

# STUDENT LOANS AND SHARIA LAW

Student Money Service

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## Introduction

Some Muslims and members of other faiths may be deterred from taking out the UK government's student loans, due to the interest payment system.

We have prepared this page of information for undergraduate and postgraduate students who need to finance their education, and who also have questions or concerns about Sharia compliance.

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## Interest-free overdraft facility

Most UK banks offer home undergraduates who are taking a Student Finance Maintenance Loan a student bank account with an overdraft facility which is **interest-free** up to a specified limit. The same bank may at the same time charge non-students interest on an overdraft.

## Student loans for undergraduates

The UK government offers eligible undergraduate students a Tuition Fee Loan and Maintenance Loan as part of the Student Finance funding system in the UK. These student loans incur interest on the repayments.

Before 2012 this interest was set at the rate of inflation, not at a commercial rate. Therefore, the value of the amount repaid was the same as the value of the amount borrowed. However in 2012 the UK government changed the scheme rules and since 01 August 2012, interest is charged at the rate of inflation plus 3 percent during the period of study.

The interest rate then varies after studies, between the rate of inflation only and inflation plus 3 percent, according to earnings.

## Postgraduate Loans

The UK government offers loans to eligible taught and research Postgraduate students. These can help to pay tuition fees and/or living costs. The amount you can borrow is explained in our Postgraduate Funding guide. Interest will be the current RPI (Retail Prices Index) plus 3% with repayments normally due from the April following course completion.

## Possible consequences of not taking out loans for studies

It is important to understand that if you decide for faith reasons not to take a loan for your studies, this may have an effect on your eligibility for other sources of funding. You would need to find alternative funding such as family, friends, savings, etc., to cover the cost of your education. Some factors you may wish to consider are:

- There are University Student Support Funds (SSF) at UWE, Bristol to help students facing financial hardship. If you are a home undergraduate student who is eligible for UK government Student Finance, you can apply to the University Student Support Fund only if you have taken your full Maintenance Loan entitlement. If you are a home postgraduate student, you must have made provision to pay your tuition fees and basic living costs
- Banks often want to see evidence of a Maintenance Loan before opening a student account with the interest-free overdraft facility
- Some trusts and charities specifically exclude students who are entitled to a Maintenance Loan, whether they have taken it or not
- If you are entitled to claim welfare benefits as a student, the office assessing your benefit claim will assume you have taken your loan entitlement and will reduce your benefit entitlement accordingly

However, it is worth noting that some elements of government Student Finance are not repayable. These include supplementary grants for dependants or disability related course costs. If you started your course before 2016, you might qualify for a Maintenance Grant, depending on your household income. You might wish to discuss possible options with a Money Adviser in the Student Money Service.

## Sharia-compliant financing

The UK government has been exploring the possibility of an Alternative Finance system available alongside other student loans that will avoid the payment of interest but results in identical repayments to the existing system. This funding would be Sharia (Shariah, Shari'ah) compliant and overseen by a Sharia advisory committee.

The National Union of Students (NUS) and the Federation of Student Islamic Societies (FOSIS) have been working together to produce an alternative student finance system that is equitable for Muslim students and is acceptable under scriptural law.

The UK government undertook a public consultation ending in September 2014 which has resulted in an agreement to offer an Alternative Finance product. This 'Takaful' product has received preliminary approval from Al Rayan Bank's Sharia supervisory committee and chapter 4, paragraphs 27-36 of the November 2015 government green paper ['Fulfilling our potential Teaching Excellence, Social Mobility and Student Choice'](#) sets out the details of this.

The latest available information is set out on pages 59 and 60 of the government's White Paper ['Success as a knowledge economy'](#) published in May 2016, which explains that the government is committed to introducing the new product, however there are currently no timescales for this.

Some financial institutions have Sharia-compliant financial services. They guarantee that money held in these accounts is not invested in industries such as gambling, alcohol or weapons manufacturing.

## Trusts and Charities

If you are a Muslim student and have secured your main source of funding for your studies, you may be eligible for some additional financial help from the National Zakat Foundation. Detailed advice about eligibility and the different areas they may be able to offer help with are set out on their [website](#).

Please note that if you decide not to take a loan for your studies for faith reasons, there is probably no specific Sharia-compliant alternative that is comparable to the government student finance system available at the moment. Moreover, not taking the loan may have an effect on your eligibility for other sources of funding.