



DEVELOPMENT AND VALIDATION OF A
FINANCIALLY AFFORDABLE ISLAMIC HOME
FINANCING MODEL IN MALAYSIA

BY

MOHD ZAIDI MD ZABRI

A thesis submitted in fulfilment of the requirement for the
degree of Doctor of Philosophy in
Islamic Banking and Finance

IIUM Institute of Islamic Banking and Finance
International Islamic University Malaysia

JANUARY 2018

ABSTRACT

Home is a basic need. Yet it is becoming increasingly difficult for many Malaysians, particularly the low- and middle-income households to afford to buy a house. Studies have shown that the lack of financial affordability is largely due to the existing debt-based financing model and they have recommended the use of equity-based home financing model to be offered by financial cooperatives. Hence, this study developed and validated an integrated Cash *Waqf*-Financial Cooperative-*Musharakah Mutanaqisah* (CWFCMM) Model that could be used to provide financially affordable Islamic home financing in Malaysia. The study used mixed methods of interviews and questionnaire surveys. The interviews were conducted with 10 expert informants to validate the CWFCMM Model. The questionnaires, developed based on the extended Theory of Planned Behaviour (TPB), were distributed to 417 respondents, out of which 382 were usable. The interview data were analysed using thematic analysis while the data from the questionnaire survey were analysed using the Structural Equation Modelling (SEM). Expert informants unanimously agree that the Model is a viable alternative for financially affordable Islamic home financing model in Malaysia. Similarly, the findings from the quantitative survey data are also positive and promising. The study hypothesised that the Behavioural Intention of potential homeowners to participate in the CWFCMM Model is influenced by Attitude, Subjective Norm, Perceived Behavioural Control, and Perceived Cost Advantages. The study finds that: (1) when a potential homeowner has a favourable attitude towards the CWFCMM Model, he/she is more likely to be a participant; (2) if a potential homeowner believes that he/she has a greater autonomy over factors that might impede or facilitate their participation, the stronger his/her intention to participate in the CWFCMM Model; and (3) a positive perception towards the cost advantages of CWFCMM Model will influence a potential homeowner's decision-making process of CWFCMM Model participation in the future. This study contributes to the development of cash *waqf* institutions and financial cooperatives to enhance their capacity and capability, and a more targeted approach in marketing and promotion to improve the overall attitude and (existing and potential) donors' perception on cash *waqf*. The study also adds stock to the current literature especially in terms of the additional item of Perceived Cost Advantages and application of TPB in a new setting of third sector economic institutions in Malaysia.

خلاصة البحث

يعتبر المنزل من الحاجات الأساسية. ومع ذلك، أصبح من الصعب بشكل متزايدة على الكثير من المليزيين تحمل تكاليف تملك منزل، وخاصة الأسر ذات الدخل المنخفض. أظهرت الدراسات أن عدم القدرة على تحمل التكاليف يرجع إلى حد كبير إلى النموذج الحالي للتمويل بالإقتراض، والتي دعت لاستخدام نموذج التمويل العقاري التعاوني القائم بالملكية. ومن هنا، طوّرت هذه الدراسة نموذج تمويل قائم على الوقف النقدي والتعاون المالي والمشاركة المتناقصة (CWFCMM) والذي يمكن استعماله لتوفير تمويل إسلامي عقاري بأسعار معقولة في ماليزيا. استخدمت هذه الدراسة المنهج المختلط (المقابلات والاستبيانات). أُجريت مقابلات مع 10 خبراء للتحقق من صحة نموذج الـ CWFCMM. تم تصميم الاستبيانات بالاعتماد على النظرية الموسعة للسلوك المنظم، وتم توزيعها على 417 مستجيب، ومنها 382 فقط كانت صالحة للاستعمال. تم تحليل بيانات المقابلات باستخدام التحليل الموضوعي في حين تم تحليل بيانات الاستبيانات باستخدام نمذجة المعادلة الهيكلية (SEM). افترضت الدراسة أن النية السلوكية لملاك المنازل المحتملين للمشاركة في نموذج الـ CWFCMM يتأثر بالموقف الشخصي، والعرف الشخصي، والسيطرة السلوكية المتصورة، ومزايا التكلفة المتصورة. أظهرت نتائج الدراسة من المقابلات أن لدى المخبرين المختصين تصورات واتجاهات إيجابية نحو نموذج الـ CWFCMM. اتفق المختصين بالإجماع أيضا على أن هذا النموذج هو بديل رخيص للتمويل العقاري الإسلامي في ماليزيا. وبالمثل، فإن النتائج من بيانات الاستبيانات الكمية كانت أيضا إيجابية وواعدة. استنتجت الدراسة الآتي: (1) عندما يكون لدى مالك المنزل المحتمل موقف إيجابي تجاه نموذج الـ CWFCMM، فإن احتماله ليكون مشاركا سيكون كبيرا. (2) إذا اعتقد مالك المنزل المحتمل بأن له الاستقلالية في العوامل التي قد تعيق أو تيسر مشاركته، فإن نية المشاركة في نموذج الـ CWFCMM ستزداد قوة؛ و (3) التصور الإيجابي تجاه مزايا تكلفة نموذج الـ CWFCMM سيؤثر في عملية اتخاذ القرار في ملاك المنازل المحتملين للمشاركة في نموذج CWFCMM مستقبلا. هذه الدراسة تساهم في تطوير مؤسسات الوقف النقدية والمالية التعاونية من أجل تعزيز قدرات تلك المؤسسات واستيعابها، بالإضافة إلى اتباع نهج أكثر استهدافا في التسويق والترويج لتحسين الصورة العامة وإدراك الجهات المانحة (القائمة والمحتملة) بشأن الوقف النقدي. أيضا تضيف هذه الدراسة قيمة إلى الدراسات المعاصرة خاصة تلك التي تُعنى بالبند الإضافي من مزايا التكلفة المتصورة وتطبيق TPB في وضع جديد لمؤسسات القطاع الثالث الاقتصادي في ماليزيا.

APPROVAL PAGE

The thesis of Mohd Zaidi Md Zabri has been approved by the following:

Dzuljastri Abdul Razak
Supervisor

Mustafa Omar Mohammed
Co-Supervisor

Razali Haron
Co-Supervisor

Adewale Abideen Adeyemi
Internal Examiner

Rosylin Mohd Yusof
External Examiner

Shahida Shahimi
External Examiner

Ismail Hassanein Ahmed Mohamed
Chairperson

DECLARATION

I hereby declare that this thesis is the result of my own investigations, except where otherwise stated. I also declare that it has not been previously or concurrently submitted as a whole for any other degrees at IIUM or other institutions.

Mohd Zaidi Md Zabri

Signature

Date

INTERNATIONAL ISLAMIC UNIVERSITY MALAYSIA

**DECLARATION OF COPYRIGHT AND AFFIRMATION OF
FAIR USE OF UNPUBLISHED RESEARCH**

**DEVELOPMENT AND VALIDATION OF A FINANCIALLY
AFFORDABLE ISLAMIC HOME FINANCING MODEL IN
MALAYSIA**

I declare that the copyright holders of this thesis are jointly owned by the student and IIUM.

Copyright © 2018 Mohd Zaidi Md Zabri and International Islamic University Malaysia.
All rights reserved.

No part of this unpublished research may be reproduced, stored in a retrieval system, or transmitted, in any form or by any means, electronic, mechanical, photocopying, recording or otherwise without prior written permission of the copyright holder except as provided below

1. Any material contained in or derived from this unpublished research may be used by others in their writing with due acknowledgement.
2. IIUM or its library will have the right to make and transmit copies (print or electronic) for institutional and academic purposes.
3. The IIUM library will have the right to make, store in a retrieved system and supply copies of this unpublished research if requested by other universities and research libraries.

By signing this form, I acknowledged that I have read and understood the IIUM Intellectual Property Right and Commercialisation policy.

Affirmed by Mohd Zaidi Md Zabri

.....

Signature

.....

Date

This thesis is dedicated to

My dear parents: Md Zabri Ismail and Zaiton Jusoh

My parents-in-law: Rusli Hasan and Siti Faridah Din

My beloved wife: Nur Ita Jusnita Rusli

My boys: Fateh Baihaqi and Faisal Muttaqin

&

My brother-in-Islam: Al-Marhum Ahmad Muaz Abdul Mutalib–

May we be reunited again in the highest of Jannah. Amin

ACKNOWLEDGMENTS

I wish to express my utmost gratitude and thanks to those who have assisted me, directly or indirectly upon completing this thesis. I am grateful to my supervisory committee members; Assoc. Prof Dr Dzuljastri Abdul Razak, Assoc. Prof Mustafa Omar Mohammed and Assoc. Prof Dr Razali Haron. Thanks, Dr Dzuljastri, for the invaluable lessons as an academic. My profound gratitude to my *murabbi*, Dr MOM—whom I hold in high esteem both in academia and in life—was always available for practical, and theoretical advice. Thank you, Dr Razali for the brainstorming session, which finally lead to a major breakthrough in my mathematical simulation chapter. Their constant support, encouragement, and patience will always be remembered with appreciation; without them, this thesis would not have come into fruition. My sincere appreciation to the Doctorate Support Group members and these ‘chief residents’—Dr Othman Talib, Prof Ramayah Thurasamy, Prof Dr Trevor Bond and Prof Dr Zainudin Awang. Under their tutelage, my PhD journey has been an immensely rewarding experience. My appreciation to the thesis examiners, Prof Dr Rosylin Mohd Yusof, Assoc. Prof Dr Shahida Shahimi, and Assoc. Prof Dr Adewale Abideen Adeyemi for their remarks and suggestions that further improved my work.

My gratitude also goes to the informants, questionnaire validators, enumerators and respondents. Thank you for extending your full cooperation—putting time and effort into accommodating my interviews, and questionnaire validation and administration. I am also indebted to the tax-paying *rakyat*, the Ministry of Higher Education and my employer, Universiti Sains Malaysia for granting the Skim Latihan Akademik IPTA (SLAI) scholarship for my postgraduate studies.

I convey my thankfulness to my lecturers, colleagues, key administrators, supporting staffs, and friends at International Islamic University Malaysia and Universiti Sains Malaysia. A special note of thanks is due to my brothers- and sisters-in-arms, especially Dr Zahid Zamri, Dr Nurhasnida Abdul Rahman, Dr Muhammad Jameel Mohamed Kamil, Assoc. Prof Dr Hanudin Amin, Dr Amirul Faiz Osman, Dr Nik Hadiyan Nik Azman, Dr Nurshamimitul Ezza Ramli, Dr Anwar Allah Pitchay, Dr Mohamed Asmy Thas Thaker, Memiyanti Abdul Rahim, Dr Nurul Afidah Yusuf, Ustaz Dr Mahbubi Ali, and Ustaz Asharaf Mohd Ramli who have been trustworthy companions throughout my PhD journey. I could always count on them for their consultations on both academic and non-academic related matters. In addition, I thank my mentors and dear friends; Rozihana and Rozihanim Shekh Zain, Azlina Datuk Ishak and family, and Dr Zabeda Abdul Hamid.

I am forever indebted to my beloved parents, Md Zabri Ismail and Zaiton Jusoh, whose thoughts and prayers are my constant companion. Their constant belief in me during all these years, especially when I was dismissed from the same university years ago, brought me to be what and where I am today. My thanks to my siblings; Noor Zalina, Mohd Syawal, Noor Shahifah, Muhammad Syazwan, and Noor Syazwani, who were always there, come what may. My special thanks to my parents-in-law; Rusli Hassan and Siti Faridah Din and sister-in-law; Nur Ida Aniza for the help afforded to

my family. My thanks also to my two boys–Fateh Baihaqi and Faisal Muttaqin, for always putting a smile on my face despite their father was ‘mentally absent’ most of the time–more so during the write up stage. Last, but certainly not least, I would like to acknowledge the support, love, and companionship of my wife and best friend, Nur Ita Jusnita, who had to endure a challenging life with a pauper academic. To reduce her sacrifice and understanding into a piece of paper would never do her any justice, which will always be beyond description. Alas, here’s to many more years to come.

Above all, I thank Allah *subhanahu wata’ala*, the Beneficent, the Merciful for His never-ending and countless blessings. In particular, for His easing my quest towards acquiring knowledge.

TABLE OF CONTENTS

Abstract.....	ii
Abstract in Arabic.....	iii
Approval Page	iv
Declaration	v
Acknowledgments	viii
Table of Contents	x
List of Tables.....	xiv
List of Figures	xvi
List of Abbreviations and Acronyms.....	xviii
CHAPTER ONE: INTRODUCTION.....	1
1.1 Background of the Study	1
1.1.1 Islamic Home Financing in Malaysia	1
1.1.2 Debt-Based Islamic Home Financing Instruments and Its Effect on Financial Affordability.....	3
1.1.3 The Potentials of Equity-Based Islamic Home Financing Instruments	5
1.1.4 Implementation of MM Home Financing Instrument by Islamic Commercial Banks: A Departure from the Norm	6
1.1.5 Financial Cooperative as a Financially Affordable Islamic Home Financing Institution	8
1.1.6 Lack of Complementary Source of Funds in Financial Cooperatives.....	10
1.2 Problem Statement.....	12
1.3 Research Objectives.....	15
1.4 Research Questions.....	15
1.5 Research Approach.....	16
1.6 Scope of the Study.....	19
1.7 Significance of the Study	20
1.8 Operational Definitions of Terms.....	21
1.9 Organisation of the Study	22
1.10 Chapter Summary	23
CHAPTER TWO: INSTITUTIONAL BACKGROUND OF ISLAMIC HOME FINANCING FRAMEWORK IN MALAYSIA: MARKETS, INSTITUTIONS, AND INSTRUMENTS.....	24
2.1 Introduction	24
2.1.1 The Importance of Home Financing	25
2.1.2 Conventional Home Loan	26

2.1.3	Islamic Home Financing	27
2.2	Islamic Home Financing Institutions.....	29
2.2.1	Islamic Commercial Banking Institutions.....	32
2.2.2	Government-Owned or -Linked Home Financing Institutions .	35
2.3	Islamic Home Financing Instruments.....	39
2.3.1	<i>Murabahah</i>	42
2.3.2	<i>Bay' Bithaman Ajil (BBA)</i>	43
2.3.3	<i>Tawarruq</i>	45
2.3.4	<i>Ijarah/Ijarah Muntahiyya Bi-Tamleek (IMBT)</i>	46
2.3.5	<i>Musharakah Mutanaqisah</i>	48
2.3.6	<i>Ijarah Mawsufah Bi-Dhimmah (IMBD)</i>	52
2.4	Chapter Summary	53

CHAPTER THREE: ISLAMIC HOME FINANCING FRAMEWORK IN MALAYSIA: THE EMERGING ISSUE OF FINANCIAL AFFORDABILITY 55

3.1	Introduction	55
3.2	The Conflict of Interest: Its Effects on the Financial Affordability of Islamic Home Financing Instruments.....	56
3.3	Are Government-Owned Home Financing Institutions Sustainable? ...	58
3.4	The Estimation Techniques: The Application of Purchase- and Repayment-Affordability Concepts.....	62
3.5	The Data.....	64
3.6	Islamic Home Financing Instruments and Its Compounding Effect on the Purchase-Affordability of Malaysians	64
3.6.1	An Illustration of a BBA Home Financing Instrument by Islamic Commercial Banks.....	65
3.6.2	An Illustration of an MM Home Financing Instrument by Islamic Commercial Banks.....	68
3.7	MM Home Financing Instrument by Financial Cooperatives: The Way Forward.....	69
3.8	Islamic Home Financing Instruments and Its Impact on the Repayment-Affordability of Malaysians	78
3.9	Chapter Summary	81

CHAPTER FOUR: QUALITATIVE VALIDATION OF A FINANCIALLY AFFORDABLE ISLAMIC HOME FINANCING MODEL..... 83

4.1	Introduction	83
4.2	Review of Related Literature: Cash <i>Waqf</i> -Financial Cooperative Home Financing Based on <i>Musharakah Mutanaqisah</i> Arrangement.....	84
4.2.1	Financial Cooperative as a Financially Affordable Islamic Home Financing Institution	85
4.2.2	Financial Cooperative and Its Limitation in Accessing Complementary Source of Funds	88
4.2.3	Cash <i>Waqf</i> as a Potential Source of Funds for Financial Cooperatives.....	90

4.2.4	The Potentials of Cash <i>Waqf</i> in Malaysia	96
4.3	Conceptual Framework of An Integrated Cash <i>Waqf</i> -Financial Cooperative- <i>Musharakah Mutanaqisah</i> (CWFCMM) Model	97
4.4	Model Specifications	100
4.4.1	<i>Waqif</i> (Contributor) Requirements	100
4.4.2	Cash <i>Waqf</i> Institution.....	101
4.4.3	Financial Cooperative	102
4.4.4	Joint Management Committee.....	103
4.4.5	<i>Musharakah Mutanaqisah</i> (MM) Home Financing Arrangement	104
4.5	Research Methods	105
4.5.1	Sampling Technique	106
4.5.2	Research Instrument: Interview Questions	107
4.5.3	Data Analysis.....	108
4.6	Findings.....	109
4.6.1	Profile of Informants.....	109
4.6.2	Issues with Current Islamic Home Financing Instruments	113
4.6.3	Issues with Current Islamic Home Financing Institutions	115
4.6.4	Financial Cooperatives as a Financially Affordable Islamic Home Financing Institution: Capacity and Capability	117
4.6.5	Operationalisation of CWFCMM Model	123
4.7	Discussion	128
4.8	Chapter Summary	132

CHAPTER FIVE: EXAMINING THE BEHAVIOURAL INTENTION TO PARTICIPATE IN THE CASH *WAQF*-FINANCIAL COOPERATIVE-*MUSHARAKAH MUTANAQISAH* (CWFCMM) MODEL 133

5.1	Introduction	133
5.2	Review of Related Literature: The Theory of Planned Behaviour.....	134
5.3	Conceptual Framework and Hypotheses Development.....	140
5.3.1	Attitude.....	140
5.3.2	Subjective Norm	141
5.3.3	Perceived Behavioural Control.....	142
5.3.4	Perceived Cost Advantages of CWFCMM Model	143
5.4	Research Method	143
5.4.1	Sample.....	144
5.4.2	Sample Size	146
5.4.3	Research Instrument: Survey Questionnaire	148
5.4.4	Data Analysis.....	151
5.5	Results.....	154
5.5.1	Exploratory Factor Analysis (EFA)	157
5.5.2	Confirmatory Factor Analysis (CFA)	162
5.5.3	Measurement Validation	163
5.5.4	The Structural Model	167

5.5.5	Hypotheses Testing	169
5.6	Discussion	171
5.7	Chapter Summary	174
CHAPTER 6: CONCLUSION		175
6.1	Introduction	175
6.2	Recapitulation of the Study	175
6.3	Contributions and Significance of the Study	178
6.4	Limitations and Suggestions for Future Research.....	181
REFERENCES		184
APPENDIX I: INTERVIEW SAMPLE AND PROTOCOL		199
APPENDIX II: SAMPLE QUESTIONNAIRE		201

LIST OF TABLES

Table 2.1	Market Share of Home Financing Institutions (2010-2015)	30
Table 2.2	Home Financing Approved (2010-2015)	31
Table 2.3	Islamic Home Financing Instruments by Islamic Commercial Banks	33
Table 3.1	Home Financing Institutions and Its Financing Rates	60
Table 3.2	Base Rates and Indicative Effective Financing Rates (IEFR) of Islamic Commercial Banks	65
Table 3.3	Comparison between Conventional Home Loan by Conventional Bank, and BBA and MM Home Financing by Islamic Commercial Bank	70
Table 3.4	Monthly Instalments Schedule for MM Home Financing	74
Table 3.5	Possible Range of Monthly Instalments for MM Home Financing Instrument by Financial Cooperatives	75
Table 3.6	Comparison between Conventional Home Loan, BBA and MM Home Financing	78
Table 3.7	Financial Affordability of Islamic Home Financing Instruments and Its Impact on the Median Income of Malaysian Households	79
Table 4.1	Summary of Related Literature on Cash <i>Waqf</i> for Financing	94
Table 4.2	Profile of the Informants	109
Table 4.3	Categorical Themes and Interview Questions	111
Table 5.1	Summary of Related Literature on Islamic Financial Services Selection	138
Table 5.2	Operationalisation of Measurement Items	147
Table 5.3	Item Pools and Sources	148
Table 5.4	Raters' Area of Specialisations	149

Table 5.5	Sample Demographic Characteristics	155
Table 5.6	Knowledge of cash <i>waqf</i> , Islamic home financing, and financial cooperatives	156
Table 5.7	Eigenvalues, Kaiser-Mayer-Olkin (KMO) Measure of Sampling Adequacy, and Bartlett's Test of Sphericity Results	157
Table 5.8	Analysis of Exploratory Factor Analysis	160
Table 5.9	Parameter Estimates	162
Table 5.10	Parts of the Modification Indices (MI)	164
Table 5.11	Structural Equation Model Results	170

LIST OF FIGURES

Figure 1.1	Base Financing Rates (1989-2014)	8
Figure 1.2	Research Design	18
Figure 2.1	Composition of Islamic Financing Instruments by Modes (2017)	40
Figure 2.2	Composition of Islamic Financing Instruments by Modes (2007-2017)	41
Figure 2.3	<i>Murabahah</i> Home Financing	43
Figure 2.4	BBA Home Financing by Islamic Commercial Bank	44
Figure 2.5	<i>Tawarruq</i> Home Financing	45
Figure 2.6	<i>Ijarah</i> Home Financing	47
Figure 2.7	MM Home Financing	49
Figure 2.8	IMBD Home Financing	53
Figure 3.1	Home Financing Outstanding (2010-2015)	61
Figure 3.2	BBA Home Financing by Islamic Commercial Bank	67
Figure 3.3	MM Home Financing by Islamic Commercial Banks in Malaysia	69
Figure 3.4	MM Home Financing by Financial Cooperative	76
Figure 4.1	Cash <i>Waqf</i> -Financial Cooperative-MM (CWFCMM) Model	98
Figure 4.2	MM Home Financing Arrangement	104
Figure 5.1	Theoretical Framework of Theory of Planned Behaviour	135
Figure 5.2	Conceptual Framework of Theory of Planned Behaviour	140
Figure 5.3	Initial Measurement Model	165
Figure 5.4	Final Measurement Model	167

LIST OF ABBREVIATIONS AND ACRONYMS

AITAB	<i>Al-Ijarah Thumma Al-Bay'</i>
ANGKASA	Angkatan Koperasi Kebangsaan Malaysia (Malaysian National Cooperative Movement)
ATT	Attitude
BBA	<i>Bay' Bithaman Ajil</i>
BFR	Base Financing Rate
BIMB	Bank Islam Malaysia Berhad
BNM	Bank Negara Malaysia (Central Bank of Malaysia)
BR	Base Rate
CAGR	Compounded Annual Growth Rate
CFA	Confirmatory Factor Analysis
COST	Perceived Cost Advantages of CWFCMM Model
CWFCMM	Cash <i>Waqf</i> -Financial Cooperative-MM
CWI	Cash <i>Waqf</i> Institution
DSR	Debt Service Ratio
EFA	Exploratory Factor Analysis
FC	Financial Cooperative
ICB	Islamic Commercial Bank
IEFR	Indicative Effective Financing Rate
IMBD	<i>Ijarah Mawsufah Bi-Dhimmah</i>
IMBT	<i>Ijarah Muntahiyah Bi-Tamleek</i>
INT	Behavioural Intention
JMC	Joint Management Committee

KPDNKK	Kementerian Perdagangan Dalam Negeri, Koperasi dan Kepenggunaan (Ministry of Domestic Trade, Cooperatives and Consumerism)
LPPSA	Lembaga Pembiayaan Perumahan Sektor Awam (Public Sector Home Financing Board)
MFI	Microfinance Institution
MM	<i>Musharakah Mutanaqisah</i>
PBC	Perceived Behavioural Control
SEM	Structural Equation Modelling
SKM	Suruhanjaya Koperasi Malaysia (Malaysia Cooperative Societies Commission)
SME	Small and Medium Enterprises
SN	Subjective Norm
SRIC	State Religious Islamic Council
TPB	Theory of Planned Behaviour
TRA	Theory of Reasoned Action

CHAPTER ONE

INTRODUCTION

1.1 BACKGROUND OF THE STUDY

1.1.1 Islamic Home Financing in Malaysia

Shelter is, primarily, a basic human need. With it, humans will be able to protect themselves against the possible threats of their surrounding elements and/or each other. Consequently, they are more likely to lead happy, productive, and fulfilling lives. Housing goes beyond the mere physical dimension. Ownership of a roof over one's head, in particular, has vast economic, social, and political spill over effects. A house is an investment asset that generally grows in value over time and hence couples as means of savings and wealth accumulation. As a long-term asset, easier access to homeownership helps to contribute to peace, stability, and prosperity of a nation.

A large part of the world's population requires access to additional funds to own a house as they are unable to pay in a lump sum. To that end, a focal point of a successful homeownership program in any given nation is the access to home financing (Chiquier & Lea, 2009; Hawtrey, 2009; Hussin, 1994; Okpala, 1994; Warnock & Warnock, 2008). In general, there are two types of home financing in Malaysia, i.e., conventional and Islamic. Conventional home loans still account for a large majority of the total outstanding home financing instruments in the market at 74.48% vis-à-vis Islamic home financing instruments at 25.52% respectively (Bank Negara Malaysia, 2017a). Nevertheless, in terms of compounded growth rates (CAGR), Islamic home financing instruments are outpacing the growth of conventional home loans in a span of one decade (29.82% vs 9.97%). Specifically, from RM8.97 billion as at 30 September 2007, the value of Islamic home financing instruments have reached RM121.98 billion as at

30 September 2017 (Bank Negara Malaysia, 2017a). The growing demand for Islamic home financing instruments may be credited to the continuous backing from the Malaysian government. The Prime Minister of Malaysia, Datuk Seri Mohd Najib Bin Tun Haji Abdul Razak stressed that the Islamic commercial banking and finance industry plays an important role in the country's Economic Transformation Program (ETP). One of the principal aims of the program is to turn Malaysia into the global hub for Islamic commercial banking and finance by targeting at least one of its Islamic financial institutions to be the top 10 Islamic commercial banks in the world in terms of assets by 2020 (PEMANDU, 2015). The same report also outlined the government's intention for Islamic home financing instruments to capture up to 40% share of total home financing instruments in Malaysia by 2020. To this end, the government, for example, has provided a 20% discount on stamp duty on houses that are financed through Islamic home financing instruments. The government also offers stamp duty waivers for refinancing of existing conventional home loans through Islamic home financing instruments.

Apart from strong government backing, the outlook on Islamic home financing market remains positive as there are growing, untapped Muslim consumers as potential homeowners. As of 2010, Malaysian Muslims constitute 61.3% of the 28.3 million Malaysian population (Department of Statistics Malaysia, 2011). As a Muslim-majority nation, the elements of *shari'ah* (Islamic law) and its underlying business ethics continue to be an integral part of affective commitment dimension as it was outlined in most of the literature on Islamic home financing's selection criteria. Specifically, it includes among others, emphasis on *shari'ah* principles in the Islamic home financing instruments and services, transparent and unambiguous commercial transactions, and avoidance of *riba*'-based (usury) business dealings (Amin, 2008; Amin, Abdul Hamid,

Lada, & Baba, 2009; Shafinar Ismail, Azmi, & Thurasamy, 2014). In addition, the latest figure for the youth population in Malaysia is reported to be at 13.73 million, which is over a third of the country's total population. Out of this, 2.9 million youths are between the ages of 20-24 years old (Department of Statistics Malaysia, 2015). This represents another huge potential for Islamic home financing market, as these youths are most likely to be in the hunt for a home. Therefore, the overall Islamic home financing market remains an integral part of the larger milieu of Islamic financial institutions' markets in Malaysia.

1.1.2 Debt-Based Islamic Home Financing Instruments and Its Effect on Financial Affordability

Despite the impressive progress made as well as the growing maturity of the Islamic commercial banking and finance industry, several criticisms have been levelled against the pervasive use of debt-based Islamic home financing instruments in their portfolio. If this over-reliance on debt-based Islamic home financing instruments persists as a mainstay in their portfolio, it is in danger of going against one of the novel, founding objectives of Islamic commercial banks i.e., the implementation of "a just and equitable distribution of wealth" (Farook, 2007, p. 31). Scholars have long argued that debt-based Islamic home financing instruments are in fact, mirror-like instruments of its conventional counterparts due to their inherently similar benchmarking technique (Ariff & Rosly, 2011; Hasan & Asutay, 2011; Mohd Yusof, H. Kassim, A. Majid, & Hamid, 2011; Mydin Meera & Abdul Razak, 2005). For example, two of them highlighted that *"...while the BBA is practiced as shari'ah-compliant in some countries, it is, nonetheless, converging to the conventional mode where the computational formulas*

are similar to the conventional and where the profit rate tracks the market interest rate...”(Mydin Meera & Abdul Razak, 2005, p. 4, emphasis added).

In fact, Islamic commercial banks' continuous concentration on BBA-*tawarruq* home financing and its relatively high mark-up charged have left many customers disillusioned, especially in cases of abandoned housing projects (for further detail, see Md. Dahlan, 2007, 2011; Md. Dahlan & Syed Abdul Kader Aljunid, 2011). The extensive use of debt-based home financing instruments accentuates inequality as it merely redistributes wealth in favour of the suppliers of Islamic home financing capital regardless of the actual productivity that should result from the Islamic home financing capital supplied (Dusuki & Bouheraoua, 2011; Ebrahim & Sheikh, 2016). Therefore, financially unaffordable Islamic home financing instruments offered by Islamic commercial banks are in danger of compromising Islamic commercial banks' objective that was mentioned earlier.

Moreover, several literatures suggested that any increase in Islamic home financing instrument's profit rates are detrimental to the financially vulnerable households in terms of their purchase- and repayment-affordability. A case in point, even a relatively small shock in Islamic home financing profit rates will result in a higher, more expensive debt-servicing ratio (DSR) and this will ultimately result in a lower disposable income. To further illustrate the problem at hand, using a 2014 Bank of England survey as an example, an interest rate increase of even as small as 2 percent would likely to raise the proportion of mortgagors with a DSR of at least 40% from its current level of 4% to around 6%. In other words, the number of financially vulnerable households would dramatically increase from around 360, 000 to 480, 000 (Anderson, Bunn, Pugh, & Uluc, 2016).

1.1.3 The Potentials of Equity-Based Islamic Home Financing Instruments

Various scholars have therefore called for the equity-based Islamic home financing instruments to overcome this particularly damning shortcoming. For example, Hicks (1992) argued that while profit rate has to be paid in good or bad times alike, dividends from equity-based Islamic home financing instruments can be reduced in bad times and in extreme situations, even passed (Chapra, 2007). Therefore, the burden of paying the instalments in such equity-based Islamic home financing instruments is considerably less. Islamic economics scholars such as Al-Harran (1995) and Chapra (2007) for example, maintained that as one of wealth redistribution mechanisms, equity-based Islamic home financing instruments have always been superior products vis-à-vis debt-based Islamic home financing instruments and hence ultimately, can be used as a mean to achieve and preserve *maslahah* (social justice).

For years now, especially in the last decade, there is a growing call from both practitioners and academicians for the application of equity-based MM home financing as a more financially affordable form of Islamic home financing instruments (Haneef, Kunhibava, & Smolo, 2011; Mydin Meera & Abdul Razak, 2005). In fact, some scholars went even further by suggesting that MM home financing instrument derived from *musharakah* contract is superior over any debt-based financing instrument such as BBA-*tawarruq* since the element of profit- and loss-sharing is considered to be closer to justice and the higher objectives of *shari'ah* (*maqasid al-shari'ah*) (Abdul Razak & Amin, 2013; Mydin Meera & Abdul Razak, 2005, 2009). Therefore, there is a need to gradually minimise the use of BBA-*tawarruq* and to be eventually averted to equity-based home financing mode.

Arguably, MM home financing instrument is able to resolve some issues that are synonymous with BBA-*tawarruq* home financing instrument. Among others, with the