

Home Financing Contracts

Having a comfortable and cozy home is the dream of everyone. Prophet Muhammad (PBUH) once said that “Four things form happiness: a good wife, a convenient house, a good neighbor and a comfortable ride” (*Reported by Ibn Hibban no. 1232*). The Arabic word for home, *maskan*, is closely related to the word *sakinah*, which means serenity. That is how a home should be, providing shelter and serenity whilst also operating as the educational center of a family.

Clients may have questions about the home financing mechanism employed by Islamic banks in Malaysia and whether these have differences from its conventional counterparts. Generally, a conventional bank offers its clients financing facility by granting a loan payable in installments with interest. However, Islamic banking product offers home financing based on partnership sharing/ hire-purchase/commodity sales between several parties to enable the client to acquire the required purchase price of the dream house.

Partnership sharing products usually practiced by Islamic banking is based on the concept of *Musyarakah Mutanaqisah* (MM) or what has been called as diminishing partnership. In this product, the bank would jointly purchase a house with the customer from the developer or a third party. Normally, the Customer's equity in the ownership of the house is valued based on the deposit paid by the Customer upon signing the sale and purchase agreement. On the other hand, the Bank's ownership is valued based on the amount of financing granted by the Bank to the Customer in order to pay the total sale price to the developer or other third party. Subsequent to the formation of *Musharakah* (partnership), the client undertakes to gradually purchase the Bank's ownership of the said house through an installment plan with full ownership being transferred at the end of the plan. The client is also considered to be renting the part of the house owned by the bank until the transfer of full ownership to the customer. There is a slight difference among Islamic banks in structuring the product, however, it is still under the ambit of *Musharakah* (partnership), *Ijarah* (leasing), and *Bay'* (Sale) concepts.

The second type of contract offered is sale-based financing *Tawarruq*, which is also known as Commodity Murabahah. In this contract, the client's installment commitment is the result of commodity purchase from the bank at the deferred sale price. The deferred sale price comprises financing amount plus Bank's margin of profit). Among the common commodities used for this transaction is crude palm oil (CPO). Once the customer has purchased the commodity from the Bank, then the Customer will sell the same commodity to a commodity supplier to obtain the financing amount. Normally, the Bank will assist the customer to sell the commodity to enable the customer to get the cash or financing amount. The client would make monthly payment for the deferred sale price that was agreed between him/her and the bank.

There is another product in the market known as *Ijarah Muntahiyah bi at-Tamlik* (AIMAT). This product is almost similar to MM where the difference is a client who merely rents the whole house from the bank from its beginning financing period and would buy the house at the end of the period (lease-own). AIMAT financing refers to the purchase by the Islamic bank of a specific asset and then lease it to the customer. The customer pays monthly rental to the bank

and at the end of the leasing tenure both parties (the bank and the customer) either by way of sale contract or *hibah* contract.

It is hoped that this brief explanation of a few home financing products offered by Islamic banks would provide beneficial clarification to all.