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# THE DEVELOPMENT OF ISLAMIC HOUSE FINANCING

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MASTER IN ISLAMIC FINANCE AND BANKING  
UNIVERSITI UTARA MALAYSIA  
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# THE DEVELOPMENT OF ISLAMIC HOUSE FINANCING

By

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**UUM**  
Universiti Utara Malaysia

Research Paper Submitted to the  
Othman Yeop Abdullah Graduate School of Business  
Universiti Utara Malaysia  
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Master in Islamic Finance and Banking



Pusat Pengajian Perniagaan Islam  
ISLAMIC BUSINESS SCHOOL  
كلية إدارة الأعمال الإسلامية  
Universiti Utara Malaysia

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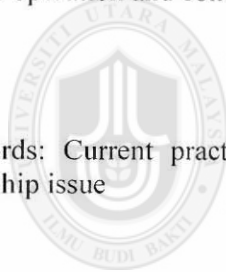
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## ABSTRACT

Among all of those products and services offered by Islamic banking, house financing has received a high demand from the customer which need a long commitment and giving a financial implication to the household. Thus, the aim of this study is to explore the development of Islamic house financing by looking at the current practice of Islamic house financing contract applied by the Islamic bank in Malaysia and to understand some of its practical issues such as pricing and ownership issues. This study is a qualitative research and the data was collected through a face-to-face interview with five informants who are among the expertise in Islamic house financing. The qualitative data was being analysed by using content analysis approach through Creswell analysis. The finding of this study found that, although there are variety of Islamic house financing contract available in the market, *tawarruq* or *commodity murabahah* has become the current practice of Islamic house financing contract in most of Islamic bank in Malaysia. The selection of contract was determined by the *Shariah* body in the respective bank and with the permission of *Shariah* Advisory Council and Bank Negara Malaysia and its was influence by the worldwide acceptance. The study also found that, the misconception and misunderstanding among the society regarding the pricing and ownership issues in Islamic house financing is because of the lack of knowledge and exposure about the practice of Islamic house financing. Thus, it is important to expose and educate the society about the real operation and concept applied in Islamic house financing.

Keywords: Current practice of Islamic house financing contract, pricing issue, ownership issue



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## ABSTRAK

*Antara semua produk dan perkhidmatan yang ditawarkan oleh perbankan Islam, pembiayaan perumahan telah menerima permintaan yang paling tinggi daripada para pelanggan yang mana ia memerlukan komitmen jangka panjang dan memberikan implikasi kewangan kepada isi rumah. Maka, kajian ini adalah bertujuan untuk melihat pembangunan pembiayaan perumahan secara Islam dengan menjurus kepada penggunaan kontrak terkini di dalam pembiayaan rumah oleh perbankan Islam di Malaysia di samping memahami beberapa isu yang berkaitan dengan harga dan pemilikan rumah. Kajian ini merupakan sebuah kajian kualitatif yang mana data kualitatif diperolehi melalui temuduga bersama lima orang informan yang mempunyai kemahiran dalam bidang berkaitan. Kualitatif data dianalisa menggunakan analisis kandungan melalui analisis Creswell. Dapatan kajian ini mendapati bahawa walaupun terdapat pelbagai jenis kontrak pembiayaan perumahan secara Islam di pasaran, kontrak tawarruq telah menjadi pilihan utama oleh kebanyakan bank-bank Islam di Malaysia buat masa ini. Pemilihan kontrak ini ditentukan oleh Badan Penasihat Syariah di setiap bank-bank Islam dan mendapat kelulusan daripada Majlis Penasihat Syariah dan Bank Negara Malaysia. Di samping itu juga, ia turut dipengaruhi oleh penerimaan di peringkat antarabangsa. Kajian ini juga mendapati bahawa salah faham dan kurangnya pendedahan masyarakat tentang permasalahan harga dan pemilikan rumah adalah disebabkan oleh kurangnya pendedahan dan pengetahuan tentang aplikasi pembiayaan rumah itu sendiri. Maka, adalah penting untuk memberi pendedahan dan mendidik masyarakat tentang operasi sebenar dan konsep yang digunapakai dalam pembiayaan rumah secara Islam.*

*Kata Kunci: Amalan terkini kontrak pembiayaan perumahan Islam, permasalahan harga, permasalahan pemilikan rumah*

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## LIST OF ABBREVIATIONS

BR	Base Rate
BBA	<i>Bay' Bithaman Ajil</i>
BFR	Base Financing Rate
BLR	Base Lending Rate
BNM	Bank Negara Malaysia
IBR	Islamic Base Rate
MM	<i>Musharakah Mutanaqisah</i>
SAC	<i>Shariah Advisory Council</i>





## CHAPTER ONE

### INTRODUCTION

#### 1.1 Introduction

This research will study on the development of Islamic house financing by looking on the current practice of Islamic house financing contract and to explore the pricing and ownership issues that arise in Islamic house financing. Thus, this chapter will contain the background of the study, the operational definition of each variable, problem statement, research questions, research objectives and the significance of the study. In addition, the scope and limitation of the study and the organization of chapter also will be highlights in this chapter.

#### 1.2 Background of the study

Traditionally, human being need food, house and clothing as the basic needs in life. However due to the development of society the basic needs in life was not only limited on the three main sources as mentioned earlier. Human being also need education, transportation and health care to complete their life. The rank of house was in between food and clothing shows that it is important to have a good house for the development of health, family expansion, privacy and happiness. Poor housing leads to the psychological stress which effects the development of children's well-being and the occupant's productivity (Amin, 2017).

Investment in properties becomes popular among Malaysian because they believe that owning a property especially owning a house is one of the important financial goals and smart investment. However, it is difficult to purchase it in cash

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**APPENDIX**

**APPENDICES**

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**APPENDIX A**

**(INTERVIEW FORM)**

---

**APPENDIX B**

**(COVER LETTER OF DATA COLLECTION)**

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**APPENDIX C**

**(INTERVIEW TRANSCRIPTS)**

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**APPENDIX A**

**INTERVIEW FORM**

Name : ..... Age : .....

Gender:  Male  Female

Institution/ Company: .....

Position: .....

Field of work: .....

Years of experience: .....



Signature:



## APPENDIX C

### INTERVIEW TRANSCRIPTS 1

#### Informants 1

Date: 17 October 2019

Time: 3.00 pm

The interview session was held at Hong Leong Islamic Bank located at Sultan Abdul Hamid Business Complex and its' taken about thirty-five minutes.

NO.	QUESTIONS	ANSWERS
1.	Can you tell me the background of Islamic house financing at your bank?	<i>At Hong Leong Islamic bank, we are offering variety of Islamic property financing where the financing scheme will help the customer to own a property likes house and shop-lot. The financing comes with a combination of fixed and variable rate and different features that will give a choice and flexibility to the customer.</i>
2.	Can you please elaborate the current practice of Islamic house financing contract at your bank? Please clarify the terms.	<i>We are using Murabahah via Tawarruq arrangement. Its referring to the purchasing an asset at deferred price and selling it to the third party to obtain a cash. For example, under CM Flexi Property Financing-I product, the mechanism is like this:</i>

		<ul style="list-style-type: none"> <li>i. <i>The bank will buy the commodity at facility amount on spot;</i></li> <li>ii. <i>After bank owns the commodity, bank will sell it to the customer at Selling Price on deferred payment. So as the owner of the commodity, the customer will bear all the cost for the physical delivery or possession;</i></li> <li>iii. <i>As the owner, the customer will appoint the bank as an agent to sell the commodity;</i></li> <li>iv. <i>Bank will sell the commodity to the third party on spot basis at Facility Amount to obtain the cash; and</i></li> <li>v. <i>Lastly, the bank disburses the proceeds (Facility Amount) of the customer's sale of the commodity.</i></li> </ul>
3.	<p>What is the factors or elements that influence your bank to choose those types of contract?</p>	<p><i>The types of contract were decided by the Board and management department at the headquarter and being advise by HLISB, Shariah Committee. I believe that the contract choose must meet the rules of</i></p>

		<i>shariah principle and fulfil all requirement set up by Bank Negara Malaysia.</i>
4.	How does your bank help their customer in Islamic house financing?	<i>We are offering a product based on Islamic base rate which the customer will be protected from higher rate by the ceiling rate. Besides that, we also advise the customer to take Takaful coverage to protect customer from any unforeseen circumstances.</i>
5.	As you know, there are sixteen Islamic bank operates in Malaysia. Do the types of contract offered by your bank will affect the customers' choice?	<i>From my opinion, no. This is because the customer will approach the bank to get financing based on Islamic financing. Most of the customer don't know what types of contract that we applied until we explained to them.</i>
6.	As an Islamic bank, the activities must be compliance with <i>Shariah</i> or Islamic law. What is the <i>Shariah</i> issues facing by your bank regarding the Islamic house financing?	<i>I don't know</i>
7.	As we know, Islamic finance always promotes justice, fairness and transparency in their operations. From your opinion does the contract offer to	<i>Of course yes because Islamic finance was transparent in all of the operation.</i>

	the customer meet all the above criteria in term of ownership?	
8.	How the ownership processes happened in Islamic house financing?	<i>The transfer of ownership made to the customer through the legal contract and it was done right after the financing approved.</i>
9.	Does any other charge for early settlement case? Did your bank apply the concept of <i>Ibra'</i> (rebate) for the early settlement?	<i>For Islamic bank there will no charge and we will give rebate to the customer for the early settlement.</i>
10.	What is the different between Islamic house financing and conventional housing loan in term of pricing?	<i>For conventional loan, the customer will be charge based on the Base Rate imposed by Bank Negara. The Base Rate can be fluctuating depends on the benchmark of cost of funds and Statutory Reserve Requirement. While for Islamic finance, the rate will be charged based on Islamic Base Rate where the customer will be protected by the ceiling rate. Its means that, although the Islamic Base Rate increase, the customer won't be charge more than the ceiling rate.</i>
11.	From customers' perspective, Islamic house financing is expensive compare	<i>No. As mention earlier, the customer won't be charge more than the ceiling rate under</i>

	with conventional loan. Did you agree with that statement?	<i>Islamic finance compare with conventional loan the base rate can fluctuate.</i>
12.	How your bank deal with default payment by customers?	<i>We have several step if we face a default payment from the customer. We will try to discuss with the customer and trying to make a negotiation. If the customer fails to fulfil their obligation, a legal action will take place. If the customer fail to make payment after we sent out the reminder notice.</i>
13.	What is your bank strategy to promote Islamic house financing?	<i>We are offering a variety of product to meet the customer need but its depend on the customer choice which product is suitable with them. Of course we have our marketing plan to attract customer's interest.</i>



## INTERVIEW TRANSCRIPTS 2

### Informants 2

Date: 17<sup>th</sup> October 2019 (Thursday)

Time: 4.30 pm


The interview session was held at Maybank Islamic Bank located at Alor Setar branch and its' taken about one hour.

NO.	QUESTIONS	ANSWERS
1.	Can you tell me the background of Islamic house financing at your bank?	<p><i>Whenever the Islamic finance started in Maybank, we started with Islamic windows. Its more than twenty-five years the establishment of Islamic banking in Maybank. We offered deposit products as well as financing. The Islamic finance industry and products evolve and we expand until we form our own fully Islamic banking entity which is under Maybank group. The operation of Maybank Islamic bank and Maybank were different including the registration number, the accounting and so on. Currently we have nine branches which is purely Islamic banking.</i></p>

<p>2.</p>	<p>Can you please elaborate the current practice of Islamic house financing contract at your bank? Please clarify the terms.</p>	<p><i>The evolution of Maybank Islamic in line with the movement of their products as well. Especially when we want to go abroad to foreign level. The evolution of product also must meet the international requirement. We started with Bay' Bithaman Ajil but its' no longer practice. Then we move to Musharakah Mutanaqisah and the latest one is Commodity Murabahah or Tawarruq. Maybank Islamic does not prefer to use Musharakah Mutanaqisah was because it was not applicable for the house under construction. We offer variety house financing like financing for completed or under construction house, refinancing and others. Under the Commodity Murabahah or Tawarruq, the operation as per below:</i></p> <ul style="list-style-type: none"> <li><i>i. The bank will purchase a specific Shariah compliant commodity from a third party based on request from the customer;</i></li> <li><i>ii. And the bank will sell it to the customer at Bank's Sales Price which including the profit margin</i></li> </ul>
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		<p><i>and it will be pay on deferred payment basis;</i></p> <p><i>iii. The customer will appoint the bank as an agent to sell the commodity to the third party in order to obtain a cash at a price equivalent with the financing amount; and</i></p> <p><i>iv. Lastly, the bank will disburse the sale of commodity to the customer.</i></p>
3.	<p>What is the factors or elements that influence your bank to choose those types of contract?</p> 	<p><i>Before we introduce any products to the market, our Shariah council will study and make sure that the product that we offered must meet the shariah principles and fulfil the Bank Negara Malaysia requirement. Maybank Islamic was not only limited in local country, but we also expand our business abroad. The contract that we applied must be the best practice and meet the Muamalat standard.</i></p>
4.	<p>How does your bank help their customer in Islamic house financing?</p>	<p><i>For Maybank Islamic, it was compulsory for the staff to promote our Islamic house financing product to the customer. If there is no product under Islamic financing or as per customer request, then we will promote the conventional loan to the customer. Most</i></p>

		<p><i>of the customer are aware on the benefits of Islamic financing product either Muslims or non-Muslims. The operation of Islamic house financing product was transparent and also protect the welfare of the customer. We also offered Takaful coverage to protect our customers from any circumstances such as damage by fire, in the event of death or total permanent disability. The most important is in Islamic house financing the product offered was based on Islamic Base Rate. The customer will be protected from higher rate by the ceiling rate.</i></p>
5.	<p>As you know, there are sixteen Islamic bank operates in Malaysia. Do the types of contract offered by your bank will affect the customers' choice?</p>	<p><i>From my opinion, I believe that mostly the Islamic bank in Malaysia will adopt the same contract. Each of the contract that we purpose must get an approval from Bank Negara Malaysia. The types of contract wont effect the customer's choice.</i></p>
6.	<p>As an Islamic bank, the activities must be compliance with <i>Shariah</i> or Islamic law. What is the <i>Shariah</i> issues facing by your bank regarding the Islamic house financing?</p>	<p><i>"No, as all new product introduce by our bank will be approved by Shariah council"</i></p>

7.	As we know, Islamic finance always promotes justice, fairness and transparency in their operations. From your opinion does the contract offer to the customer meet all the above criteria in term of ownership?	<i>Of course yes because the beauty of Islam was practice in each of the product that we offered. We explained clearly to the customer about the operations and contracts applied.</i>
8.	How the ownership processes happened in Islamic house financing?	<i>In Islamic finance there is an aqad (buying and selling) when the customer signs for the financing agreement. As a buyer you must have a responsibility on the thing you buy.</i>
9.	Does any other charge for early settlement case? Did your bank apply the concept of <i>Ibra'</i> (rebate) for the early settlement?	<i>If the customer wants to settle their financing before its maturity, we won't charge any early settlement fee but we will give them a rebate.</i>
10.	What is the different between Islamic house financing and conventional housing loan in term of pricing?	<i>In conventional loan the customer will be charge based on the Base Rate and in Islamic finance they will charge based on Islamic Base Rate. Both of the rate were imposed by Bank Negara Malaysia. If we looking at the name it was quite similar but it's not similar at all. The Base Rate can be fluctuating depends on the benchmark of cost of funds and Statutory Reserve Requirement. It is also influence by the economic condition. Like in 1997 or 1998,</i>

		<p>during the economic crisis, the Base Rate has increased until 17%. The customer who using the conventional loan need to pay higher during this time. While for Islamic finance, the rate will be charged based on Islamic Base Rate where the customer will be protected by the ceiling rate. Its means that, the customer won't be charged more than the ceiling rate although the Islamic Base Rate increase.</p>
11.	<p>From customers' perspective, Islamic house financing is expensive compare with conventional loan. Did you agree with that statement?</p>	<p>I'm not agree at all. As I explained before in Islamic financing the customer won't be charge higher than the ceiling rate.</p>
12.	<p>How your bank deal with default payment by customers?</p>	<p>Whenever the customer fails to fulfil their obligations, we as a bank will send a reminder to the customer. The late payment charge of 1% per annum will be charge to the customer. But if the customer still didn't make a payment, the bank has a rights to take the legal action.</p>

13.	What is your bank strategy to promote Islamic house financing?	<p><i>For Maybank Islamic, our target is to become as one of Islamic financing hub in Southeast Asia. Our strategy is, we will always promote Islamic financing products to the customer whenever they approach us. Besides that we also did some marketing plan likes advertisement in social media, electronic media and others channels to attract customer's interest.</i></p>
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## INTERVIEW TRANSCRIPTS 3

### Informants 3

Date: 18<sup>th</sup> October 2019

Time: 9.30 am

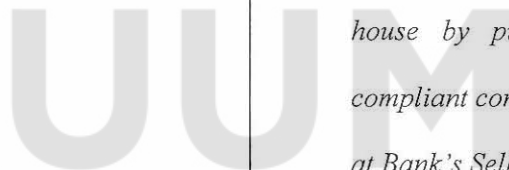
The interview session was held at Bank Muamalat Malaysia Berhad branch located at Alor Setar and its' taken about forty-five minutes.

NO.	QUESTIONS	ANSWERS
1.	Can you tell me the background of Islamic house financing at your bank?	<p><i>Since the establishment of Bank Muamalat, each of the product offering to the customer and operations are meet the Shariah principle. Whatever products and facilities offered by the conventional bank, we also offer the same products and facilities but it was the Islamic products and services.</i></p> <p><i>For house financing product, we applied variety contracts. Its' started with Bay' Bithaman Ajil, Istisna', Qardhul Hassan and Tawarruq. The movement of contracts was in line with the requirement and standard of Bank Negara Malaysia. Its' been applied not only by Bank Muamalat but for every Islamic bank in Malaysia.</i></p>



<p>2.</p>	<p>Can you please elaborate the current practice of Islamic house financing contract at your bank? Please clarify the terms.</p>	<p><i>Right now we are using the concept of Tawarruq contract and employs a hybrid of others Shariah contracts likes Murabahah, Wakalah and Wa'd Mulzim for house financing which it can finance the completed or under construction house. The operation started as below:</i></p> <ul style="list-style-type: none"> <li><i>i. The customer will apply for personal financing from the bank by entering binding promise (Wa'd Muzlim) with intention to buy a house by purchase the Shariah compliant commodity from the bank at Bank's Selling Price;</i></li> <li><i>ii. Then, the bank will purchase the commodity from a supplier at Bank's Purchase Price and thereafter sell it to the customer at Bank's Selling Price. The purchase and sell involve the Murabahah contract and the customer needs to pay the bank at Bank's Selling Price on deferred basis;</i></li> <li><i>iii. The customer then will appoint the bank as an agent to sell the</i></li> </ul>
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		<p><i>commodity to a third party to obtain a cash. The cash will be use as provision of financing for customer;and</i></p> <p><i>iv. The contract of Tawarruq was applied to disbursement of financing amount to the customer.</i></p>
3.	<p>What is the factors or elements that influence your bank to choose those types of contract?</p>	<p><i>Every product that we offered to the customer will be evaluate by the Shariah board at our headquarters and it must fulfil the Shariah Principle and Bank Negara requirement. With Tawarruq contract we can see that it's more convenient and transparent.</i></p>
4.	<p>How does your bank help their customer in Islamic house financing?</p>	<p><i>We are helping our customer through the transparency of Islamic finance. If we compare with conventional bank, there is a hidden cost that the customer doesn't know. For example, penalty payment and charge for early settlement.</i></p> <p><i>Besides that, in Bank Muamalat we are not simply approve the customer financing application. The house developer must be under Bank Muamalat's panel. This is important to make sure that the house</i></p>

		<p><i>developer come from a competent and establish company and to avoid the customer from involve in abundant project. The customer also must take Takaful coverage. This is as the protection plan for the customer to cover if there are any unfortunate circumstances happened.</i></p>
5.	<p>As you know, there are sixteen Islamic bank operates in Malaysia. Do the types of contract offered by your bank will affect the customers' choice?</p>	<p><i>Normally the customer who approach the bank was looking for Islamic financing. Most of the doesn't know what kind of contract available and applied by the bank. From my opinion the level of awareness among the customer is still low. Only certain of customer are aware and ask about the contract. The type of contract applied by the bank will not influence the customer's choice.</i></p>
6.	<p>As an Islamic bank, the activities must be compliance with <i>Shariah</i> or Islamic law. What is the <i>Shariah</i> issues facing by your bank regarding the Islamic house financing?</p>	<p><i>No</i></p>
7.	<p>As we know, Islamic finance always promotes justice, fairness and transparency in their operations. From</p>	<p><i>Of course yes because we always explained to the customer about our Standard Operating Procedure and the contract</i></p>

	<p>your opinion does the contract offer to the customer meet all the above criteria in term of ownership?</p>	<p><i>applied. We also have our Shariah Advisory Body which will evaluate the risk, procedure and contract that we applied. We must put an ownership to the customer because we want them to have a sense of belonging. When we own something of course we will have a responsibility towards our belonging.</i></p>
8.	<p>How the ownership processes happened in Islamic house financing?</p>	<p><i>Bank will act as a trustee and the customer as the owner. But the transfer of ownership only made after the customer has made fully settlement. The mechanism is like hire and purchase where the bank is the owner of the house until the customer made the full payment.</i></p>
9.	<p>Does any other charge for early settlement case? Did your bank apply the concept of <i>Ibra'</i> (rebate) for the early settlement?</p>	<p><i>There is no charge for early settlement case. We will grant <i>Ibra'</i> (rebate) to the customer subject to the Shariah principles.</i></p>
10.	<p>What is the different between Islamic house financing and conventional housing loan in term of pricing?</p>	<p><i>For Bank Muamalat or I believe others Islamic bank will apply the same concept because we are being monitoring by Bank Negara Malaysia. In Islamic bank, the Islamic Base Rate was made up by two parts which are benchmark Cost of Funds (COF)</i></p>

		<p><i>and the Statutory Reserve Requirement (SRR) cost which imposed by Bank Negara. The fluctuation of Islamic Base Rate will be protected by the ceiling rate. Unlike conventional bank the Base Rate will fluctuate based on the global conditions and economic environment.</i></p>
11.	<p>From customers' perspective, Islamic house financing is expensive compare with conventional loan. Did you agree with that statement?</p>	<p><i>I'm not agree because in Islamic finance, the customer won't be charge more than the ceiling rate like I have inform before. As an Islamic bank we will always give the best to our customer. We will not burden the customer. We don't have any hidden cost unlike conventional loan.</i></p>
12.	<p>How your bank deal with default payment by customers?</p>	<p><i>If the customer fails to fulfil their obligations, we will charge Ta'wid (compensation) which equivalent with 1% per annum of the overdue instalment. We only take the legal action after the customer still fail to fulfil their obligation even though after the negotiation.</i></p>

13.	What is your bank strategy to promote Islamic house financing?	<i>We will always do promotion to promote our current promotion through social media, advertisement, and we also went to government and private office to attract the customer.</i>
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## INTERVIEW TRANSCRIPTS 4

### Informants 4

Date: 18<sup>th</sup> October 2019

Time: 3.00 p.m

The interview session with Bank Islam Malaysia Berhad officer was done at Alor Setar and the session taken about forty minutes.

NO.	QUESTIONS	ANSWERS
1.	Can you tell me the background of Islamic house financing at your bank?	<i>As everybody knows, Bank Islam is the first Islamic bank establish in Malaysia. The main purposes of the establishment of Bank Islam is to cater the financing needs among the Muslims customer. But nowadays our customers were not only limited to the Muslims but also to the non-Muslims. Of course when we are open an Islamic bank, the products and services that we provided same as the others conventional banks likes deposits, property financing and others. We offer Shariah compliant house financing started with Bay Bithman Ajil contract and now we are using Tawarruq contract.</i>

2.	<p>Can you please elaborate the current practice of Islamic house financing contract at your bank? Please clarify the terms.</p>	<p><i>The Shariah concept that we are using now is Tawarruq which means the purchase of commodity on deferred payment basis. The operation started as below:</i></p> <ul style="list-style-type: none"> <li><i>i. The customer will purchase a commodity from the bank at Bank's Sale Price on Murabahah basis. The purchase will be made by the bank as the Purchase Agent for the customer;</i></li> <li><i>ii. The customer will also appoint the bank as the Sale Agent where the bank need to sell the commodity to a commodity purchaser at cost price to obtain a cash for customers' financing used; and</i></li> <li><i>iii. The customer was obligated to pay the bank at the Bank Sales Price on deferred basis as per agreed term.</i></li> </ul>
3.	<p>What is the factors or elements that influence your bank to choose those types of contract?</p>	<p><i>In determine the contract of the product offered, main factor that take under the consideration is the contract that accepted worldwide which means that the contract not just accept in Malaysia but also in other country. At Bank Islam we also have the</i></p>



		<i>Shariah board who will make sure the products or services that we want to offer must meet the Shariah compliant and fulfil the Bank Negara's requirement.</i>
4.	How does your bank help their customer in Islamic house financing?	<i>The Bank's Sales Price that we offered for house financing facility was based on the Ceiling Profit Rate which is fixed throughout the tenure. With the fixed monthly repayment will help the customer to make an adjustment on their monthly budget. The customer also need to have a Takaful coverage to protect them from bad circumstances.</i>
5.	As you know, there are sixteen Islamic bank operates in Malaysia. Do the types of contract offered by your bank will affect the customers' choice?	<i>It can be considering that the types of contract offered by the Islamic bank might influence the customer's intention but mostly the customer preference was to get a financing via Islamic bank which is the operation was halal and Shariah compliance. So their choice was not affected by the contract but the Islamic bank itself.</i>
6.	As an Islamic bank, the activities must be compliance with <i>Shariah</i> or Islamic law. What is the <i>Shariah</i> issues facing	<i>New appointed staff that may have lack of knowledge that leads to non Shariah compliance</i>

	by your bank regarding the Islamic house financing?	
7.	As we know, Islamic finance always promotes justice, fairness and transparency in their operations. From your opinion does the contract offer to the customer meet all the above criteria in term of ownership?	<i>Yes. Islamic finance is unique where we transparent in all transaction involve. We did mention to the customer their obligation as the owner of the house and the risk involve.</i>
8.	How the ownership processes happened in Islamic house financing?	<i>The operation of all banking industry either Islamic or conventional must meet the rules and requirement fixed by Bank Negara Malaysia. I believe the process all same which the transfer of ownership will be done via legal contract after the customer made full settlement.</i>
9.	Does any other charge for early settlement case? Did your bank apply the concept of <i>Ibra'</i> (rebate) for the early settlement?	<i>There is no charge for early settlement case. We will give <i>Ibra'</i> (discount) on the deferred profit if the customer want to make a full settlement and terminate the financing.</i>
10.	What is the different between Islamic house financing and conventional housing loan in term of pricing?	<i>The major different between Islamic bank and conventional bank is the selling price. Under Islamic house financing, the Islamic selling price has been determined and the</i>

		<i>customer will know how much they need to pay every month</i>
11.	From customers' perspective, Islamic house financing is expensive compare with conventional loan. Did you agree with that statement?	<i>No, I'm not agree. As mentioned before the customer was protected with Islamic Base Rate.</i>
12.	How your bank deal with default payment by customers?	<i>We have our own SOP to handle the default payment case. For late payment we will charge Ta'wid (compensation) which is equal to 1% per annum on overdue instalment until the customer made the payment. If the customer still didn't make any payment, we will give out a notice to the customer asking to make an immediate payment. We also have a right to set-off any credit balance in customers account. The last option that we have is to take a legal action to the customer.</i>
13.	What is your bank strategy to promote Islamic house financing?	<i>Our strategy is to educate people the true beauty of Islamic house financing by doing more product briefing and media advertisement.</i>


## INTERVIEW TRANSCRIPTS 5


### Informants 5

Date: 25<sup>th</sup> October 2019

Time: 3.30 p.m

The interview session with Bank Rakyat officer was done at Alor Setar and the session taken about thirty minutes.

NO.	QUESTIONS	ANSWERS
1.	<p>Can you tell me the background of Islamic house financing at your bank?</p> 	<p><i>Bank Rakyat started as cooperative bank aiming to become a leading in Islamic cooperative bank in domestic and international level. If I'm not mistaken for Islamic house financing, we started with Bai 'Inah contract and now we apply house financing under Tawarruq contract.</i></p>
2.	<p>Can you please elaborate the current practice of Islamic house financing contract at your bank? Please clarify the terms.</p>	<p><i>Currently, Bank Rakyat use Tawarruq and based on Wa'd (promise) from the customer. The operation started as below:</i></p> <ul style="list-style-type: none"> <li><i>i. The bank will buy a commodity from the commodity trader and sell it back to the customer under Murabahah sale price on deferred payment basis. The sale price</i></li> </ul>

		<p><i>includes the cost of commodity and profit;</i></p> <p><i>ii. The customer will appoint the bank as an agent will sell the commodity to third party to obtain cash; and</i></p> <p><i>iii. The payment received from the third party buyer will be deposited into payee's account.</i></p>
3.	<p>What is the factors or elements that influence your bank to choose those types of contract?</p> 	<p><i>We have Shariah Advisory Council at the headquarters. The choose of contract will determined by them and of course it must meet the rules and requirement stated by Bank Negara Malaysia. I think the process and procedure are same for all Islamic bank.</i></p>
4.	<p>How does your bank help their customer in Islamic house financing?</p>	<p><i>We help the customer through our Bank's Selling Price which derived from the Ceiling Profit Rate. It was fixed throughout the tenure. The customer will know their how much their allocation for their house financing.</i></p> <p><i>In order to protect the customer, they are required to subscribe for House Owner Takaful Coverage with any Takaful</i></p>

		<i>Operator to protect them from any bad circumstances.</i>
5.	As you know, there are sixteen Islamic bank operates in Malaysia. Do the types of contract offered by your bank will affect the customers' choice?	<i>The customer normally come to Bank Rakyat because they want an Islamic financing. Regarding the contract, they just understand about it when we explain to them.</i>
6.	As an Islamic bank, the activities must be compliance with <i>Shariah</i> or Islamic law. What is the <i>Shariah</i> issues facing by your bank regarding the Islamic house financing?	<i>No</i>
7.	As we know, Islamic finance always promotes justice, fairness and transparency in their operations. From your opinion does the contract offer to the customer meet all the above criteria in term of ownership?	<i>Yes. Before the customer sign the sale and purchase agreement, we will explain everything that the customer need to know including the term and condition. Which is we being transparent with them. Customer need to understand their obligation towards the house.</i>
8.	How the ownership processes happened in Islamic house financing?	<i>Bank is the owner of the house or property until the customer complete the payment. We have the term and condition that the customer is obligated on any loss or damage of the house. Then the transfer of</i>

		<i>ownership will fully transfer to the customer.</i>
9.	Does any other charge for early settlement case? Did your bank apply the concept of <i>Ibra'</i> (rebate) for the early settlement?	<i>We are giving Ibra' (rebate) on the deferred profit if they want to settle the financing before its maturity.</i>
10.	What is the different between Islamic house financing and conventional housing loan in term of pricing?	<i>The rate was fluctuating but we have our way to calculate it. There is the calculation.</i>
11.	From customers' perspective, Islamic house financing is expensive compare with conventional loan. Did you agree with that statement?	<i>No, I don't think so.</i>
12.	How your bank deal with default payment by customers?	<i>We have to follow the procedure in handling default payment case. Ta'wid (compensation) will be charge for late payment which is 1% per annum on the overdue instalment amount. If the customer unable to made the payment, after reminder send to the customer, legal action will take place.</i>

13.	What is your bank strategy to promote Islamic house financing?	<i>We have our own strategy to promote the Islamic house financing likes advertisement via electronic media, social media and others.</i>
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