortgage loans.
5. If you make a payment that is less than the full amount due for your regularly scheduled monthly payment (partial payment), contact your Servicer to discuss their partial payment policy. If your mortgage loan is sold, your new Servicer may have a different policy. Your Servicer:
   - may accept a partial payment and apply it to your mortgage loan,
   - may hold a partial payment in a separate account until you pay the rest of the payment, and then apply the full payment to your mortgage loan, or
   - may not accept any partial payments
6. Please keep a copy of this notice with your other mortgage documents because the sale of your mortgage loan to Freddie Mac has not been publicly recorded.

If you have questions regarding this notice, visit our online FAQs at www.freddiemac.com/singlefamily/pdf/borrower_notification_faqs.pdf, or contact us by phone at (800) FREDDIE (1-800-373-3343).

Written inquiries should be addressed to 8200 Jones Branch Drive, McLean VA, 22102, Attention: Borrower Contact Unit, Mail Stop A29.

Una versión en español de esta carta está disponible en nuestro sitio web: http://www.freddiemac.com/forms.

<Merge FM Loan #>

As one can notice, the mortgage assignment brings no change to the agreement. The client continues to **only** deal with the original company, in this case, Guidance Residential. As such, it is not possible to terminate the agreement with Guidance and deal directly with Freddie Mac, as they do not service mortgage loans. Hence, the security documents in favor of Freddie Mac signed by Guidance Residential clients is **genuinely** a secondary document. This is not the case with Zero, as the agreement with the funder contains terms and elements not mentioned in the Musharakah agreement. Such as, pre-payment fees, insurance obligations, etc. Furthermore, the financer holds the right can deal with the client independent of Zero.

3. **How has it been ascertained that the Mortgagor will bear loss according to its ownership share in the case of total loss or expropriation?**

Comments: Guidance residential states in its contracts that insurance proceeds and loss in value will be split according to ownership stake.[vii] As such, if the value realised or insurance proceeds is less than the principal amount, the loss will be borne according to ownership. Zero mortgage does not make mention of this point. Moreover, as the financier is a mortgage lender, in principle, the insurance proceeds will be first applied to pay off the loan. Therefore, **if the financier is not bearing losses beyond its principal, how can such an agreement qualify as a Musharakah?**

We understand that a *shirkat al-milk* allows the financier to exclude certain scenarios of loss, such as a sale in a negative equity situation. However, there are intrinsic risks, such as in cases where the loss cannot be attributed to any party, wherein both parties must share in the loss. Essentially, this is what differentiates between a Musharakah and a loan.

We understand that the financier normally requires the client to subscribe to comprehensive insurance that would cover damage in all cases. However, insurance is merely a **risk mitigator** and is **not** indicative of **risk assumption.** Furthermore, the financier does not contribute towards the insurance, hence, the assumption of risk is even less apparent. Therefore, to ascertain that the financier is in fact adhering to the laws of Musharakah, it would be necessary that the financier clearly state the process of distributing insurance proceeds and loss in value, which has **not** been done.

4. **How has the Shariah board determined that Zero is a legal partner? What documents designed for replacement were reviewed?**

Comments: The Shariah Ethics board fatwa states:

> "2. Zero and the consumer both are legal partners"

How has the ethics board determined that Zero and the consumer are legal partners? The Fatwa also states:

> "The documents signed for "Replacement" are meant for a situation where a person has already acquired a property and wishes to enter into a Shariah compliant arrangement."

During our review, there were no documents designated for "replacement". Rather, the process referred to above is referred to in the contract as "refinance."

Were the documents presented for review different from the documents presently being implemented?

5. <u>What is the justification for pre-payment fees?</u>
   <u>Comments:</u> If the client chooses to pre-pay the mortgage, they are required to pay the standard charges of any regular conventional mortgage. The greater of three months of interest or the IRD.

The amount which is charged for prepaying the mortgage is in lieu of the loss of interest that would have been made over the course of the mortgage. In the Diminishing Musharakah model, a financier's "interest" is replaced with profits made through rental payments. At the time of prepayment, if the principal has been paid off, <u>what allows the financer to claim profit payments?</u>

The government dictates that a mortgage servicer is required to <u>disclose</u> the amount they will charge for a pre-payment. However, <u>it is not a requirement that a servicer MUST charge these amounts.</u> A servicer is *allowed* to charge the IRD, however, they are <u>not</u> *obliged* to do so.

6. <u>Is the Shariah board aware of the Wakalah Mortgage program being offered to clients as an alternative when they do not qualify for the main product?</u>

<u>Comments:</u> When clients do not qualify for the Zero Mortgage Musharakah, or their area is not serviced by the financier, Zero Mortgage sends their clients a letter regarding Wakalah Mortgage. Wakalah Mortgage is without any doubt <u>Haram</u>. The only slight benefit of Wakalah Mortgage is that the client gets one step closer to a halal mode of finance. However, we are unaware of any Islamic Financial instruction in the world that offers their clients a secondary alternative, on the grounds of "lesser of two evils," should the client not qualify for the main product.

Zero Mortgage advertises itself as the first Canadian Organization that follows the AAOIFI guidelines. However, if the Shariah board has not been consulted regarding this offering, then Zero have gone against the standards. As Shariah Standard (29) Stipulations and Ethics of Fatwa in the Institutional Framework states:

3/4 : It is the duty of the Institution to seek Fatwa on incidences that occur or are expected to occur. **It should also seek fatwa for every operation it seeks to pursue.**

7. **Keeping with the aforementioned issues, does the Shariah board feel it is justified to deal with a conventional lender?**

Summary:

We can summarise the Shariah issues in the following points:

1. Unclear relationship between the parties involved,
2. The signing of **a primary loan agreement,**
3. Unclear assumption of risk,
4. Penalties,
5. Wakalah Mortgage.

Moreover, after completing a thorough review of both the Guidance Model and Zero, it is our submission, that Zero's model **substantially differs** from the Guidance model. Freddie Mac, Guidance Residential's funding partner is not a lender. Rather, they provide liquidity to the secondary lending market. Whereas the funding institution working with Zero Mortgage is a mortgage servicer in the primary market. Guidance handles the funds directly while Zero is merely an intermediary. Thus, both companies cannot be equated on the grounds that both deal with conventional funding.

Conclusion:

The Darul Iftaa spent considerable amount of time discussing these issues with the Management. For academic and constructive purposes, we requested an answer to our concerns from the respected Shariah Scholars bearing their signature(s) and on an official letterhead. Unfortunately, we did not receive any response from the Shariah board.

The Darul Iftaa has no personal interest in any financial institution. Our role is to serve Shariah. While we had hopes of working towards a solution, it is impossible for us to do so without receiving due response to our concerns from Zero's Shariah board. Furthermore, on account of the repeated and inexcusable delays, the attitude portrayed by Zero Mortgage in dealing with the Darul Iftaa was unprofessional and would not be acceptable in any other setting.

Should we receive a written response from their Shariah board in the manner requested, we will not hesitate to review our fatwa. Until then, our conclusion is that Zero Mortgage is **not** Shariah compliant. Given the presence of a conventional loan agreement, we would caution the public from falling into *riba.*

If there are any questions or concerns regarding our fatwa, we kindly request that such concerns be brough to our intention via email. Similarly, the Darul Iftaa has each and every correspondence on record. Much of the information has been amended to respect confidentiality. Zero Mortgage may be contacted to view our original correspondences.

And Allah Ta'āla Knows Best

Darul Iftaa Mahmudiyyah

Checked and Approved by,

Mufti Ebrahim Desai with the following comments:

> "I have observed Zero Mortgage using the name of my son and other associates to justify the Shariah compliancy of their product. We have studied the product objectively with the hope that it would be Shariah compliant and serve the financial needs of the Canadian Muslims public.
>
> Unfortunately, the Zero Mortgage product does not fulfill the Shariah criteria of Shariah compliance. Given the presence of a conventional loan agreement, we would caution the public from falling into *riba.* I have sincerely and honestly considered many angles to overcome this objection and offer a suitable interpretation to the conventional loan agreement. However, such interpretation does not reflect the reality of the matter and would misrepresent the noble Shariah. Such an attitude weighs heavily on my Deeni conscious.
>
> In issues of Shariah, we are bound to give preference to Shariah over family and personal relationships."

i

http://www.freddiemac.com/about/business/

ii

iii https://www.guidanceresidential.com/licensing-and-registrations

iv https://zeroglobal.biz/about/about-us/

v Thomas - Expert Witness UM Financial v.1.5

Figure 2 shows the model used by UM which is a form of the typical model:

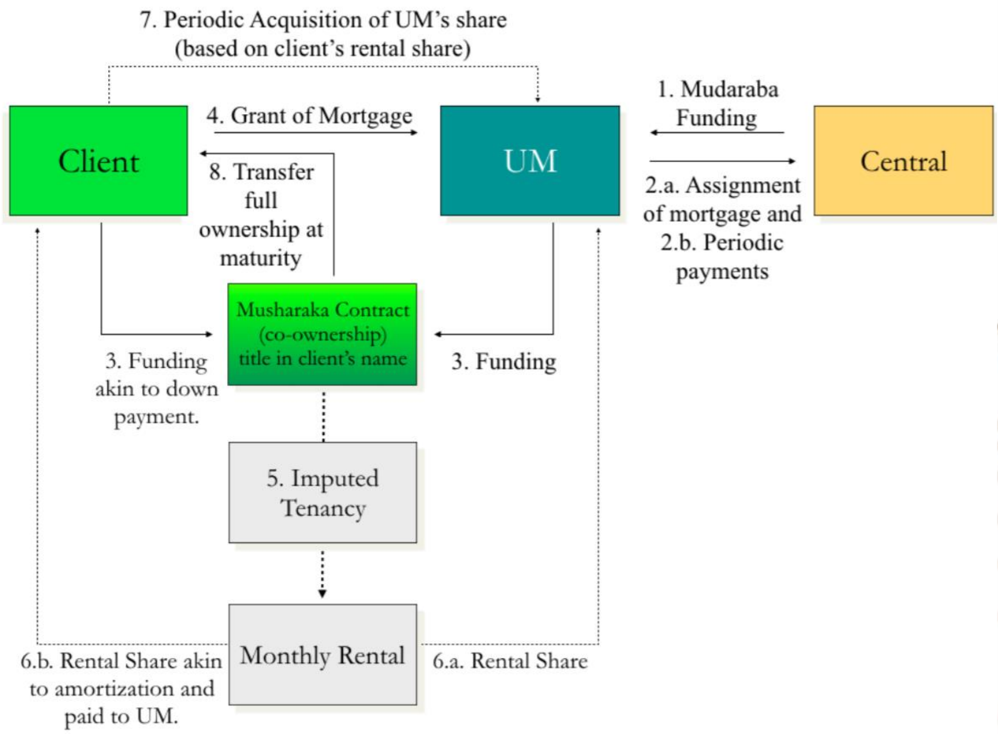

Figure 2: Declining Musharaka used by UM Financial[13]

vi

My Text Q: Ok I am clear now. Is it ok I share our chat if they ask

Nabil Eid Response: : Of course Br.

My Text Q: How should I answer the issue of 2 contracts. A musharakah contract with guidance but then a mortgage contract on the property. Which contract has priority

Nabil Eid Response: Sorry , I don't understand what do you mean by 2 contracts. The only contract is with Guidance and nothing will change until it is paid off or the property sold.

My Text Q: Contract yes but also a mortgage security on the property that is registered on the property

Nabil Eid Response: That is not a contract

My Text Q: So the best way to explain to others is that the musharakah contract with guidance is the only contract and the registered mortgage with Freddie Mac funds is just a security registered on the property with the same numbers from the musharakah contract

Nabil Eid Response: Correct

Note: As one can notice, when asked about **two contracts**, as is the case of Zero, Nabil Eid clearly states that the mortgage security is **not a contract.** It would be erroneous to assume that a conventional loan document is not a contract.