



COMPARATIVE STUDY OF THE EVENTS OF
DEFAULT AND ITS CONSEQUENCES IN
MUSYARAKAH MUTANAQISAH AND *AL-IJARAH*
MUNTAHIA BI AL-TAMLIK HOME FINANCING

BY

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A research paper submitted in partial fulfilment of the
requirement for the degree of Master of Science in Islamic
Banking and Finance

IIUM Institute of Islamic Banking and Finance
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MARCH 2016

ABSTRACT

The paper examines the *Musyarakah Mutanaqisah* and *Al-Ijarah Muntahia Bi Al-Tamlik* home financing products which are introduced by the Islamic banking industry as an alternative of *Bai` Bithaman Ajil* contract which has received criticisms for mimicking conventional loan. The research focuses on aspect of the events of default and its consequences. Both structures are ruled permissible subject to certain criteria by local regulatory and international standard setting bodies. The secondary data shows that *Musyarakah Mutanaqisah* and *Al-Ijarah Muntahia Bi Al-Tamlik* have different principles and characteristics which may lead to different set of events of default and consequences. The research analyses both sets of agreements used for *Musyarakah Mutanaqisah* and *Al-Ijarah Muntahia Bi Al-Tamlik* home financing products. The main finding indicates that there are similarities of events of default between the products. Furthermore, the events will trigger the Purchase Undertaking by the customer to acquire the outstanding amount or pay the exercise price. The research concludes that the mechanism used to recover the principle and profit in both structures is identical.

ملخص البحث

هذه الورقة البحثية تبحث عن اثنين من منتجات التمويل العقاري الإسلامي: المشاركة المتناقصة والإجارة المنتهية بالتملك. تم تقديمهما من قبل المصرفية الإسلامية بديلا عن البيع بثمن آجل التي قد تلقت انتقادات واسعة لمحاكاته القرض التقليدي. كما يركز هذا البحث على جوانب حالات التعثر وعواقبها. كلتا المنتجان تمت إباحتهما من قبل الجهات الرقابية المحلية والدولية بشرط توفر معايير معينة. تظهر البيانات الثانوية أن المشاركة المتناقصة والإجارة المنتهية بالتملك لديهما مبادئ وخصائص مختلفة قد تؤدي إلى مجموعة اختلافات في حالات التعثر وعواقبها. ويحلل هذا البحث عقود المشاركة المتناقصة والإجارة المنتهية بالتملك والنتيجة الرئيسة تشير إلى وجود أوجه التشابه بين المنتجين فيما يتعلق بحالات التعثر وعلاوة على ذلك، أن أحداث التعثر سوف تستدعي العميل للعمل على الوعد بالشراء باكتساب المبلغ القائم أو دفع سعر التنفيذ. ويستنتج البحث على أن الآلية المستخدمة في كلا الهيكلين تعمل على استعادة الأساس والربح.

APPROVAL PAGE

I certify that I have supervised and read this study and that in my opinion; it conforms to acceptable standards of scholarly presentation and is fully adequate, in scope and quality, as a research paper for the degree of Master of Science in Islamic Banking and Finance.

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ACKNOWLEDGEMENTS

Firstly, it is my utmost pleasure to dedicate this work to my dear parents especially Ummi, my beloved wife and lovely daughter, who granted me the gift of their unwavering belief in my ability to accomplish this goal: thank you for your support and patience.

I wish to express my appreciation and thanks to International Research Academy for Islamic Finance (ISRA) who provided me with the opportunity to pursue my postgraduate degree.

Finally, a special thanks to Associate Professor Dr Rusni Hassan for her continuous support, encouragement and guidance, and for that, I will be forever indebted.

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CHAPTER ONE

INTRODUCTION

1.1 BACKGROUND OF THE RESEARCH

One of the basic human needs is shelter or home; a place that protect us from the elements so as to enable us to satisfy our other needs. Today, due to high cost, we need to borrow or seek financing from a bank to own a property. Unsurprisingly, mortgage loan or financing is among the biggest portfolios in the banking industry¹.

Table 1.1 Loans applied by purpose

Date/Purpose	Working Capital	Purchase of residential property	Purchase of transport vehicle	Purchase of non-residential property	Purchase of passenger cars
September 2015	16,530.7	18,210.7	7,234.4	7,630.6	6,758.7

*RM million
Source: BNM

Conventional banking system in Malaysia has come a long way since the 19th century² and has been providing loans to the public. The Islamic financial services industry was established to serve the needs of Muslims with a viable alternative to conventional banking. Importantly, the alternatives have to be Shariah compliant and at the same time competitive. In view of providing viable alternatives, Islamic banks have introduced several home financing products.

¹ Statistics obtained from BNM. Loans applied by purpose.

² The Association of Banks in Malaysia, "History of the Banking Industry in Malaysia", The Association of Banks in Malaysia, <http://abm.org.my/index.cfm?sc=history_of_the_banking_industry_in_malaysia> (accessed 2 December, 2015).

During the early days of Islamic banking in Malaysia, most Islamic financial institutions offered home financing structured using *Bai` Bithaman Ajil* which is also known as BBA. This concept was not widely accepted by Gulf countries but was the easiest to implement given Malaysia's dual banking system³. Islamic banking was a new entrant in the banking system and had to operate in a regulatory environment which was not yet conducive for Islamic financing. Islamic home financing has since evolved and many financial institutions now offer Islamic financing structure using Shariah contracts that are more receptive worldwide such as *Musyarakah Mutanaqisah*, *Murabahah*, *Commodity Murabahah*, *Al-Ijarah Muntahia Bi Al-Tamlik* and others.

1.2 PROBLEM STATEMENT

In a dual financial system such as Malaysia, the competitiveness between Conventional Banking System and Islamic Banking System has been intense. Whatever the conventional bank has, the Islamic bank will offer the same. In this context, home loan has existed in Malaysia since the introduction of the banking system. With the incorporation of Bank Islam Malaysia Berhad in 1983, the latter started to offer Islamic house financing based on *Bai` Bithaman Ajil*. Though at the beginning it was a mere duplication, Islamic Banking System has rapidly progressed and started to improvise the *Bai` Bithaman Ajil* as well as introducing more house financing facilities such as *Musyarakah Mutanaqisah* and *Al-Ijarah Muntahia Bi Al-Tamlik*. Recently, some of the public and academicians who have questioned the legality of the products offered by Islamic banks felt that there was no difference to a conventional product; the products offered by Islamic banks do not fulfil the *Maqasid*

³ En Abdul Ghani Endut, head of Shariah CIMB Islamic bank, shared during Ijtima' ASAS that it was due to tax issues which resorted the usage of *Bai` Bithaman Ajil* in the early days of Islamic banking.

Al-Shariah or protect the rights of the consumer⁴. These issues usually arise whenever the customer defaults on his financing. This research hence will look into the events of default, its effects or consequences and how it is currently practised in the case of *Musyarakah Mutanaqisah* and *Al-Ijarah Muntahia Bi Al-Tamlik*.

1.3 RESEARCH OBJECTIVES

The research aims to achieve the following objectives:

- a. Examine both financing structures under *Musyarakah Mutanaqisah* and *Al-Ijarah Muntahia Bi Al-Tamlik* home financing products in Malaysia.
- b. Determine the events of default which trigger default for both home financing contracts in Malaysia.
- c. Establish the effects of default for both home financing contracts in Malaysia.

1.4 RESEARCH QUESTIONS

The above mentioned objectives have led to the following main and sub-research questions:

- a. What are the home financing structures that Islamic banks use under *Musyarakah Mutanaqisah* and *Al-Ijarah Muntahia Bi Al-Tamlik* home financing products in Malaysia?
- b. Which regulatory standards do these products in compliance with?
- c. Is there any difference theoretically from the actual practice?
- d. What are the events that trigger default for both products?

⁴ Ahmad Kameel Mydin Meera and Dzuljastri Abdul Razak., "Islamic Home Financing through Musharakah Mutanaqisah and Al-Bay' Bithaman Ajil Contracts: A Comparative Analysis." *Review of Islamic Economics* vol. 9, no.2 (2005): 9.

- e. What are the effects of default for both products?

1.5 SCOPE OF RESEARCH

The research will focus on *Musyarakah Mutanaqisah* and *Al-Ijarah Muntahia Bi Al-Tamlik* home financing products offered in Islamic Banks in Malaysia.

Due to lack of time and limitation of accessing information, this research will only discuss on the common *Musyarakah Mutanaqisah* and *Al-Ijarah Muntahia Bi Al-Tamlik* home financing structure offered by Islamic banks in Malaysia.

1.6 SIGNIFICANCE OF RESEARCH

The researcher hopes that this research will shed more light in the understanding of *Musyarakah Mutanaqisah* and *Al-Ijarah Muntahia Bi Al-Tamlik* home financing products and its practice in Malaysia.

The findings of this research would be of interest to the academicians, practitioners and regulators as the research will attempt to analyse the legal agreement focusing the events of default and its effects of default. The research will also propose recommendations whenever necessary.

1.7 ORGANISATION OF THE RESEARCH

This research is divided into five chapters. The first chapter introduces the background of this research, the problem statement, the objectives and research questions, significance of the research and its scope and limitations. While the rest of the research is organised as follows: Chapter two will discuss on the literatures relevant to the research followed by chapter three which will focus on the theoretical Shariah concepts and practices of each product: *Musyarakah Mutanaqisah* and *Al-Ijarah*

Muntahia Bi Al-Tamlik as well as its structure in home financing in Malaysia. Chapter four will highlight the objectives of recovery, recovery process in Islamic banks, late payment charges impose on customers as deterrence and the rescheduling and restructuring of the facilities. Chapter five will highlight the research design and analyse the legal documents. Chapter six concludes the research and provides suggestions and recommendations.

1.8 CHAPTER SUMMARY

This chapter has presented and discussed the background of the research. It explained the importance of having a viable Shariah compliant home financing product as a reliable alternative to the conventional mortgage and a tool for the public especially the Muslims to own a house. Additionally, the statement of the problem was discussed, as this research set to look into the events of default and its effects for the case *Musyarakah Mutanaqisah* and *Al-Ijarah Muntahia Bi Al-Tamlik*. This chapter also presented the research objectives and questions. The significance of the research followed, highlighting how this research fills the gap in the lack of practical understanding of *Musyarakah Mutanaqisah* and *Al-Ijarah Muntahia Bi Al-Tamlik* especially in the occurrence of event of default and its effects and consequences. Finally, the scope of the research was mentioned, followed by organisation of this research.

CHAPTER TWO

LITERATURE REVIEW

2.1 INTRODUCTION

In this research, the researcher will attempt to examine both financing structures under *Musyarakah Mutanaqisah* and *Al-Ijarah Muntahia Bi Al-Tamlik* home financing products in Malaysia as well as to determine the events of default which trigger default for both home financing contracts in Malaysia. The research will also establish the effects or consequences of default for both home financing contracts in Malaysia.

To fulfil these objectives, the researcher views that it is important to review the current and past literatures. Nevertheless, due to limitations on related articles in this research, the researcher has selected the most relevant articles available on the issues discussed. The researcher uses several sources to conduct a literature review including primary and secondary data; namely books, research papers, internet sources, academic journals, articles as well as professional financial reports.

In this chapter, the researcher will review the existing literature related to Islamic finance in Malaysia, before covering the home financing setting in Malaysia. Concluding this chapter are the literature reviews on the following products: *Musyarakah Mutanaqisah* and *Al-Ijarah Muntahia Bi Al-Tamlik*.

2.2 ISLAMIC FINANCE IN MALAYSIA

Since its inception more than 30 years ago, Islamic finance in Malaysia has progressed into a sophisticated and comprehensive Islamic finance industry. The enactment of the Islamic Banking Act 1983 enabled the country's first Islamic Bank to be established and subsequently, more Islamic financial institutions have been

established and incorporated locally with the liberalisation of the Islamic financial system. Malaysia's track record of over 30 years, building a successful domestic Islamic financial industry has been acknowledged globally¹. Presently, Malaysia's Islamic banking assets reached USD65.6 billion with an average growth rate of 18-20% annually². As at end of July 2012, Islamic banks accounted for 24.2 percent or 69.5 billion ringgit of the country's total banking assets, up from 23.7 percent at the end of last year³.

Today Islamic finance in Malaysia has progressed into a sophisticated and comprehensive form of financial intermediation that serves all types of consumers and businesses. The Islamic finance industry is currently worth more than \$1 trillion and growing at a rate of 15-20 percent annually, with projected growth to reach \$2 trillion in the next 3 to 5 years. The appeal of Islamic finance has not only enticed more countries around the world to further develop Islamic finance within their jurisdictions, but it also led a number of established conventional players to enter the industry, thus diversifies the range of Islamic financial institutions and its products. The impressive growth also expands to various parts of the world such as the West and the Asia Pacific region where the growth is driven by commercial and business considerations⁴.

Malaysia is the leading Islamic banking and financial market which valued RM113.5 billion (US\$30.9 billion) in Islamic banking assets, RM6.2 billion (US\$1.7 billion) in Takaful assets and the largest Islamic Private Debt Securities (IPDS)

¹ Ahmad Husni Hanadzlah, "Islamic Finance – Viability, Credibility, & Sustainability", Malaysia International Islamic Finance Centre, <http://askprof.mifc.com/index.php?ch=menu_med&pg=menu_med_spe&ac=2451> (accessed 2 December, 2015).

² Bank Negara Malaysia, "Overview of Islamic finance in Malaysia", Bank Negara Malaysia, <http://www.bnm.gov.my/index.php?ch=fs_mfs&pg=fs_mfs_bank#Overview>(accessed 2 December, 2015).

³ Reuters, "Islamic banks' market share grows in Malaysia", Reuters, <<http://in.reuters.com/article/2012/09/28/malaysia-banks-idINL4E8KR2TK20120928>> (accessed 2 July, 2015).

⁴ Mohamad Zaid Mohd Zin and et al., "Growth and Prospect of Islamic Finance in Malaysia" *International Conference on Social Science and Humanity*, vol. 5, (2011), 182.

market comprised of RM125 billion or US\$34 billion (45.5%) of domestic corporate bonds with active Islamic money market channelling about RM30 billion - RM40 billion monthly⁵.

The comparison between conventional products and Islamic products has been highly anticipated. This inescapable comparison is due to the existence of dual banking system in Malaysia. Price competitiveness has to remain tight between the two⁶ or will be left behind.

The world is still reeling from the after effect of the United States subprime crisis of 2009. It all started from a home loan which has actually been affecting United States since the Great Depression of the 1930s⁷. The impact was very severe, to the extent that real output declined greatly. Hence, people have started to search for alternatives for their future betterment.

A research by Dusuki and Abdullah revealed that customers' satisfaction often depends on the quality of services provided by Islamic banks⁸. The quality of services covers the basics such as treating customers with courtesy and respect, effectiveness and efficiency in handling any transaction; and to the extent of having the knowledge and preparedness in providing solutions and advices in relation to Islamic banks' products and services. This finding was again confirmed by Osman and her group of researchers which stated that full-fledged Islamic banks have to consistently manage their service quality to sustain their market positioning, as this will entail customers' satisfaction and ultimately customers' loyalty⁹. They need to remain competitive

⁵ Ibid.

⁶ Islamic Finance Asia, *Paying the Price: Conventional versus Islamic*, (n.p, 2008), 34-35.

⁷ Dwight M. Jaffee, *The U.S Subprime Mortgage Crisis Issues Raised and Lessons Learned*, (Washington: The International Bank for Reconstruction and Development/The World Bank, 2008), 1.

⁸ Asyraf Wajdi Dusuki and Nurdianawati Irwani Abdullah "Why do Malaysian customers patronise Islamic banks?" *International Journal of Bank Marketing*, vol. 25, no.3 (2007), 153.

⁹ Ismah Osman and et al., "Customers Satisfaction in Malaysian Islamic Banking" *International Journal of Economics and Finance*, vol.1, no.1 (2009), 199.

especially with their conventional or international counterparts by offering good quality products and delivering good services as well as not only to rely on religious grounds and sentiments to draw customers. Additionally, Islamic services and products are well received by non-Muslims population in the city area. However, due to lack of information and consumers' awareness programmes provided by the Islamic banking fraternity to the public, the non-Muslims are unsure of the potentials of Islamic banking products in the future¹⁰. Hence, in order for Islamic banks to prosper progressively, it has to appeal to both Muslims and non-Muslims.

2.3 HOME FINANCING SETTING IN MALAYSIA

Housing provides physical, economic, and social security to the resident. Housing plays a critical role in the development of the economy. Housing sector is linked to many other sectors and therefore any changes in this sector will have an impact on the others. This sector simultaneously promotes employment, consumption and investment in the economy. Housing represents 15-40 percent of the monthly expenditure of households worldwide and the investment in housing accounts for 15-35 percent of aggregate investment¹¹.

Issues pertaining to affordability and sustainability of housing have been among the major concerns to households especially those living in major cities¹². Hashim further explained that economic theory depicts that housing is a market commodity, thus supply and demand determines the quantity and the selling price of housing produced. However, the authorities' role is essential in ensuring that adequate

¹⁰ Abdul Aziz Abdullah and et al., "Perception of Non-Muslims Customers towards Islamic Banks in Malaysia". *International Journal of Business and Social Science*, vol. 3, no.11 (2012), 161.

¹¹ Nasim Shah Shirazi and et al., *Challenges of Affordable Housing Finance in IDB Member Countries Using Islamic Modes*, (Jeddah: Islamic Research and Training Institute, 2012), 2.

¹² Zainal Abidin Hashim, "House Price and Affordability in Housing in Malaysia" *Akademika*, vol. 78, no.1 (2010), 46.

and suitable housing are accessible to the majority of the community so as to create a balance and nurturing equilibrium in housing ownership.

Abandoned housing projects are one of the biggest concerns in Malaysia. While addressing concerns on the abandoned cases faced by the Malaysians in 2007, the previous prime minister Tun Abdullah Badawi proposed to have a ‘build then sell’ model in Malaysia. However, his efforts received heavy resistance from the developers who were concerned that the model would severely impact their cash flow¹³.

Islamic Property Financing in Malaysia is one of the most established Islamic Property Financings in the world. However, most of its salient characteristics are almost similar to the conventional property loans whereby most of the significant terms are merely changed to Islamic based terms and the aqad or contract is executed in order to make the property Islamic finance¹⁴. The effort to offer Islamic Finance is understandably guided by the profit motive, but a social dimension has to surface in the course of time¹⁵. Unfortunately, the models banks currently use for home financing in Malaysia are often arguably not transparent.

2.4 ISLAMIC HOME FINANCING STRUCTURES

The primary purpose of a home or property financing is to facilitate the purchase of or to fund the construction of a property. During the early days of Islamic banking in

¹³ Mohd Zulkifli Muhammad and et al., “BBA Home Financing Setting in Malaysia” in *Business and Finance: Emerging Issues*, edited by Norazah Mohd Suki (Kota Kinabalu: Penerbit Universiti Malaysia Sabah, 2011).

¹⁴ Hasroleffendy Hassan, “Islamic Property Financing in Malaysia: Critical Appraisals and Practical Recommendations”, *International Conference on Social Science and Humanity*, vol. 10, (2011), 367-374.

¹⁵ Zubair Hasan, “Islamic Home Financing in Social Mirror”, *ISRA International Journal of Islamic Finance*, vol. 3, no.1 (2011). 7.

Malaysia, Islamic home financing was structured using *Bai` Bithaman Ajil*¹⁶. Islamic home financing has since evolved and developed. This evolution has been supported by literatures which have shown that the most common mode of structures and varieties of Islamic home financing offered and provided by banks serves as an alternative to conventional mortgages. These are, *Musyarakah Mutanaqisah*, *Ijarah* or *Al-Ijarah Muntahia Bi Al-Tamlik* or parallel *Istisna'*¹⁷. This research will focus on *Musyarakah Mutanaqisah* and *Al-Ijarah Muntahia Bi Al-Tamlik*.

2.5 BAI` BITHAMAN AJIL HOME FINANCING

Since the establishment of the first Islamic bank in 1984 in Malaysia, there has been a need to replace the conventional home financing which is totally based on interest (*Riba*). Therefore, to provide a product for home financing with an interest free structure, comes the concept of *Bai` Bithaman Ajil* as a home financing product offered by the Islamic banks for both Muslims and non-Muslims¹⁸. *Bai` Bithaman Ajil* is a contract of deferred payment sale which includes a profit margin agreed to by both parties¹⁹. Since Islamic financing requires a predetermined profit to be made by the bank, a buyer needs not worry about a sudden hike or changes in the interest rates²⁰. In addition to that, the Islamic banks have to disclose the selling price.

¹⁶ Fadzila Azni Ahmad, *Pembiayaan Perumahan Secara Islam: Antara Nilai Komersial dan Tanggungjawab Sosial*, (Kuala Lumpur: Utusan Publications & Distributions Sdn Bhd, 2003), 60; Mahsuri Mustaffa, *Structuring Islamic Financing Facilities: A Guide for the Practitioner*, (Kuala Lumpur: IBFIM, 2014), 73.

¹⁷ Parallel *Istisna'* is defined as two forms of separate *Istisna'* contract whereby the first contract involves the bank as a builder and concludes a contract with the customer, and in the second contract, the bank acts as a purchaser and concludes another contract with a builder or developer in order to accomplish its contractual obligations towards the customer in the first contract. See International Shariah Research Academy for Islamic Finance (ISRA), *Islamic Financial System: Principles & Operations*, (Kuala Lumpur: ISRA, 2013), 322.

¹⁸ Ahmad Tarmidzi Al-Muttaqi Mahmood, "Bay' Bi Thaman Ajil (BBA) in House Financing as Implemented by Malaysia Financial Institutions: A Critical Analysis of Its Procedures and Application from the Fiqh Point of View", (Master thesis, International Islamic University Malaysia, 2007), 1.

¹⁹ *Ibid.*, 14-15.

²⁰ Mohd Zulkifli and et al., 70.

Findings from a survey, surprisingly shows that non-Muslim customers appear to have greater acceptance in *Bai` Bithaman Ajil* due to its ability to fulfil socially desirable objectives compared to the conventional home mortgage²¹.

Over the years, controversial cases on *Bai` Bithaman Ajil* house financing have emerged and are increasing in numbers. This posed problems for the consumers, financiers and also the regulators. *Bai` Bithaman Ajil* is based on debt concept which in turn will lead to high cost and this poses a burden to one's commitments²². Some argued that *Bai` Bithaman Ajil* does not comply to Shariah principles where the bank does not take the ownership risk. Should the asset be not completed nor has a defect, the bank is not liable for any product defects and the ensuing compensatory damages²³. In addition, *Bai` Bithaman Ajil* contains element of *Bai' Inah*²⁴ of which is prohibited by majority of the scholars²⁵. Another argument is the usage of interest rate such as London Interbank Offered Rate (LIBOR) or Kuala Lumpur Interbank Offered Rate (KLIBOR) as a benchmark to determine the profit rate²⁶. This is contradicting to the very essence of having an Islamic financial system that is free from interest. Furthermore, *Bai` Bithaman Ajil* products offer for houses under construction may involve with the occurrence of extreme uncertainty whereby the house may not be

²¹ Dzuljastri Abdul Razak and et al., "Consumers' Acceptance on Islamic Home Financing: Empirical Evidence on Bai Bithaman Ajil (BBA) in Malaysia", paper presented at IIUM International Accounting Conference IV (INTAV), Marriot Putrajaya Hotel 24-26 June, 2008.

²² Dzuljastri and et al, 2.

²³ Saiful Azhar Rosly and et al., "The Role of *Khiyar Al-'Ayb* in *Al-Bay' Bithaman Ajil* Financing", *International Journal of Islamic Financial Services*, vol. 2, no.3 (2000), 1.

²⁴ Bai' Inah is a kind of sale which its subject matter is sold back to the seller. See Zaharuddin Abd Rahman, *Contracts & The Products of Islamic Banking*, (Kuala Lumpur: CERT Publications Sdn. Bhd., 2012), 109; Nuarrual Hilal Md. Dahlan and Sharifah Zubaidah Syed Abdul Kader Aljunid, "Shariah and Legal Issues in House Buying in Malaysia: The Legality of *Bay' Bithaman-Al-Ajil* ('BBA') with Special Reference to Abandoned Housing Projects, *Pertanika Journal of Social Sciences & Humanities*, vol. 19, no.2 (2011), 350.

²⁵ Zaharuddin, 97.

²⁶ Ahmad Kameel Mydin Meera and Dzuljastri Abdul Razak., "Home Financing through the Musharakah Mutanaqisah Contracts: Some Practical Issues". *Journal of King Abdul Aziz University: Islamic Economics*, vol. 22, no. 1 (2009), 4.

completed²⁷. In the case of abandoned projects, the customer has to pay the disbursed amount to the banks²⁸.

Another point worth mentioning is that if the borrower defaults, he has to pay the whole amount of the debt and the profit margin for the whole repayment of the instalment period without being entitled to any equitable and appropriate rebate²⁹. However, this concern has been resolved by Bank Negara Malaysia by imposing rebate on the Islamic banks as a regulatory requirement³⁰.

Given the issues and controversies surrounding *Bai` Bithaman Ajil* as mentioned above, Islamic banks in Malaysia are moving away from offering *Bai` Bithaman Ajil* as their main home financing product.

2.6 MUSYARAKAH MUTANAQISAH HOME FINANCING

As there are controversies surrounding *Bai` Bithaman Ajil* locally and internationally, *Musyarakah Mutanaqisah* concept has been proposed³¹. A number of researches have been conducted by drawing comparisons between *Bai` Bithaman Ajil* and *Musyarakah Mutanaqisah*. *Musyarakah Mutanaqisah* is considered more in line with Shariah teachings which promote Maslahah. As such, Smolo and Hassan proposed that it should be used more by Islamic financial institutions³².

Musyarakah Mutanaqisah consists of three contracts which are; the contract of *Musharakah*, the contract of *Ijarah* and the contract of *Bai`* or sale. Since *Musyarakah*

²⁷ Nuarrual Hilal and Sharifah Zubaidah, 355.

²⁸ Ibid, 357

²⁹ Nuarrual Hilal and Sharifah Zubaidah, 357.

³⁰ BNM has issued Guidelines on Ibra' (Rebate) for Sale-Based Financing on 1 November 2011

³¹ Dzuljastri and et al., 18; Kameel & Dzuljastri, 4; Nooraslinda Abdul Aris and et al., "Islamic house financing: Comparison between Bai' Bithamin Ajil (BBA) and Musharakah Mutanaqisah (MM)", *African Journal of Business Management*, vol. 6, no.1 (2012), 266;

³² Edib Smolo & M. Kabir Hassan, "The potentials of Musharakah Mutanaqisah for Islamic housing finance", *International Journal of Islamic and Middle Eastern Finance and Management*, vol. 4, no. 3 (2011), 253.