Durham University

Durham E-Theses

The perception of Malaysian Muslims concerning Islamic housing finance

Eleena Masnee Abdul Samad

How to cite:

Abdul Samad, Eleena Masnee (2007) The perception of Malaysian Muslims concerning Islamic housing finance. Doctoral thesis, Durham University.

Use policy

The full-text may be used and/or reproduced, and given to third parties in any format or medium, without prior permission or charge, for personal research or study, educational, or not-for-profit purposes provided that:

- a full bibliographic reference is made to the original source
- a https://etheses.durham.ac.uk/id/eprint/1842/ is made to the metadata record in Durham E-Theses
- the full-text is not changed in any way

The full-text must not be sold in any format or medium without the formal permission of the copyright holders.

Please consult the full Durham E-Theses policy for further details.

Academic Support Office, The Palatine Centre, Durham University, Stockton Road, Durham, DH1 3LE
e-mail: e-theses.admin@durham.ac.uk Tel: +44 0191 334 6107
https://etheses.durham.ac.uk

THE PERCEPTION OF MALAYSIAN MUSLIMS CONCERNING ISLAMIC HOUSING FINANCE

The copyright of this thesis rests with the author or the university to which it was submitted. No quotation from it, or information derived from it may be published without the prior written consent of the author or university, and any information derived from it should be acknowledged.

by

Eleena Masnee Abdul Samad

Thesis Submitted in Fulfillment of the Requirements for the Degree of Doctor of Philosophy at Durham University

School of Government and International Affairs
Institute for Middle Eastern and Islamic Studies
Durham University, UK

March 2007

17 OCT 2007

ABSTRACT

Islamic housing finance as an alternative to conventional interest based home financing has successfully taken up in Malaysia in recent years. This paper investigates this success by studying the perception and behavioural pattern of Muslim Bumiputera in Malaysia with regard to Islamic housing finance and related issues. For this purpose, a mixed method of questionnaire survey and semi-structured interviews were conducted to assemble primary data; and data were analysed through interpretative and textual analysis along with statistical analysis including factor analysis.

Respondents to questionnaires were those who took up either conventional or Islamic housing finance. The findings of the survey conclude that Muslims who use Islamic housing finance are influenced by their faith and because the product helps them to manage their cash flow better. Whilst those who do not use, stated it is because they find the product lacking in variety and the monthly repayment expensive. Faith does not seem to be a factor of consideration for them. The findings also indicate that most of the respondents are generally satisfied with the type of housing finance that they have taken up, because, among other reasons, the product that they use has great flexibility and excellent terms of payment. The findings also reveal that in order to increase its market share, Islamic housing finance needs to be good value for money.

Bank managers, company and government officials in charge of Islamic housing finance as well as *Shari'ah* scholars were also interviewed on issues related to Islamic mortgage in Malaysia including the profit rate setting, competitiveness, marketing and demand for the product. The main conclusion is that dissemination of information and educating members of the public on Islamic housing finance is important in giving them a better understanding, which is expected to increase the demand for the product.

DECLARATION

I hereby declare that no portion of the work that appears in this study has been used in support of an application of another degree in qualification to this or any other university or institution of learning.

STATEMENT OF COPYRIGHT

The copyright of this thesis rests with the author. No quotation from it should be published in any format, including electronic and the internet, without the author's prior written consent. All information derived from this thesis must be acknowledged appropriately.

TABLE OF CONTENTS

Abstract i

Declaration ii

Statement of Copyright iii

Table of Contents iv

List of Tables xii

List of Figures xiv

List of Abbreviations xv

Acknowledgment xvi

CHAPTER ONE

INTRODUCTION

1.1 Introduction 1

1.2 Research Questions 2

1.3 Research Aim 3

1.4 Research Objectives 3

1.5 Overview of the Thesis 4

CHAPTER TWO

CONVENTIONAL AND ISLAMIC HOUSING FINANCE

2.1 Introduction 6

2.2 Conventional Housing Finance and Products 7

2.2.1 Mortgage Instruments and Mechanisms in the UK 8

2.2.2 Mortgage Instruments and Mechanisms in the USA 9
2.2.3 Housing Market and Housing Finance in Developing Countries...11
2.3 Conventional Home Financing Market: Related Issues.....14
2.3.1 Home Financing Products Preferred in the USA and the UK.....14
2.3.2 Secondary Mortgage Market.....15
2.3.3 House Prices.....16
2.3.4 Home Financing Tax Regime in the UK and the USA.....16
2.3.5 Various Costs Related to Mortgages in the UK.....18
2.3.6 Refinancing.....19
2.3.7 Early and Late Repayment.....20
2.3.8 Tax and Benefit System.....21
2.3.9 Safety Net.....21
2.3.10 Financial Help.....22
2.3.11 Trends in the Type of Mortgages Taken Up.....23
2.4 Islamic Finance and Islamic House Financing..... 23
2.4.1 Principles of Islamic Finance..... 23
2.4.2 Islamic Housing Finance.....26
2.4.3 Islamic Housing Finance Product Concepts.....26
2.5 Islamic Housing Finance in the UK: Products, Providers, Market and Issues.....32
2.5.1 Islamic Housing Products Offered in the UK.....32
2.5.2 Market Potential for Islamic Housing Finance in the UK.....33
2.5.3 Participation from Conventional Banks and Building Society in the UK.....34
2.5.4 Advantages of Competition.....34
2.6 Issues in Islamic Housing Finance in the UK.....36
2.6.1 Late Repayment.....36
2.6.2 Inflationary Condition.....36
2.6.3 Capital Adequacy Standards.....37
2.6.4 Double Stamp Duty in the UK.....38
2.6.5 Financial State Assistance.....39

2.6.6 Insurance.....39
2.6.7 Legal Representation.....40
2.6.8 *Shari'ah* Board.....40
2.7 Conclusion.....42

CHAPTER THREE

HOUSING FINANCE IN MALAYSIA

3.1 Introduction.....45
3.2 The Housing Market in Malaysia.....46
3.3 Housing Finance in Malaysia.....57
3.4 Conventional Housing Finance in Malaysia.....64
3.4.1 Interest Rate Charged.....64
3.4.2 Financing Margin and Tenure.....64
3.4.3 Housing Loan Packages.....65
3.4.4 Graduated Payment Scheme.....65
3.4.5 Charges.....66
3.4.6 Documentation.....66
3.4.7 Insurance.....67
3.5 Islamic Housing Finance in Malaysia.....67
3.5.1 Islamic Banks.....68
3.5.2 Other Participating Financial Institutions.....69
3.5.3 Bank Negara Malaysia Regulations.....69
3.5.4 BBA Financing Concept.....70
3.5.5 MM Financing Concept.....71
3.5.6 Financing Margin and Tenure.....71
3.5.7 Early Settlement Flexibility.....72
3.5.8 Rebate.....72
3.5.9 Charges.....73
3.5.10 Documentation.....73
3.5.11 Islamic Insurance/Takaful.....74

3.5.12 Example of Products.....75
3.6 Conclusion.....76

CHAPTER FOUR
METHODS AND METHODOLOGY

4.1 Introduction.....78
4.2 Research Methodology.....78
4.2.1 Quantitative Research.....79
4.2.2 Qualitative Research.....80
4.3 Research Methods.....81
4.3.1 Quantitative Method – Questionnaire.....83
4.3.2 Qualitative Method – Semi-structured Interviews.....94
4.4. Analysis of Data.....103
4.4.1 Analysing Questionnaire Data.....103
4.4.2 Analysing Interview Data.....105
4.5 Limitations and Difficulties.....107
4.6 Conclusion.....109

CHAPTER FIVE
SURVEY ANALYSIS AND FINDINGS

5.1 Introduction.....110
5.2 Data File Screening and Cleaning Process.....110
5.3 Preliminary Data Analysis.....110
5.4 List of Questions.....111
5.5 Statistical Tests Conducted.....112
5.6 Survey Findings.....116
5.7 Issues on Usage and Non-Usage of Islamic Housing Finance.....116
5.7.1 Influence of Faith in Using Islamic Housing Finance.....116
5.7.2 Other Reasons for Choosing Islamic Housing Finance.....118

5.7.3 Reasons why Muslims are Not Using Islamic Housing Finance..120
5.8 Issues on Comparison of Housing Finance.....122
5.8.1 Comparison between Opposing Types of Housing Finance.....122
5.8.2 Most Important Criteria When Making Comparison.....124
5.8.3 Perception of the Islamic and Conventional Housing Finance....125
5.8.4 Comparison between Different Mortgage Providers.....127
5.8.5 Perception on the Variety of Products Available.....128
5.9 Issues on Attainment and Provision of Information.....130
5.9.1 Means of Attaining Information about Different Housing Finance.....130
5.9.2 How Informative were the Staff.....132
5.10 Issues on Financial Assistance.....134
5.10.1 Sources of Financial Assistance.....134
5.11 Issues on Repayments.....137
5.11.1 Preference of Repayment Period.....137
5.11.2 Repayment Amount and Income Level.....140
5.11.3 Repayment Length and Awareness of Islamic Products.....142
5.12 Issues on Default and Insurance.....144
5.12.1 Problems and Reasons for Default 144
5.12.2 Default Period and Mortgage Providers' Response.....146
5.12.3 Perception of Housing Mortgage Insurance.....148
5.12.4 Take Up of Insurance by Defaulters.....150
5.13 Issues on Property.....152
5.13.1 Important Criteria in Choosing a Property.....152
5.13.2 Perception on the Value of Property and Motives for Buying a Property.....158
5.14 Issues on Satisfaction Level and Suggestions.....160
5.14.1 Satisfaction Level of Housing Finance Taken Up.....160
5.14.2 Perception and Suggestion of Muslims on Islamic Housing Finance.....164
5.15 Other Issues on Usage of Islamic Housing Finance.....166

5.15.1 Relationship between Income and Usage of Islamic Housing Finance.....166
5.15.2 Relationship between Age and Usage of Islamic Housing Finance.....167
5.16 Issues with Other Islamic Financial Products.....171
5.16.1 Usage of Other Islamic Financial Products.....171
5.17 Issues on Flexibility 173
5.17.1 Forms of Flexibility Given to Housing Finance Users.....173
5.18 Factor Analysis.....177
5.18.1 Reasons for Taking Up Islamic Housing Finance.....178
5.18.2 Reasons for Not Taking Up Islamic Housing Finance.....181
5.18.3 Important Criteria for Decision Making.....183
5.18.4 Reasons for Satisfaction with Housing Finance 186
5.18.5 Reasons for Non-satisfaction with Housing Finance.....189
5.18.6 Suggestions for Improvements 192
5.19 Conclusion.....194

CHAPTER SIX

INTERVIEW ANALYSIS AND FINDINGS

6.1 Introduction.....197
6.2 Analysis of Themes Identified from Interview with Bank Managers, Company and Government Housing Officers.....197
6.2.1 Launch of Islamic Housing Finance.....197
6.2.2 Reasons for Offering Islamic Housing Finance Product to the Public.....198
6.2.3 Profit Rate Setting.....199
6.2.4 Financial Sources.....200
6.2.5 Terms of Repayment.....202
6.2.6 Flexibility.....204
6.2.7 Product Awareness.....207

6.2.8 Competitiveness.....210
6.2.9 Demand for Products.....211
6.2.10 Take-up Reasons.....212
6.2.11 Cross-selling of Product.....214
6.2.12 Survey of Satisfaction.....215
6.2.13 Non-payment Problems.....216
6.2.14 Default.....218
6.2.15 Quota.....222
6.2.16 Bureaucracy.....223
6.2.17 Securitization.....225
6.2.18 *Shari'ah* Advisory Council.....226
6.2.19 Government's Role.....228
6.3 Analysis of Themes Identified from Interviews with *Shari'ah* Scholars.....231
6.3.1 *Shari'ah* Advisory Council.....231
6.3.2 Islamic Basis of Islamic Mortgages.....233
6.3.3 Muslims Using Conventional Mortgages.....235
6.3.4 Islamic Mortgages More Expensive.....237
6.3.5 Differences of Opinion.....239
6.3.6 Product Awareness.....241
6.3.7 Islamically Aware.....242
6.3.8 Riba.....243
6.3.9 Collateral Seizure.....245
6.3.10 Securitization.....247
6.3.11 Consensus.....249
6.4 Conclusion.....251

CHAPTER SEVEN

CONCLUSION

7.1 Introduction....252
7.2 Research Summary....252
7.3 Findings and Policy Suggestions 253
7.3.1 Take-up Reasons 253
7.3.2 Non Take-up Reasons 253
7.3.3 Information 254
7.3.4 Default and Repayment Issues 256
7.3.5 Satisfaction Level and Reasons 256
7.3.6 Age and Usage Relationship 257
7.3.7 Demand from Non-Muslims 258
7.3.8 Usage of Other Islamic Financial Products 258
7.3.9 Flexibility Issues 259
7.3.10 Suggestions for Improvements 259
7.4 Potential Improvement Areas 260
7.5 Suggestions for Future Work 262
7.6 Closing Remarks 262

APPENDICES 263

Appendix A: Questionnaire Distributed 264
Appendix B: Interview Questions 277
Appendix C: List of Interviewees 294

BIBLIOGRAPHY 297

LIST OF TABLES

Table 2.1: Similarities and differences between *Murabaha, Ijara wa Iqtina* (IWI) and Diminishing *Musharakah* and *Ijara* (DMI).....31
Table 5.1: Islamic ruling awareness amongst Islamic mortgage customers.....117
Table 5.2: Conforms with faith.....118
Table 5.3: Ability to manage cash flow better.....119
Table 5.4: Good rates being charged.....119
Table 5.5: Recommended by friends and family.....119
Table 5.6: Expensive monthly repayments.....121
Table 5.7: Lack of product variety.....121
Table 5.8: Not much flexibility.....121
Table 5.9: Compare.....122
Table 5.10: Comparison between different types of mortgages.....123
Table 5.11: Monthly repayments amount.....124
Table 5.12: Term of monthly repayment.....124
Table 5.13: Repayment period.....124
Table 5.14: Islamic housing finance cheaper or more expensive.....126
Table 5.15: Attitude of those with different mortgage providers.....127
Table 5.16: The variety made available to different types of mortgages.....128
Table 5.17: The variety made available by different mortgage providers.....129
Table 5.18: Mass media.....130
Table 5.19: Materials produced by mortgage providers.....131
Table 5.20: Visit to the mortgage provider.....131
Table 5.21: Recommendation from family and friends.....131
Table 5.22: Staff of different mortgage providers informative or not.....133
Table 5.23: Different types of mortgages and the information supplied.....134
Table 5.24: 100% Financed by mortgage providers.....135
Table 5.25: EPF as source of financial assistance.....135
Table 5.26: Own savings as source of financial assistance.....135
Table 5.27: Mortgage providers giving 100% finance or not.....136
Table 5.28: Type of housing finance and the finance given.....136
Table 5.29: Type of housing finance and the repayment period chosen.....138
Table 5.30: Mortgage provider and the repayment period chosen.....139
Table 5.31: Joint household income and monthly repayment amount.....141
Table 5.32: Length of time repayment made to mortgage provider.....142
Table 5.33: Length of time repayment made and type of housing finance.....143
Table 5.34: Non payment experience of mortgagee.....144
Table 5.35: Non payment experience according to type of housing finance..145
Table 5.36: Non payment experience according to mortgage providers.....145
Table 5.37: Non payment reasons.....146
Table 5.38: Non payment period.....147
Table 5.39: Reaction of mortgage providers.....147

Table 5.40: Mortgage provider and whether insurance is compulsory or not....148
Table 5.41: Type of housing finance and whether insurance is compulsory or not....148
Table 5.42: Insurance is taken up or not if it is not made compulsory....149
Table 5.43: Non take-up reasons....150
Table 5.44: Compulsory insurance and non payment experience....151
Table 5.45: Non compulsory take up and non payment experience....151
Table 5.46: Location of the property....152
Table 5.47: Price of the property....152
Table 5.48: Property bought from....153
Table 5.49: Discount given to the value of the property....153
Table 5.50: Discount influence decision....154
Table 5.51: Property category....154
Table 5.52: Property category and the type of housing finance....155
Table 5.53: State....156
Table 5.54: Value of property....156
Table 5.55: Type of housing finance taken up and the value of property....157
Table 5.56: Perception on whether there is a change in value....158
Table 5.57: Home buyers have moved in or not....158
Table 5.58: Reason not moved in 158
Table 5.59: Where they are currently staying....159
Table 5.60: Satisfaction of housing finance against the type of finance....160
Table 5.61: Satisfaction of housing finance against the mortgage Providers....161
Table 5.62: Product has excellent terms of payment....161
Table 5.63: Product is good value for money....162
Table 5.64: Product is simple and clearly understood....162
Table 5.65: Ease of payment....162
Table 5.66: Do not like the terms of payment....163
Table 5.67: Not good value for money....163
Table 5.68: High penalty charges....164
Table 5.69: Good value for money....164
Table 5.70: Less percentage of down payment required....165
Table 5.71: Offer great flexibility 165
Table 5.72: Type of housing finance and joint household incomes....166
Table 5.73: Type of housing finance taken up and their age group....167
Table 5.74: Number of years repayments already made and the age group of respondents....169
Table 5.75: Repayment period chosen and the age group of respondents...170
Table 5.76: Type of housing finance used and other Islamic product usage....171
Table 5.77: Types of Islamic financial products used by respondents....172
Table 5.78: Type of housing finance and some form of flexibility given or not....173
Table 5.79: Mortgage provider and whether flexibility is given or not....174

Table 5.80: Forms of flexibility preferred.....175
Table 5.81: Make early redemption without penalty.....175
Table 5.82: Pay less initially and increasingly more.....175
Table 5.83: Has re-mortgage facility to raise cash.....176
Table 5.84: Total variance explained on the reasons for taking up Islamic housing finance.....178
Table 5.85: Rotated component matrix(a) on the reasons for taking up Islamic housing finance.....180
Table 5.86: Total variance explained on the reasons for not taking up Islamic housing finance.....181
Table 5.87: Rotated component matrix(a) on the reasons for not taking up Islamic housing finance.....183
Table 5.88: Total variance explained on the important criteria for decision making.....183
Table 5.89 Rotated component matrix(a) on the important criteria for decision making.....185
Table 5.90 Total variance explained on the reasons of satisfaction with housing finance.....186
Table 5.91: Rotated component matrix(a) on the reasons of satisfaction with housing finance.....188
Table 5.92: Total variance explained on the reasons for non-satisfaction with housing finance.....189
Table 5.93: Rotated component matrix(a) on the reasons for non-satisfaction with housing finance.....191
Table 5.94: Total variance explained on the suggestions for Improvements.....192
Table 5.95: Rotated component matrix(a) on the suggestions for Improvements.....194

LIST OF FIGURES

Figure 5.1: Scree Plot for reasons for using Islamic housing finance.....179
Figure 5.2: Scree Plot for reasons for not using Islamic housing finance.....182
Figure 5.3: Scree Plot for important criteria for decision making.....184
Figure 5.4: Scree Plot for reasons of satisfaction with housing finance.....187
Figure 5.5: Scree Plot for reasons for non-satisfaction with housing finance..190
Figure 5.6: Scree Plot for suggestions for improvements.....193

LIST OF ABBREVIATIONS

ARM	Adjustable Rate Mortgage
BBA	Bai Bithaman Ajil
BIMB	Bank Islam Malaysia Berhad
BLR	Base Lending Rate
BNM	Bank Negara Malaysia
CFO	Certificate of Fitness for Occupation
CGT	Capital Gains Tax
CI	Critical Illness
CML	Council of Mortgage Lenders
CPI	Consumer Price Index
DMI	Diminishing Musharaka with Ijara
EPF	Employees Provident Fund
FHA	Federal Housing Administration
FRM	Fixed Rate Mortgage
GDP	Gross Domestic Product
GDP	Gross Domestic Product
GPM	Graduated Payment Mortgage
HSBC	Hong Kong Shanghai Bank Corporation
HUD	Housing and Urban Development
ISA	Individual Savings Account
ISMI	Income Support for Mortgage Insurance
LTV	Loan to Value Ratio
MPPI	Mortgage Payment Protection Insurance
MRTA	Mortgage Reducing Term Assurance
NPL	Non Performing Loan
OCBC	Overseas Chinese Banking Corporation
OFHEO	Office of Federal Housing Enterprise Oversight
PHI	Permanent Health Insurance
REHDA	Real Estate and Housing Developers Association
RHB	Rashid Hussein Berhad
RHS	Rural Housing Service
RM	Ringgit Malaysia
SAC	Shariah Advisory Council
SC	Security Commission
SDLT	Stamp Duty Land Tax
SPA	Sales and Purchase Agreement
SPi	Sistem Pembankan Islam
TNB	Tenaga Nasional Berhad
UI	Unemployment Insurance
UK	United Kingdom
USA	United States of America
VA	Veterans Affairs

ACKNOWLEDGEMENT

All praises be to Allah, the Lord of the Worlds, Most Gracious, Most Merciful. My utmost gratitude goes to Him who has made it possible for me to finish this thesis. *Lahawla wa laquwwata illabillah ilaliyyil'azim. WaLlahu'ala kullishai inqadir.* May He accept this effort as deeds done *LiLlahi Ta'ala*.

I would also like express my gratitude to my main supervisor, Professor Rodney Wilson for all the help and advice that he has given me throughout my three years of study at Durham University. He is always ready to spare some time to see me even during the holidays as well as being very efficient in getting back with his feedback of my work. He has also been very understanding of my constraints and my ability (or lack of it) to juggle between studying and having a family with three small children.

I would also like to say my heartfelt thanks to my family who has been very supportive throughout my studies. My most important family members consist of my beloved husband, Dr Harriffudin Juli who has been there for me during times of ease and hardship; my affectionate mother, Ramlah Abu Kassim who has been giving me untiring advice, support and prayers; and my children, Ameerah Husna, Ameerah Huda and Abdullah Haneef who have been very understanding when unable to enjoy the attention they fully deserve. I also feel the need to mention my love and gratitude to my beloved late father, Abdul Samad Yim who meant a lot to me, but whom I had not been able to be with during the last hours of his life.

My gratitude also goes out to all my respondents and interviewees, without which there would be no primary data for my thesis. Last but not least, my thanks to all my sisters and brothers in MSM for their prayers; and friends around me who always willingly offered their help and a listening ear especially Sr Rihab, Hadeel, Zurina, Fara and Azila. May Allah grant us all His *Hidayah*, forgiveness, mercy and success in this Life and the Hereafter.

Chapter 1: INTRODUCTION

1.1 INTRODUCTION

Having access to quality and affordable housing is a fundamental human right. Without the fulfillment of this basic need, access to other rights such as safety, health, education and employment would be difficult if not impossible to achieve.

Therefore, owning a house will always be a top priority to an individual and especially those with a family, in order for them to live in peace and security. This also means that having access to an efficient housing market and developed housing finance is a priority, as housing finance supplies the necessary funding in order for an individual to obtain a property of his/her own.

The United Kingdom and the United States are two of the most advanced economies which have a well developed and highly advanced financial sector. Traditionally these two countries offer only conventional housing finance to their citizens but more recently, there has been a growing interest to expand this form of financing into Islamic housing finance. This can be seen by a recent rise in the number of conventional institutions, as well as the coming in of foreign and Islamic financial institutions, which offer Islamic housing finance to members of the public. The increase in the number of Islamic housing finance providers is important in order to capture the potential market for *Shari'ah* compliant products, coming from the Muslim population in the UK and the USA.

In Malaysia, there are also various institutions which act as mortgage providers and offer Islamic housing finance. These main institutions consist of banks, companies and the government which offer the proper funding to help a bank customer, company or government employee to buy a house of his/her dream. Currently, these mortgage providers offer both or either one of Islamic and

conventional housing finance to customers and employees. Many institutions in Malaysia have also come to realize the potential of Islamic housing finance. As in the UK and the USA, this can be seen by a sharp rise in the number of institutions in Malaysia which offer the Islamic housing financial product.

At the same time, there is an increase in awareness and demand from Malaysian Muslims who realize the importance of not getting involved in *riba* as this is against the teachings of Islam. Thus, having access to Islamic housing finance, which is a housing finance that conforms to the *Shari'ah* laws, is also necessary for the development of the housing market consisting of Muslims.

There are many parties in Malaysia which have encouraged the fast progress of Islamic banking, generally and Islamic housing finance, specifically. One of the major contributors who have played a big role in this is the Central Bank of Malaysia.

1.2 RESEARCH QUESTIONS

This study focuses on certain issues relevant to Islamic housing financial products. The research questions of this study are as below:

1. How is Islamic housing finance perceived by Malaysians?
2. What is the Malaysian Muslims' attitude towards Islamic housing finance products?
3. Do they have any interest in the Islamic housing finance products at all?
4. How do various institutions in Malaysia currently promote Islamic housing finance to potential customers?
5. What can be done to improve on the offering of the Islamic housing finance products to potential customers?
6. How have the *Shari'ah* scholars made the offering of Islamic housing finance to the public justifiable from an Islamic perspective?
7. In what way have the *Shari'ah* scholars contributed to encourage Muslims to use Islamic housing finance products?

1.3 RESEARCH AIM

The research aim is to investigate the perception, attitude and interest of Malaysian Muslims towards Islamic housing finance and at the same time to find the opinions and perceptions on issues pertaining to Islamic housing finance from top management of various institutions as well as from the *Shari'ah* scholars who are advising these institutions on fatwa issues. To reach its aim, initially a survey in the form of a questionnaire filled in by Malaysian Muslims was carried out and interviews of officials working in the housing finance department and the *Shari'ah* board of council of these various institutions were conducted.

1.4 RESEARCH OBJECTIVES

The objectives of this research are also divided into two according to the method used, either quantitative or qualitative. For quantitative analysis method, the objectives of the questionnaire are to study the Muslim clients' perception of Islamic housing finance; to study their interest in Islamic housing finance; to study their views on the policies of their mortgage providers as well as on the product that they are being offered; to study the type of property they buy; to find out their awareness of other Islamic products; to find out more concerning any cases of nonpayment amongst the customers; to find what they think their mortgage provider and the government can do to improve Islamic housing finance; to find out the satisfaction level of the product that they are currently using; to know a bit about the respondents' background and their awareness of the prohibition of *riba*.

For the qualitative analysis method, the objectives are to find out from those in charge of Islamic housing finance, about the management issues of the Islamic housing finance products; to find out about the product awareness and the demand for Islamic housing finance; about the existence of a *Shari'ah* scholar or a council of *Shari'ah* scholars advising the institutions on *Shari'ah* matters; about the management of collateral and non-paying customers; as well as about re-

mortgaging of Islamic housing finance; to find out from the *Shari'ah* scholars concerning the advisors themselves, concerning the acceptability of the housing finance products from an Islamic perspective; concerning the scholars' dealings with members of the public; to find out the scholars' opinion on funding issues as well as the seizure of collateral in the case of non-repayment.

1.5 OVERVIEW OF THE THESIS

There are seven chapters in the thesis:

Chapter 1: Introduction – a brief mention of the state of housing finance in the UK, USA and Malaysia. There is also a section on the focus of this research which lists down the research questions that this research attempts to answer. The aim and objectives were also stated in order to understand what this research hopes to achieve.

Chapter 2: Housing finance in the West – gives a background study on the conventional and Islamic housing finance and market in the UK, USA and developing countries. Here, various related and important issues considered by customers when buying a house and the choice of instruments used, were also discussed. These include house prices and inflation, government policies, the costs incurred by customers, flexibility granted by financier, financial assistance, securitization of assets and *Shari'ah* compliancy of the Islamic housing finance product. There is also a background description on the principles of Islamic finance and the product-concept of Islamic housing finance. A comparison was also made between different Islamic housing finance instruments.

Chapter 3: Housing finance in Malaysia – discusses at great length regarding the housing market and assesses its running. Given here, is an overview of the Malaysian government's housing policies in providing adequate, affordable and quality housing for all Malaysians. A background study of the housing finance market was also undertaken in order to have an overview of the types of housing

finance made available for Malaysians and the institutions that offer them. There is also a discussion on the financial support and other incentives provided to home buyers as well as the cost borne when buying a house. This chapter goes on to discuss even further the salient issues related to the conventional and the Islamic methods of financing a house in Malaysia which include the product concepts and administrative issues.

Chapter 4: Methods and Methodology – discusses the research strategy and design, methodology employed, the aim and objectives of utilizing the methods chosen, the sampling issues as well as validity and reliability in both these methods. There is also a discussion on the way the data from questionnaire and interviews conducted were analysed. The limitations and difficulties of employing these research methods are also mentioned to give an insight to the reader as to the reality of conducting this research.

Chapter 5: Survey analysis and findings– provides the analysis on the survey that has been carried out. It discusses at length the outcome of that survey, information that can be retrieved from it and what can be learnt from it.

Chapter 6: Interview analysis and findings – provides an analysis of the semi-structured interview. It discusses at length the outcome of the interview and the emerging themes from the responses made by the interviewees. Important aspects that can be learnt from them were also highlighted.

Chapter 7: Conclusion – Synthesizes both the results of the quantitative and qualitative data analysis retrieved form the survey and interviews conducted respectively. Discussion involves much about Islamic housing finance and putting forward suggestions and recommendations in order to improve on the functioning of Islamic housing finance and offering of the products.

Chapter 2: CONVENTIONAL AND ISLAMIC HOUSING FINANCE

2.1. INTRODUCTION

Housing is an important part of basic human needs, apart from food and clothing. Home is where family finds shelter as well as a resting place. However, for most people expenditure on housing is usually much higher in absolute terms than on food and clothing and it is more long term in nature. Thus, the purchasing of a house could well be the single most important financial commitment households make throughout their lifespan. Added to that is the fact that housing has a major macroeconomic impact on a country's economic development, as, in addition to the housing finance market, it generates demand for various other industries, such as steel, cement, fixtures and fittings, etc.

People fulfill the need of gaining a shelter through various ways; by renting it from others, building a home on their own or purchasing it whether it is a newly developed house or from an existing owner. If an individual wishes to own a home then he/she would have to take up housing finance because of the fact that houses are usually very expensive to buy. Therefore, it is very rare that individuals can pay a lump sum towards the value of the house. Even with housing finance, the monthly repayment normally takes a big slice of one's monthly income.

Banks and other specialized financial institutions normally provide conventional housing finance through interest-based financing techniques which are forbidden in Islam. For Muslims who are God-conscious and, hence, abstainers from dealing with interest, whether a financial institution operates its lending and borrowing activities according to the teachings of Islam or not is crucial on their take-up of a housing finance product. This is because if only interest-based methods of financing are on offer then these Muslims would refrain from

borrowing from these financial institutions. Alternatively, they may have to depend on their savings and/or borrow from family and friends and wait until they have enough cash before they can afford to buy a house. Otherwise, they would have to forsake the dream of a house of their own and instead would have to spend their lives in a rented house.

In order to provide a background to housing finance, this chapter discusses the conventional housing finance and its products. It then goes on to discuss Islamic finance and Islamic housing finance in particular. This includes the types and products made available under Islamic housing finance. Comparison is also made between these products. An attempt was made also to discuss the housing markets in the United States of America and the United Kingdom for conventional and Islamic housing finance, particularly the latter.

2.2 CONVENTIONAL HOUSING FINANCE AND PRODUCTS

There are various literatures on mortgages which list down different instruments of mortgages to help finance a potential home buyer. It is fair to say that there are rather contrasting differences as well as similarities in the mortgage instruments and their mechanisms between countries like the United Kingdom and the United States. This section, thus, attempts to provide a review of the conventional housing finance in particular, in the United Kingdom and the United States. The rationale for including these two countries is due to the fact that they both have a developed and advanced financial sector. However, a section is devoted to discussing housing finance in developing countries. This is because, as Malaysia is considered to be in this category, it should be interesting to look at other developing countries' housing finance.

2.2.1. Mortgage Instruments and Mechanisms in the United Kingdom

In the UK, there are various modes of home financing available, each of which has a different paying back scheme for the capital borrowed and for paying the interest on it.

2.2.1.1 Paying back the capital

In the housing finance market in the UK, to pay back the capital the following methods are used: '*repayment mortgages*', '*endowment mortgages*', '*Individual Savings Account (ISA) mortgages*' and '*pension mortgages*'[1]. *Repayment mortgages* are whereby each monthly payment pays off a little of the capital debt. At the end of the term the mortgage is cleared. As for *endowment mortgages*, endowment policies are used to provide life insurance and save funds to repay the loan at the end of the term. There could be a cash lump sum in addition to the loan being repaid if the investment performs well, but if it does not, then there may not be enough to cover the loan. As for the *ISA mortgages*, it works on the same principle as endowments, but it uses ISA as the loan repayment method. In the case of *pension mortgages*, there are two monthly payments to be paid: one covers the mortgage interest while the second goes into a pension plan designed to repay the mortgage as well as provide retirement income. However, this type of home loan is riskier than a repayment mortgage because, if the pension investment does not grow as much as expected, then at the end of the mortgage tenure, the lump sum may not be enough to repay the mortgage.

2.2.1.2 Paying the interest

To pay the interest charged on mortgages, the range of options include '*variable rates*', '*fixed rates*', '*capped rates*', '*cash back deals*' and '*discounted rates*'.[2] With a *variable rate* mortgage, the amount to be repaid varies in proportion to any interest rate changes. As for *fixed rate* mortgages, the monthly repayment remains the same for the period of the fixed rate, regardless of the interest rate

---

[1] BBC News. *A Guide Through the Mortgage Maze*. Retrieved 20 March 2004, from http://news.bbc.co.uk/1/hi/business/480121.stm.
[2] ibid.

in the market place. It is advantageous if the current rate increases as the repayment will not rise but it is a disadvantageous if the current rate falls in which case the repayment will not fall. A *capped rate* mortgage has a maximum interest rate for a given term, above which the interest rate cannot go but it could fall below the capped rate, in which case the repayments will also reduce. With a *cash back mortgage*, a cash rebate of either a percentage of the advance or a fixed amount is given on completion of the purchase. However, this form of bonus often means a higher repayment rate and may include penalties for repaying the loan early. As for the *discounted rate mortgage*, the lender offers a discount off a variable rate for a given term which then translates to reduced repayments. But if the lender's standard variable rate rises, so will the repayments.[3]

2.2.2. Mortgage Instruments and Mechanisms in the United States

In the United States, all mortgage plans are divided into two kinds. Firstly, there are either *government* mortgage loans consisting of Federal Housing Administration (FHA), Veterans Affairs (VA) and Rural Housing Service (RHS) Loan Programs or conventional mortgage loans which are any mortgage loans other than the three that are mentioned above. Secondly, all the various mortgage programs are classified as fixed rate loans, variable or adjustable rate loans and their combinations.[4]

2.2.2.1 Government and conventional mortgage loans

The VA and FHA have been developed by the Federal Government to provide affordable housing financing for qualified borrowers. VA loans provide assistance in purchasing a home for United States Veterans without having to make any down payment. It is also easier to qualify for a VA loan compared to a

---

[3] Moneyfacts. *Mortgages Guides*. Retrieved 24 February 2004, from http://www.moneyfacts.co.uk/guides/guide_mortgages.asp.

[4] Mortgage Information Service. *Types of Mortgage Loans*. Retrieved 12 December 2003, from http://mortgage-x.com/library/loans.htm.

regular loan.[5] The FHA is a part of the United States Department of Housing and Urban Development (HUD) office. The FHA loan program helps give home buyers with a less than perfect credit history, the opportunity to qualify for a mortgage and to have the same interest rate as a borrower with an unblemished credit history.[6] The requirements to obtain FHA loans are not as high as conventional loans such as Fannie Mae or Freddie Mac loans. The borrower can purchase a home with only 3% down payment. In special cases, a borrower who qualifies for a gift program is allowed to purchase a home without any down payment.[7] Nevertheless, he has to pay an upfront insurance premium which is about 1.5% of the loan amount and on top of that he also has to pay a monthly premium of 0.5% of the loan amount divided by 12 months.[8] There is also the Rural Housing Service (RHS) of the United States Department of Agriculture, which offers rural housing loan programs for qualified homebuyers to get loans without having to make any down payment.[9]

VA, FHA and RHS loans are guaranteed by the respective organisations, which pay the financiers should the borrowers default on their loans. VA will guarantee 40% of the loan amount up to a maximum of $20,000, while the FHA insures 100% of the loan, thus eliminating the lender's risk. This is in contrast to a conventional loan like Fannie Mae loans which do not benefit from any government guarantee, and therefore is made at the full risk of the lender. A conventional loan with a loan to value ratio (LTV) of greater than 80% requires primary mortgage insurance (PMI) which can be paid on an annual or monthly basis. The borrower also has to have a 5% down payment and two months reserves on deposit together with an excellent credit history. Nevertheless,

---

[5] Mortgage Information Service. *Types of Mortgage Loans*. Retrieved 20 March 2004, from http://mortgage-x.com/library/loans.htm.
[6] FHA Today. *FHA vs. Conventional Financing*. Retrieved 20 March 2004, from http://www.fhatoday.com/
[7] Mortgage Research Centre. *FHA Loans*. Retrieved 20 March 2004, from http://www.mortgageresearchcenter.com/mortgages/fha.php
[8] FHA Today. *FHA vs. Conventional Financing*. Retrieved 20 March 2004, from http://www.fhatoday.com/comparison.htm.
[9] Mortgage Information Service. *Rural Housing Service (RHS) Programs*. Retrieved 20 March 2004, from http://mortgage-x.com/library/rural.htm.

borrowers who meet conventional loan guidelines such as Fannie Mae's will be rewarded with a slightly lower interest rate than an FHA.

2.2.2.2 Mortgage loan programs

The types of mortgage loans consist of either fixed rate, adjustable rate or a combination of the two. With a *fixed rate mortgage* (FRM) loan, the interest rate and monthly repayments remain constant over the life of the loan. It is available for 30, 25, 20, 15 or 10 years. The shorter the term of a loan, the lower the interest rate charged. As for an *adjustable rate mortgage* (ARM) loan, the interest rate and, thus, monthly payments fluctuate over the period of the loan. The ARM rate is generally tied to a floating rate index such as the Treasury Bill rate or the London Inter Bank Offering Rates (LIBOR).[10] *Hybrid loans* are loans which are a combination of FRM and ARM in nature. Examples of these are *fixed-period ARMs* with a certain period of fixed payment before the interest rate changes; *convertible ARMs* with an option to convert ARMs to a fixed-rate mortgage after a certain period; and *graduated payment mortgages (GPMs)* whereby mortgages have low initial monthly payments, which would then gradually increase through the later years.[11]

2.2.3. Housing Market and Housing Finance in Developing Countries

A billion people worldwide are said to live in inadequate housing, the majority in urban slums and squatter settlements. This is particularly true in Asia and the Pacific because of rapid population growth and disproportionate urbanisation. Therefore, it can be argued that developing countries are in a housing crisis.[12] Asia's mortgage sector is also said to be the least developed in the world, with many of Asia's developing countries' aggregate volume of mortgage financing each year amounting to less than 2%.[13]

---

[10] Mortgage Information Service. *Types of Mortgage Loans*. Retrieved 21 March 2004, from http://mortgage-x.com/library/loans.htm.
[11] ibid
[12] Bestani, R. and J. Klein (2003). *Housing Finance in Asia, Asian Development Bank*. Retrieved 18 August 2006, from http://www.adb.org/PrivateSector/Finance/Housing-Asia.pdf
[13] ibid

The availability of mortgage financing is important in order to stimulate the construction of new housing units and related industries as well as provide access to affordable homes. The way cities are built reflects the way they are financed because methods of financing dictate modes of construction rather than the reverse.[14] A lack of access to housing finance would mean that houses are no longer affordable to everyone and would have the consequence of forcing many city dwellers to live in slums and squatter settlements or live far from the place of work and commute long distances every day.[15]

The state of the mentioned crisis differs between countries in Asia. At one extreme is Korea where extensive housing construction is encouraged by the government and deregulation of housing finance has enabled housing to be more affordable. At the other extreme is Afghanistan, where wars and conflicts have destroyed most parts of the housing stock of the country, and left its urban dwellers lacking adequate housing or access to safe-water.[16] However, the majority of Asia's developing countries fall somewhere in between these two extremes.

The owner-occupation levels also vary between countries and among the factors that contribute to this variation are the relationship between housing prices and household incomes, regulatory and legal frameworks concerning mortgage financing, the competition level among lenders and government policies to support home ownership.[17] Therefore, improvements need to be made on the capital markets, legal and regulatory frameworks, and providing technical assistance and widening the knowledge resources of virtually all of these countries in order to bring about a better housing market and housing finance.

---

[14] Renaud, B. (1987). *Another Look at Housing Finance in Developing Countries*. Cities, Butterworth & Co (Publishers) Ltd: pp. 28-34.
[15] Robert Bestani and Johanna Klein, *Housing Finance in Asia*, Asian Development Bank http://www.adb.org/PrivateSector/Finance/Housing-Asia.pdf (18 August 2006)
[16] ibid
[17] United Nations General Assembly. Housing Finance. *Urban Shelter* Retrieved 18 August 2006, from www.un.org/ga/Instabul+5/38.pdf

An example of innovativeness in order to increase the owner-occupation level is the inflationary economies in developing countries, where it is said to be difficult to attain an affordable housing credit even for middle and upper income groups, let alone the lower income groups. In such countries, public sector housing finance institutions have been set up to provide loans at interest rates below the market or even the inflation rate. Funds from allocations and captive savings in the public sector are used, such as reserves of insurance institutions and pension funds in these institutions.

As mentioned above, in many of Asia's developing countries, improvement on the capital markets is needed, for example, through the introduction of securitisation agencies, in order to provide guarantees to match the long term funding requirements of the housing markets. It is also important to create an adequate regulatory and legal framework to deal with all aspects of mortgage finance. An example is to improve on the foreclosure laws and make the land ownership clear.[18] This is to reduce the risks faced by mortgage lenders and to safeguard their interests without disregarding the rights of borrowers.[19] It is also vital to provide technical assistance and widen the knowledge resources. Also important is having an adequate supply of trained financial professionals and financial intermediaries to help facilitate developing economies in introducing a sophisticated credit culture. Lacking this would also impede developing economies' access to capital for housing development.[20] Therefore, considering all the work that needs to be done, and the necessary improvements to be made, it is imperative for the government to work together with financial institutions, with the outcome of a better access to housing finance and better housing market.

---

[18] ibid.
[19] United Nations General Assembly. Housing Finance. *Urban Shelter* Retrieved 18 August 2006, from www.un.org/ga/Instabul+5/38.pdf
[20] Martinez, M., B. Krupa, et al. (2002). Housing Policy in the New Millennium: The Development of Housing and Housing Finance in Developing Countries. *FIG XXII International Congress*. Washington D.C. USA.

2.3. CONVENTIONAL HOME FINANCING MARKET: RELATED ISSUES

2.3.1 Home Financing Products Preferred in the United States and the United Kingdom

In the United States, fixed-rate mortgages are more common despite the fact that banks offer borrowers a slightly lower rate on adjustable-rate mortgages (ARMs). Banks would rather make ARM loans, as there is less interest rate exposure but borrowers are simply not willing to accept the added risk associated with ARMs.[21]

Lea[22] states that the choice of mortgage instrument has implications for the efficiency and stability of the housing finance system, as he strongly believes that fixed-rate mortgages contribute to macroeconomic stability and can bring about a success in the housing finance system as can be seen in the United States which has a long-term, fully pre payable fixed-rate mortgage. In the United States, a typical product is a 30-year or 15-year fixed-rate mortgage.

In the UK, Lea noticed that ARMs are preferred. Though he mentioned that ARMs can cause borrowers to have payment difficulties resulting in high default rates and, therefore, ARM is able to undermine the stability of a financial system as was the case in the UK during the late 1980s. Currently there are as many as 70% of homeowners in the UK who have a variable rate type mortgage, which makes most mortgage borrowers vulnerable to changes in interest rates.[23] Concerned with this trend of preferring ARMs to flexible rate mortgages or FRMs, together with the desire to produce greater stability and reduce the risks of inflation, the British Chancellor of the Exchequer has instigated a review on long-

---

[21]FinanceProfessor.com. *Mortgage Markets*. Notes for Institutions and Markets Retrieved 21 March 2004, from http://www.financeprofessor.com/fin322/notes/chapter9-mortgagemarket.htm

[22] Lea, M. J. (2003). The Fixed Rate Model. *Mortgage Banking*_April: p. 52.

[23] BBC News Q & A. Longer-term Mortgage Review. Retrieved 24 March 2004, from http://news.bbc.co.uk/1/hi/business/3300469.stm.

term fixed-rate mortgages.[24] The report accounts the potential macroeconomic implications of more long-term fixed-rate lending, possible explanations on why very few borrowers take up longer term fixed-rate mortgages and recommendations for how the market can be made to work better.[25]

2.3.2 Secondary Mortgage Market

In the United States there is a well-established secondary mortgage market where most mortgages are sold and their derivatives or debt backed by them, complete with a wide range of securities in the capital markets. The largest participants of this market are Fannie Mae and Freddie Mae which are stockholder-owned, private companies charted by Congress.

The 'Homeownership Alliance'[26] reports that the housing sector in the United States has been successful because it is being supported by a strong secondary mortgage market. One of the advantages of a secondary market is that it creates diversification whereby, by pooling individual home mortgages, it is possible for lenders to diversify credit risk over a large number of borrowers and properties. A secondary market also creates affordable homeownership opportunities, fosters economic growth and facilitates the financial stability of lending institutions by increasing the flow of funds through capital markets.

As for the UK, according to Alan et al,[27] securitisation with respect to prime lending is unlikely to come to dominate the housing finance market in the UK. According to them, the all-in costs of securitisation are still too high to make it a

---

[24] The Council of Mortgage Lenders (2003). Fixed *rate mortgage market in the UK.* Retrieved 24 March 2004, from http://www.cml.org.uk/servlet/dycon/zt-cml/cml/live/en/cml/regandpolicy_responses_2003_0916a.

[25] Miles, D. (2004). *The UK Mortgage Market: Taking a Longer Term View: Final Report and Recommendations.* Retrieved 24 March 2004, from http://www.hm-treasury.gov.uk/media//80DDF/miles04_470[1].pdf.

[26] The Home Alliance. (2003). *The Secondary Mortgage Market -- A Key to Homeownership*" Retrieved 21 March 2004, from www.homeownershipalliance.com/press/backgrounders/explainer2.pdf

[27] Holmans, A., N. K. Karley, et al. (2003). *The Mortgage Backed Securities Market in the UK: Overview and Prospects.* CML Research, London School of Economics and Cambridge Centre for Housing and Planning Research.

dominant form of funding in the prime market and will continue to be the case while the UK market is structured around variable rate mortgages and based on retail institutions, which do not see themselves as capital constrained.

2.3.3 House Prices

In terms of house prices, the UK has one of the highest levels of house price volatility in Europe, which is said to be more volatile than the GDP and average earnings, and as volatile as share prices.[28] According to the UK Land Registry, the average house price has risen to £171,709 in England and Wales. This shows an annual increase of 7.0 per cent in house prices, in the 12 months leading up to October 2006.[29] This is said to be the highest growth rate since June 2005 and a sign that across England and Wales, the market is going strong. However, house prices seem to be more stable in the USA. In a report by the Office of Federal Housing Enterprise Oversight (OFHEO), house prices were 7.73 per cent lower in the third quarter of 2006 than from the third quarter of 2005. This actually reflects a slowdown and a deceleration in the prices of houses in the United States.[30]

2.3.4 Home Financing Tax Regime in the UK and the USA

The tax regime regarding home financing is also different between the USA and the UK. Currently in the UK, there is a *stamp duty land tax* (SDLT) which is a tax rate chargeable on transaction involving residential property according to its value, which is currently as follows:

a. Up to £60,000 0%
b. £60,000 - £250,000 1%
c. £250,000 - £500,000 3%
d. Above £500,000 4%

---

[28] Laslett, R., T. Wilsdon, et al. (2001). *Managing the Housing Market*. CML Research. London, Charles River Associates Ltd. London.
[29] Land Registry UK. (2006). *House Price Index*. Retrieved 14 December 2006, from www.landregistry.gov.uk/assets/library/documents/hpir1106.pdf
[30] OFHEO. (2006). *House Price Index*. Retrieved 14 December 2006, from www.ofheo.gov/HPIHistNation.asp

There is currently a call to abolish stamp duty for first-time buyers up to £150,000. This is because the lower end of the stamp duty threshold still stands at £60,000 now as it was 10 years ago without any regard for the rate of inflation or the appreciation in house values. According to Nationwide, 75% of first-timers are paying the property tax, compared to 18% 10 years ago. The revenue taken from residential stamp duty has also trebled over the last 4 years, from £830m in 1997/98 to £3.590bn in 2002/03 as house prices have soared.[31] According to Nationwide's recent monthly data (February 2007), the average house now costs £174,706.[32] According to CML,[33] the lenders believe that there is a need for reform and that stamp duty thresholds should rise in line with the house price index. CML believes that had the tax been indexed in line with house price inflation since 1993, then no duty would now be payable on a house bought for less than £118,000.[34]

There is also *capital gains tax* (CGT) which can only arise on the disposal of an asset consisting of investment houses or second homes. If the asset is the only home and not being used for any other purposes then CGT would not have to be paid on the disposal of it. CGT would only be charged if chargeable gain has been made. A gain is made if the asset is worth more than it was when acquired. If the sum of money gained was a capital sum CGT has to be paid as long as it is not part of income, which would then put it under the income tax category instead.[35] If there are gains as a result of this disposal, then the first £7,900 of an individual's net gains realised during the tax year are free of CGT. The excess is taxed as if it were the top slice of income, at the rates that apply to savings, namely 10% on the first £1,960, 20% on the next £28,540 and 40% on

---

[31] Nationwide. (2003). *Stamp duty hits all first time buyers in all UK regions.* Retrieved 21 March 2004, from http://www.nationwide.co.uk/mediacentre/pdf/regional_stamp_duty_report.pdf

[32] Nationwide. (2007). *Interest Rate Hikes Begins to Take Their Toll.* House Prices Retrieved 12 March 2007, from http://www.nationwide.co.uk/hpi/review.htm.

[33] The Council of Mortgage Lenders. (2003). Lenders Propose Budget Reforms. *CML News and Views* Retrieved 21 March 2004, from http://www.cml.org.uk/servlet/dycon/zt-cml/cml/live/en/cml/pdf_pub_misc_nv-2003-21.pdf.

[34] ibid

[35] HM Revenue & Customs. Capital Gains Tax. Retrieved 21 March 2004, from http://www.inlandrevenue.gov.uk/pdfs/cgt1_1.htm

the balance.[36] The rate of tax is reduced depending on the time the asset is held.

As for the United States, there is no stamp duty levied on property, although there is tax on real property such as houses, better known as *real property tax*. It is a tax based on the value of real property, which is assessed locally by assessors who are appointed or elected at the municipal level. The amount of tax to be paid is determined by two things: firstly the property's taxable assessment which is a percentage of the property's market value less any applicable property tax exemptions and secondly the tax rates of the taxing jurisdictions in which the property is located. The money raised from the tax is used to fund schools, pay for police and fire protection, maintain roads as well as fund other municipal services enjoyed by its residents. [37]

There is also capital gains tax on the net long term capital gain of a capital asset being sold or exchanged. Capital asset here means any property that is owned and used for either personal or investment purposes. A capital gain or loss is classified as long-term if the property is held for more than one year and short-term if it is held for one year or less before selling it. There would be a net capital gain if the net long-term capital gain is greater than the net short-term capital loss.[38]

2.3.5 Various Costs Related to Mortgages in the UK

There are various other costs besides stamp duty which UK home-buyers would incur, such as valuation/survey fees, legal costs, local authority search fees, land registration fees, arrangement fees, mortgage indemnity premium, building insurance as well as life assurance. A *Valuation fee* is charged by the mortgage

---

[36] Dyers Partnership. *Capital Gains Tax*. Retrieved 21 March 2004, from http://www.netaccountants.com/capgain.html.
[37] Office of Real Property Services. *How the Property Tax Works*. Retrieved 21 March 2004, from http://www.orps.state.ny.us/pamphlet/taxworks.htm.
[38] Internal Revenue Service. *Tax Facts About Capital Gains and Losses*. Retrieved 12 March 2007, from http://www.irs.gov/newsroom/article/0,,id=106799,00.html.

lender, who will instruct its surveyor to inspect and value the property to ensure that the property is an acceptable security for a loan. *Legal costs* are incurred when the house-buyer appoints a solicitor or licensed conveyancer to deal with the legal aspects of purchasing a property. The solicitor would also charge the home-buyer a fee for carrying out a *local authority search* to find out if there are any future development plans that could affect the value and purchase of the chosen property. The land registry charges a *land registration fee* to verify legal ownership of the property and to register the home-buyer as the owner at the address.

Arrangement or *application fee* for a mortgage differs depending on the chosen lender and mortgage offer. A *Mortgage indemnity premium* is an insurance policy commonly used for a high loan to value (LTV) mortgages in order to protect the lender against losses incurred if the property is taken into possession due to arrears. The premium is normally passed on to the borrower. There is also a *building insurance* policy made compulsory by lenders which covers the property against the risks such as fire and vandalism; *contents insurance* to insure home contents against risks such as theft and damage; and various *mortgage payment protection insurance* (MPPI) that offers income protection against unemployment, sickness and redundancy.[39]

2.3.6 Refinancing

There is also the issue of refinancing whereby the borrower changes mortgage arrangements without having to move house. The borrower does this by changing lender to get a better deal in order to reduce monthly repayments or by releasing some equity to fund, for example, home improvements and thus increase the amount borrowed or renegotiate the terms of the mortgage without borrowing any more money.[40] In the UK the level of refinancing has risen six-

---

[39] Moneyfacts. *Mortgages Guides. General Things to Consider* Retrieved 25 March 2004, from http://www.moneyfacts.co.uk/guides/house_buy.asp

[40] CML News and Views. (2003). *The CML's Consumer Survey.* Retrieved 25 March 2004 from http://www.cml.org.uk/servlet/dycon/zt-cml/cml/live/en/cml/pdf_pub_misc_nv-2003-2.pdf

fold over the last five years, according to figures from the CML. There are sometimes redemption penalties or early repayment charges incurred by the mortgage lender. However, there are some lenders who offer specialist refinancing services with free legal and arrangement fees as well as free valuations.[41]

2.3.7 Early and Late Repayment

Akin to refinancing is the issue of prepayment. United States lenders do not impose any form of penalty for early repayment during the fixed-rate period, whilst in the UK, lenders levy charges to customers who prepay in order to discourage prepayment. Perry et al. [42] states that the prepayment issue is an important one to the lenders due to the high costs of acquiring a mortgage which needs to remain on the books for several years in order to be profitable. An early repayment would adversely affect the cash flow planning of the lender.

Regarding late repayment, there are home owners who have problems in paying their mortgages, and thus fall into arrears of monthly repayments. They, consequently, run into the risk of being evicted and have their home repossessed by their mortgage lender. In the UK, for the whole of 2005 the arrears and possessions statistics showed that the number of properties taken into possession by mortgage lenders has increased. The Central Mortgage Lender (CML) commented that the increase in arrears is largely as a result of the rise in interest rates.[43] It is usually the case that if the interest rate rises, first-time buyers are the most vulnerable as they are likely to have the least accumulated housing equity and the most stretched incomes compared to their levels of debt and could find themselves struggling to keep up with the payments. The expectation of an interest rate rise has made many borrowers take out a

---

[41] BBC News. (2004). *Moving Mortgages.* Retrieved 25 March 2004, from http://news.bbc.co.uk/1/hi/business/1560906.stm.
[42] Perry, S., S. Robinson, et al. (2001). *A Study of Mortgage Prepayment Risk, Institute of Actuaries and Faculty of Actuaries.*
[43] The Council of Mortgage Lenders (2005). *No Increase in Long-term Arrears or Possessions but Small Increase in Short-term Arrears.* Retrieved 12 March 2007, from http://www.cml.org.uk/cml/media/press/47.

fixed rate mortgage in order to protect themselves from any future interest rate rise.[44]

2.3.8 Tax and Benefit System

In the UK, there is a tax and benefit system which helps provide assistance to owner-occupiers in low-paid employment with mortgage payment difficulties. The more generous tax credit system will increase the levels of mortgages that can be sustained by low-earning households. The CML carried out a survey of 31 lenders, accounting for some 85% of the mortgage market in 2003. The results of the survey showed that two-thirds of lenders treated credits in the same way as earned income and do take account of tax credits when assessing the amount they are prepared to advance. However, there are lenders who felt that the tax credits could not be relied upon as a secure and continuous source of income, or see it as a means of supporting the costs of raising children.[45]

2.3.9 Safety Net

In the UK, there is also state help with mortgage costs, called Income Support for Mortgage Interest (ISMI). It covers interest on the first £100,000 of the mortgage and is paid at a standardised rate of interest, but is only available to homeowners who qualify for income support or job seekers allowance. Thus, ISMI can also be a barrier to finding work as some recipients find that they are worse off when getting a job, thus losing ISMI, than they were staying on benefits.[46] There is actually a nine-month waiting period before benefit claimants could receive help with their mortgage interest. This is because the government aimed to expand the number of home-owners covered by private insurance namely mortgage payment protection insurance (MPPI) in case of

---

[44] CML News and Views (2003). *The Three Rs of Mortgage Lending.* Retrieved 26 March 2003, from http://www.cml.org.uk/servlet/dycon/zt-cml/cml/live/en/cml/pdf_pub_misc_nv-2003-17.pdf (26 March 2004).
[45] CML News and Views. (2003). *Giving Due Credits to Home Owners.* Retrieved 26 March 2006, from http://www.cml.org.uk/servlet/dycon/zt-cml/cml/live/en/cml/pdf_pub_misc_nv-2003-8.pdf
[46] Tyrrell, E. (2003). How Property Equals Poverty. *The Guardian.*

accident, sickness or unemployment.[47] ISMI and MPPI are forms of safety-net provision based on a partnership of borrowers, lenders, insurers and the state in order to achieve the key objective of the Government housing policy of sustainable home ownership.

Other private insurances apart from the main one, which is MPPI, are Critical Illness (CI), Permanent Health Insurance (PHI) and Unemployment Insurance (UI). A survey undertaken by the National Centre for Social Research in 2003 found that 60% of borrowers had one or more of the four main private insurance policies mentioned above and that the highest take up of private insurance was for CI (40% of all borrowers held this insurance) followed by MPPI (37%), PHI (20%) and UI (12%).[48]

2.3.10 Financial Help

The Survey of English Housing provides information on various issues relating to a household's behaviour and attitudes. One such finding is that in 2002 and 2003, an increasing number of first-time buyers (17%) were receiving financial help from family and friends towards their deposit when taking out mortgages. Nevertheless, the majority of first-time buyers (57% in 2002 and 2003) drew on their own savings to provide a deposit. Alternatively, first-time buyers can opt to take out a 100% mortgage. In 2002 and 2003 22% of first-time buyers did this. This means that no deposit is required by the financial institution in order to take up a housing mortgage. This would also imply that first-time buyers do not need to use up their savings or seek financial help in order to fund the deposit if it were required.

---

[47] Burrows, R. and S. Wilcox (2000). Half the Poor? The Growth of Low-Income Home-Ownership. *Housing Finance* August (No. 47): p. 50.
[48] Communities and Local Government. (2003). *Risk,Homeowners & Safety-Nets:Mortgage Payment Protection Insurance & Beyond*, Office of the Deputy Prime Minister.

2.3.11 Trends in the Type of Mortgages Taken Up

The survey also shows that there is an increasing interest in repayment loans and a decline in the take-up of endowment mortgages in the UK. According to the Association of British Insurers, the number of mortgage endowment policies had declined to 6.5 million by August 2006 and was foreseen to continue to fall.[49] In 2001 and 2002, 75% of new mortgages were repayment loans and only 10% of new loans were backed by an endowment compared to 61% of endowment mortgages and 30% of repayment mortgages between 1985 and 1989.[50]

There are also flexible mortgages which are increasingly popular as the lender gives the borrower the facility to pay off the loan early through regular overpayments and lump sum overpayments; borrow funds back by lump-sum withdrawals, underpaying or even take payment holidays without having to pay a penalty and with a daily calculation of interest. In 2001 and 2002, about 29% of all new mortgages were flexible. This is quite an increase compared to only 17% taken out in 1994 or earlier.[51]

2.4 ISLAMIC FINANCE AND ISLAMIC HOUSE FINANCING

2.4.1. Principles of Islamic Finance

As an alternative system of financing, the Islamic financial system may be described as 'fair' and 'free' financing. Islam, as a religion, prescribes certain principles which govern economic and financial life. Islam provides freedom to make transactions and enter into a contract. Nevertheless, there is a certain degree of constraint in order to ensure that certain objectives are achieved. These objectives consist of conducting transactions based on religious values;

---

[49]Association of British Insurers (2006). Mortgage Endowments - A Factsheet. Retrieved 12 March 2007, from http://www.abi.org.uk/BookShop/ResearchReports/ABI_EndowmentFactsheet_Sep2006.pdf.

[50] The Council of Mortgage Lenders (2003). Survey Sheds New Light on Borrowing. *CML News and Views* Retrieved 29 March 2004, from http://www.cml.org.uk/servlet/dycon/zt-cml/cml/live/en/cml/pdf_pub_misc_nv-2003-14.pdf.

[51] Ibid.

preservation of faith, wealth and economic prosperity; promoting, as well as managing Islamic financial activities according to Islamic principles; to have fair distribution of wealth and opportunities. These objectives are aimed at fulfilling through certain constraints, such as the prohibition of *riba* and *gharar.*[52]

Central to Islamic financial ethics and law is the prohibition of *riba,* which means that all transactions and contracts must be free from any elements of *riba*. There are many evidences of this which can be taken from the verses in the Qur'an[53] as well as various *ahadith* (sayings) of the Prophet Muhammad concerning *riba*.

Riba prohibition is divided into two: prohibition of *riba* in loan or debt contracts and prohibition of *riba* in sale or exchange contracts. In the case of the former, *riba* is normally known as interest and consists of an excess amount which a creditor expects to receive from his debtor for giving time to the debtor for repayment of his loan. On the other hand, prohibition of *riba* in sale or exchange contracts mean differences in quantity and quality when exchanging two different types of commodities.[54]

Islam also prohibits any financial dealing involving *gharar,* namely risk, uncertainty and hazard. In an Islamic framework, a certain degree of *gharar* is acceptable, whereas excessive *gharar* is prohibited. Islamic scholars define the concept of *gharar* as implying uncertainty and deceit. *Gharar* includes business transactions which cause injustice in the form of deceit, fraud or undue advantage or hazard leading to uncertainty. *Gharar* could also mean any bargain, in which the result is hidden. It could also include contracting under conditions of gambling, which is clearly prohibited in the Qur'an.[55]

---

[52] Obaidullah, M. (2005). Islamic Financial Services, Islamic Economics Research Centre, King Abdul Aziz University.
[53] See the following Qur'anic verses: (3:130), (2:275), (2:276), (2:278) and (2:279)
[54] Obaidullah, M. (2005). Islamic Financial Services, Islamic Economics Research Centre, King Abdul Aziz University.
[55] See the following Qur'anic verse: (3:90), (3:91), (4:219).

Prohibition of *riba* and *gharar* constitutes the main framework of Islamic finance. However, it might be useful to mention another norm in Islamic finance which relates to mutual co-operation, solidarity and brotherhood: *ta'awun*. *Ta'awun* itself is central to Islamic ethics, as there are Qur'anic verses as well as various *ahadith* which invite Muslims to hold on to the principle of cooperation and mutual assistance.[56] With the awareness of these three norms (prohibition of *riba, gharar* and *ta'awun*) as well as the objectives of Islamic finance, Islamic scholars and bankers have developed Islamic housing finance products otherwise known as Islamic mortgages. Such developments in the supply side respond to the increased awareness amongst Muslims to demand for Islamic mortgages. Thus, due to demand and supply conditions Islamic finance has gained importance in the society whether it is a Muslim majority or a minority society.

There are also Islamic financing principles which a financial institution offering Islamic financial products needs to adhere to: the product needs to be asset backed, as the seller cannot sell what he/she does not own; the lessor cannot lease what he/she does not own; no transaction of an asset should occur if he/she does not own it; and that the transaction should be beneficial to both parties. The underlying structure of an Islamic financial institution, thus, has to comply with these principles.[57] These principles are derived from the objectives (*maqasid*) of *Shari'ah*, which consist of protecting five essential values, namely religion, life, intellect, lineage and property.[58] It should also be noted that these institutions also need to have a *Shari'ah* Board consisting of *Shari'ah* scholars to approve the products they offer. It is the duty of these *Shari'ah* scholars to issue

---

[56] ibid
[57] Thomas, R. (2006). Islamic Banking in the UK: Islamic Home Finance, ABC International Bank plc. *Islamic Finance Summer School 2006.* Durham University, UK.
[58] Obaidullah, M. (2005). Islamic Financial Services, Islamic Economics Research Centre, King Abdul Aziz University.

fatwa (injunctions) to confirm approval and to oversee the ongoing *Shari'ah* compliance of the products.[59]

2.4.2. Islamic Housing Finance

The experience of financing the process of owning a home through Islamic modes has only come into being recently after the advent of the Islamic banking system since the 1970s and has been one of the early concerns when it came into being. It is seen as an alternative financing for those who have tried as much as possible to abstain themselves from being involved in *riba*. Islamic housing finance product adheres to the principles of *Shari'ah.* In a very simplistic sense, Islamic mortgage involves the purchase of the dwelling by the financier, who would either sell or lease the product to the individual or customer who initially came up to the financier for financial assistance. It is the financier who has to take the upfront risk.[60]

2.4.3 Islamic Housing Finance Product Concepts

Islamic financial institutions have introduced a number of *Shari'ah*-compliant modes for home ownership. They apply various concepts, which are permissible to Islam and one which is controversial to some. Three most widely used Islamic modes of home financing are: *murabaha*, *ijara wa iqtina'* and diminishing *musharakah* and *ijara.*

2.4.3.1 Murabahah

Murabahah, as an Islamic financial mode, is a sale and purchase contract based on trust, which requires full disclosure and transparency between the parties.[61] It is a form of mark up financing whereby a customer selects and negotiates the price of the property. The seller then sells the chosen property to the bank. The

---

[59] Thomas, R. (2006). Islamic Banking in the UK: Islamic Home Finance, ABC International Bank plc. *Islamic Finance Summer School 2006.* Durham University, UK.
[60] Qaiser, W. (2006). Introduction to Islamic Banking. *Islamic Finance Summer School 2006.* Durham University, UK.
[61] Laldin, M. A. (2006). The formation of contracts and the classifications of contracts in Islamic Commercial Law. *Workshop on Islamic Banking & Finance ILKAP.*

bank then sells the house at a price which is higher than the purchased price and cannot be changed. The cost and amount of mark-up must be disclosed. The bank profits from the mark up between the sale and purchase price. The repayment is spread over an agreed period.[62]

There are always advantages and disadvantages of such products, a few of which are mentioned here. One of the advantages of *murabahah* to customers is that because the cost and amount of mark-up is fully disclosed,[63] there is transparency. Secondly, the monthly repayment is fixed, which helps customers to manage their finances better and also means that the financiers cannot charge penalties if a customer is late in making the monthly repayments. It is also advantageous that under *murabahah*, the property is registered in the customer's name as the homeowner throughout the tenure of the mortgage.[64] The disadvantage of this product to a customer is that monthly repayments are inflexible and that they do not get rewarded if early repayments are made.

As for the advantages of *murabahah* to financiers, it is fixed and predetermined, thus making it low risk, simple and convenient to them. The disadvantage of this product to the financier is that the financier cannot penalise those who make late repayments and would therefore include the default margin in the mark-up margin. This would have an effect in increasing the cost further and making the product seems expensive and unattractive to potential customers.[65]

This mode of financing has been subject to controversy amongst scholars as it is converging with the conventional mode, and the financiers seem to act as

---

[62] Dar, H., Ed. (2005). *Islamic Mortgages*. Islamic Perspectives on Wealth Creation Edinburgh University Press.
[63] Laldin, M. A. (2006). The formation of contracts and the classifications of contracts in Islamic Commercial Law. *Workshop on Islamic Banking & Finance ILKAP.*
[64] Shahid, I. (2005). *Islamic House Financing in the UK.* Nottingham, Nottingham University Business School. M.A.
[65] ibid

lenders rather than sellers.[66] Therefore, customers would normally weigh between the advantages and the disadvantages as well as compare with other products on offer before deciding to take up the product or otherwise. Below are other products' concept used and their advantages and disadvantages.

2.4.3.2 Ijara wa iqtina'

Ijara wa iqtina, as a mode of home financing, combines two features: deferred payment sale and leasing. An agreement is made between the bank and the customer for the bank to buy the property of the latter's choice. The bank also enters into a leased agreement with the customer with the rent being fixed periodically on a pre-agreed basis. The customer then rents the house and in exchange for the rent, the bank transfers the usufruct[67] of an asset to the lessee. Nevertheless the ownership still remains with the lessor until the final payment is made by the lessee.[68] An agreement is made for the lessee to also purchase the house at a later date, which in effect makes it a deferred payment sale. The bank promises to sell the property to the customer on credit and at the same price the bank paid for the property.[69]

The advantage of this product to its customers is that the homeowner would benefit fully from the appreciation of property value or capital gain once the title is transferred to the customer. Secondly, the customer would not have to bear the liabilities and risk incidental to ownership because this will reside with the lessor, although they do have to take on the liabilities, risk and/or expenses associated with the use of the leased asset.[70] However, the disadvantage of the product is that the customers cannot become the owner of the property until the

---

[66] Meera, A. K. M. and D. A. Razak (2005). Islamic Home Financing through Musharakah Mutanaqisah and alBay'BithamanAjil Contracts : A Comparative Analysis. *Review of Islamic Economics* Vol. 9 (No. 2): pp 5 -30.
[67] Right to enjoy property
[68] Qaiser, W. (2006). Introduction to Islamic Banking. *Islamic Finance Summer School 2006.* Durham University, UK.
[69] Dar, H., Ed. (2005). *Islamic Mortgages*. Islamic Perspectives on Wealth Creation Edinburgh University Press.
[70] Laldin, M. A. (2006). The Formation of Contracts and the Classifications of Contracts in Islamic Commercial Law. *Workshop on Islamic Banking & Finance ILKAP*.

end of the tenure of lease.[71] In addition, the lease payments can be set either quarterly, semi-annually or annually, thus can be increased indefinitely which means uncertainty for the customers. Uncertainty would also mean that they would not be able to manage their finances as well as if the lease payments were to be fixed throughout the tenure.

As for the advantages of this product to the lessor, the ownership remains securely with the lessor until the end of the tenure. The lease payments can also be changed either quarterly, semi-annually or annually, which enables the lessor to change in accordance with the current rental value of houses. Whilst the disadvantage of the product is that the lessor would have to bear the full risk of the leased property. The lessor also cannot charge a late rental payments penalty if the lessee is late in making them, although the former can charge an administration fee if and when that happens.[72]

2.4.3.3 Diminishing Musharakah and Ijara

Musharakah is a form of partnership and is a contract between two or more people who jointly subscribe capital and share any profit or loss from the venture. If one party desires to dispose of its share, it can do so by selling it to its partner whether it be gradually or all at once.[73] If *musharakah* deals with all aspects of partnership, diminishing *musharakah* with *ijara* is a contract between the financier and the person who wants to own a residential home.

Diminishing *musharakah* with *ijara* (DMI) has two parties involved: the financier and the client who buys the house on the basis of joint ownership. Each party owns the house according to the proportion of the sum he/she has paid. Whenever the client purchases a share from the financier, his ownership in the

---

[71] Shahid, I. (2005). *Islamic House Financing in the UK.* Nottingham, Nottingham University Business School. M.A.
[72] Shahid, I. (2005). *Islamic House Financing in the UK.* Nottingham, Nottingham University Business School. M.A.
[73] Abdallah, A. A. (1991). Forms of Investment in Real Estates in Islamic Perspectives. *Islamic Banking Modes for Building Financing*, Sudan, Islamic Research and Training Institute.

house increases proportionately and that of the financier decreases. The house will become the property of the client once he/she has bought all the shares of the financier. The *Shari'ah* scholars agree regarding the permissibility of diminishing *musharakah.*

One of the advantages of this product to both its customers and financier is that the customers are free to increase ownership at anytime without being charged penalties. Another advantage is that the risk is not solely borne by the customer, but shared between the customer and the financiers.[74] Under DMI-based mortgages, both the customers and the financiers share in the appreciation or depreciation of the value of the property[75]. The main disadvantage of this to the customers is that if they continually fail to make monthly payments, their ownership will be reduced.[76]

The advantage of DMI to the financier is that it always reflects the market price, whilst the rental is determined by market rental values. Furthermore the financier can revise the rental rate periodically, linking it to some economic variables such as House Price Index, in order to reflect the current market conditions.[77] DMI also provides a cushion against inflation as it secures a percentage of the value of the asset to the financier when the value of the property appreciates with inflation.[78] As for the disadvantages, under DMI, the property has to be appraised each time the financiers' ownership is to be bought off and this can be very expensive for the financiers as well.[79]

---

[74] Shahid, I. (2005). *Islamic House Financing in the UK.* Nottingham, Nottingham University Business School. M.A.
[75] Dar, H., Ed. (2005). *Islamic Mortgages*. Islamic Perspectives on Wealth Creation Edinburgh University Press.
[76] Shahid, I. (2005). *Islamic House Financing in the UK.* Nottingham, Nottingham University Business School. M.A.
[77] Meera, A. K. M. and D. A. Razak (2005). Islamic Home Financing through Musharakah Mutanaqisah and alBay'BithamanAjil Contracts : A Comparative Analysis. *Review of Islamic Economics* Vol. 9 (No. 2): pp 5 -30.
[78] Salama, A. A. (1991). Housing Finance in Islamic Countries. *Islamic Banking Modes for Building Financing*, Sudan, Islamic Research and Training Institute.
[79] Shahid, I. (2005). *Islamic House Financing in the UK.* Nottingham, Nottingham University Business School. M.A.

2.4.3.4 Comparison between the Islamic Home Financing Instruments

Table 2.1 depicts the similarities and differences between the three most widely used Islamic modes of financing in the developed and developing economies.

Table 2.1: Similarities and differences between *Murabaha, Ijara wa Iqtina* (IWI) and Diminishing *Musharakah* and *Ijara* (DMI).

	Murabaha	***Ijara wa Iqtina***	**DMI**
Financier's role	Buys and then sells house to the customer	Buys and then rents house to the customer	Buys together with customer and leases its share to the latter
Property initially own by	Customer	Lessor	Co-own according to initial share
Liability held by	Financier	Lessor	Co-held according to share
Fixed or variable payment	Fixed	Variable	Variable
Rights to gains from sale	Customer keeps gains from the difference between purchase and sale price	Customer keeps gains from the difference between principal and sale price	Customer keeps gains from the difference between principal and sale price according to portion owned
Early sale allowed	Yes	Yes	Yes
Early repayment allowed	Yes	Yes	Yes
Home improvements allowed	Yes	Yes	Yes
Refinancing allowed	No	Yes	Yes

2.5. ISLAMIC HOUSING FINANCE IN THE UK; PRODUCTS, PROVIDERS, MARKET AND ISSUES

2.5.1. Islamic Housing Products Offered in the United Kingdom

In the last few years the number of financial institutions offering Islamic housing finances to members of the public has increased in the UK, which includes Al-Ahli United Bank, ABC International Bank, Bristol and West, Lloyds TSB, Islamic Bank of Britain, HSBC, United National Bank and Ansar Finance Group.

The home financing products offered by these institutions are as follows:

2.5.1.1 *Murabaha*

Currently, in the UK, only Al Ahli United Bank, formerly known as United Bank of Kuwait, provides Islamic mortgages based on the *murabaha* mode of financing. There are two products available in order to finance the purchase of a home from Al Ahli United Bank, namely Manzil Murabaha Plan and Manzil Ijara Plan. The Manzil Murabaha Plan is based on the principle of trading or buying and selling goods at a profit whereby the customer chooses the property and agrees on the price with the vendor. The Bank then buys the property from the vendor and then sells it to the customer with a mark up price. The customer would then pay the higher price by fixed and equal installments over a term of up to 15 years. However, the property is registered in the customer's name and the Bank holds security over it in the form of a legal charge.

2.5.1.2 Ijara

Financial institutions in the UK which use the *Ijara* mode of financing are HSBC Amanah Home Finance, Al Ahli United Bank and United National Bank. It is based on the principle of leasing whereby the customer chooses a property and agrees on the price with the vendor. The financier then buys the property and agrees to sell it to the customer for the same price which is spread over a term of up to 25 years during which the customer would pay rent for living in the property that the financier owns. The rent would be assessed annually and

adjusted to reflect the payments the customers have made to the financier. An interest-based mortgage can also be refinanced using this plan. The procedure to replace an existing, conventional mortgage is the same except that the financier will buy the property from the customer at its current value. The customer would have to agree to buy the property from the Bank at this price. The first payment to the financier is the difference between the current value and the amount of the current mortgage.

2.5.1.3 Diminishing Musharaka

There are also a number of financial institutions, which use the concept of diminishing *musharaka* as their mode of financing. These are ABC International Bank, Bristol and West, Lloyds TSB and Ansar Finance Group. The way in which the ABC International Bank does it is by purchasing the property together with the customer. Both the bank and the customer agree that each party would contribute a certain percentage towards the value of the property. The customer would have to make monthly repayments over a certain tenure period in which the Bank sells its share of the home to the customer. The monthly repayments will diminish the Bank's share in the property and correspondingly increase the customer's share. It also consists of rent, which the bank charges for the use of its share of the property. The rent is calculated according to the respective share owned by the bank.[80]

2.5.2. Market Potential for Islamic House Finance in the UK

One issue of equal importance is that of the market potential of the Islamic products. According to a research carried out by Datamonitor, the Islamic mortgage market is now worth £164 million, implying an average annual growth rate of 68.1 per cent.[81] There is an even bigger market potential coming from the 1.8 million Muslim population if they do not take up conventional mortgage

---

[80] AlBuraq Home Finance. *How Does it Work?* Retrieved 29 August 2006, from http://www.alburaq.co.uk/Products/home%20finance/howDoesItWork2.html

[81] Datamonitor. (2006). *UK Islamic Mortgage 2005.* Retrieved 13 March 2007, from http://www.researchandmarkets.com/reportinfo.asp?report_id=305547

products, but instead go for the mortgage products which are *Shari'ah* compliant. In other words there are potentially markets for devoted Muslims who are willing to switch mortgage lender to an Islamic one as well as first time buyers coming from the second generation immigrants of the British Muslim population.

2.5.3. Participation from Conventional Banks and Building Societies in the UK

Aware of this commercial potential, various other conventional banks and building societies in the UK have expressed an interest to follow in the 'footsteps' of Al Ahli United Bank in offering Islamic mortgages, once the issue of double stamp duty is resolved by the Treasury, and also in offering other Islamic products. Among those offering or preparing such schemes include HSBC, West Bromwich, Barclays and Yorkshire Building Society. In the case of West Bromwich, this building society would refer any interested parties in the Islamic mortgage product to Al Ahli United Bank. It started acting as an introducer since September 2003. As for HSBC, it became the first high street bank to offer Islamic mortgages. Early in 2003 it launched its Amanah Finance products. These include Amanah Home Finance which is based on Diminishing Musharakah mode of financing.[82] The customers would only need to have a minimum deposit of 10% of the property price compared to 20% with that of Al Ahli United Bank. HSBC also do cross-selling of another product to their Muslim customers namely Amanah Bank Account which is totally interest-free, thus giving their Amanah Home Finance customers a *Shari'ah* compliant means to make payments. Yorkshire Building Society is also looking closely at developing a specialist mortgage in partnership with Al Ahli United Bank.

2.5.4. Advantage of Competition

Having other banks and building societies participating in rendering Islamic mortgages is a positive development to the potential homebuyers as this creates

---

[82] HSBC Amanah Finance. *Amanah Home Finance.* Retrieved 27 March 2007, from http://www.hsbc.co.uk/1/2/personal/current-accounts/more/amanah-finance.

competition in the supply side in order to gain a market share among potential Muslim home-buyers. This would definitely give homebuyers more choices and better offers from which to choose from. Not only that, this would also give potential homebuyers the opportunity to meet Islamic mortgage advisors in person if they have any questions concerning the product.

Yorkshire Building Society for example, has large branches in Bradford, Leicester, Nottingham, Preston and Manchester which are known to be well populated with Muslims. The West Bromwich Building Society has already established a pilot scheme which targets the large Muslim population in the West Midlands through posters in branches and local radio. Having both West Bromwich and Yorkshire Building societies as Al Ahli United Bank's introducers and referring potential homebuyers to the Bank is especially useful considering the Bank only has a branch in London, which in the past implied that only those who are willing to come into London could meet the advisors in person, otherwise they would just have to call up the office to make their enquires. This is also good for the Bank as it fills in the 'gap' of not having enough branches throughout the country as well as a good market strategy considering Al Ahli United Bank has been offering Islamic mortgages for over six years, but very few are aware of its existence.[83] Other UK Islamic housing finance providers are ABC International Bank, Islamic Bank of Britain, Bristol and West, Lloyds Bank, all offering *alburaq* which is a *Shari'ah* compliant financial product introduced by ABC International Bank. [84]

---

[83] Knight, J. (2002). Moral Mortgages for Muslims *Daily Telegraph*. London.
[84] Thomas, R. (2006). Islamic Banking in the UK: Islamic Home Finance, ABC International Bank plc. *Islamic Finance Summer School 2006*. Durham University, UK.

2.6. ISSUES IN ISLAMIC HOUSE FINANCING IN THE UK

2.6.1 Late Repayment

All modes of financing face the risk of late repayment or non-repayment.[85] For an interest based financing, the interest rate acts as a deterrent to non-repayment as it accumulates when the balance remains stagnant. In contrast, for *murabahah* type products, non repayment does not cost anything to a borrower as defaulters cannot be penalised. This could also increase the incentive for customers to pay late.[86] Therefore, taking this factor into account, financial institutions offering *murabahah* would have to include a default risk margin and possibly making the product more expensive compared to the conventional housing finance.[87] However, under decreasing *musharakah*, akin to the interest based financing, the rent does act as a deterrent for customers who do not make their monthly repayments.[88] This is because the rent will remain the same unless and until customers make the monthly repayments which will contribute in reducing the balance of the principal.

2.6.2 Inflationary Conditions

Increases in inflation can lead to an increase in the cost of house building and consequently have an effect on the operation of housing finance institutions. This is because more finance will be required for a lesser number of housing units. At the same time household savings will be reduced and borrowers' ability to make monthly repayment could be adversely affected as well.[89] This is because the increase in cost, due to inflation, may not correspond with increases in the incomes of the households. This would then cause them to default due to the inability to meet the increase in cost.

---

[85] Salama, A. A. (1991). Housing Finance in Islamic Countries. *Islamic Banking Modes for Building Financing,* Sudan, Islamic Research and Training Institute.
[86] Shahid, I. (2005). *Islamic House Financing in the UK.* Nottingham, Nottingham University Business School. M.A.
[87] Ibid.
[88] Salama, A. A. (1991). Housing Finance in Islamic Countries. *Islamic Banking Modes for Building Financing,* Sudan, Islamic Research and Training Institute.
[89] ibid.

With *murabaha*, if the rate of return is fixed and has already taken into account the inflation rate, then the impact of inflation would not be severe to the financial institutions. It is also advantageous to the customer as the financial institution cannot increase the monthly repayment amount in an inflationary condition. The *Musharakah* mode of financing may also withstand better in an inflationary condition compared to *murabaha,* from a financial institution point of view. This is because *musharakah* helps financial institutions to secure a share on the value of the asset when its value appreciates with inflation.[90]

2.6.3 Capital Adequacy Standards

Capital adequacy framework has been introduced with the goal of promoting safety and soundness in the international financial system. It has been designed in order to improve on the way regulatory capital requirements reflect underlying risks.[91] Bank regulators would have to take into consideration the application of capital adequacy standards to Islamic financial products and Islamic financial institutions and in this case, the capital treatment of Islamic mortgages. Among the considerations that need to be taken for example are, whether the risk weighting for Islamic mortgages differs from the conventional mortgages and whether the *Shari'ah*-compliant structure of a given financial product amplify or mitigate risk.[92]

Financiers are required to provide a sufficient risk weighting for all lending products, therefore it is important that Islamic mortgages are at par with conventional mortgages in terms of risk level. At the moment, conventional mortgages have a risk weighting of 50%, as is *murabaha* housing finance product. However with *ijara*, it is weighted at 100%, as it is considered to be under the leasing agreement. This makes Islamic mortgages more expensive to

---

[90] ibid
[91] Basel committee on Banking (1999). *A New Capital Adequacy Framework*. Basel, Bank for International Settlements.
[92] Thomas C. Baxter, J. (2005). *Regulation of Islamic Financial Services in the United States*. Retrieved 31 August 2006, from http://www.ny.frb.org/newsevents/speeches/2005/bax050302.html.

customers because higher risk weighting has made lenders to increase the pricing on Islamic mortgages. If the risk weighting is lowered, lenders will be able to lower the pricing on Islamic mortgages.[93]

2.6.4 Double Stamp Duty in the UK

Until 1 December 2003, Stamp Duty Land Tax (SDLT) was payable twice on Islamic home finance products: once when the ownership is transferred from the seller to the bank at the start of the lease and again at the end of the lease when ownership is transferred from the bank to the buyer.[94] Since both stamp duty costs would be borne by the borrower, this made Islamic home finance products more expensive than conventional mortgages. If it is more expensive then it is also less attractive and thus is an impediment to demand.[95] If Islamic home finance products were to be on level footing with conventional mortgage products, then the bank needs to be exempted from the second set of stamp duty.[96]

The Government therefore introduced a specific relief through the Finance Act 2003 targeted at *ijara* and *murabaha* based mortgages. The Finance Act 2005 introduced a relief for diminishing *musharaka* mortgages and the Finance Bill 2006 includes measures to cover *wakala*[97] and diminishing *musharakah*. The Finance Bill also includes an extension of the existing SDLT, which consequently means that a protection from a double charge on *Shari'ah*

---

[93] West, M. (2005). *Islamic Mortgages Moving into Mainstream Lending*. Retrieved 31 August 2006, from http://businessleader.blogspot.com/2005/08/islamic-mortgages-moving-into.html.
[94] Matthews, R. and I. Tlemsani (2003). Ethical Banking: The Islamic Mortgages in the United Kingdom." *Business Research Yearbook* Vol. X: pp 293 - 298.
[95] Deloitte. (2006). *Securities and Banking Updates*. Retrieved 1 September 2006, from http://www.deloitte.com/dtt/cda/doc/content/UK_FS_SBU_july06.pdf.
[96] Russell, J. G. (2004). *Guide to Islamic Home Finance*. Retrieved 1 September 2006, from http://www.jgrweb.com/images/uploads/JGR_guide_to_I_H_F_new.pdf.
[97] Wakala is a contract which defines an agency. Under wakala, one person represents the other as the latter's agent. In exchange for compensation which can be a certain percentage of the consideration or fixed amount, the agent performs a certain service.

compliant mortgages for individuals as well as *Ijara*, *Murabaha* and Diminishing *Musharakah* based commercial property finance.[98]

2.6.5 Financial State Assistance

Currently, state assistance in case of financial hardship is available under a conventional mortgage product. However, anyone taking up Islamic home finance products and having financial hardship would find that they are unable to obtain financial assistance from the state unlike their conventional counterpart. To make matters worse, there could be Muslims who do not hold conventional mortgage support products like the mortgage payment protection and mortgage life insurance policies, as these products may not be *Shari'ah* compliant.[99] Therefore, the government must work out a legislative amendment in order to provide such support to those taking up Islamic home finance products.

2.6.6 Insurance

Mortgage life insurance policies, if taken up, are able to help a mortgagee pay off his/her mortgage in the event of death whilst a mortgage payment protection policy can help a mortgagee pay his/her mortgage if he/she cannot work due to sickness, unemployment or an accident. However, conventional insurance can be considered as not complying with *Shari'ah* for various reasons, namely that it violates the prohibition on *gharar* (uncertainty), it could amount to *maisir* (gambling) and that the insurers sometimes invest the funds in *riba* based activities. However, the banks offering Islamic home financial products do not normally force its customers to take up these conventional mortgage support policies, although they will insist on property insurance.[100] Therefore, an Islamic alternative to conventional insurance is yet to be innovated. In countries like the Middle East, Islamic insurance has already started being offered, known as *Takaful*. It is based on the concept of mutual assistance and involves risk

---

[98] Deloitte. (2006). *Securities and Banking Updates*. Retrieved 1 September 2006, from http://www.deloitte.com/dtt/cda/doc/content/UK_FS_SBU_july06.pdf.
[99] Russell, J. G. (2004). *Guide to Islamic Home Finance*. Retrieved 1 September 2006, from http://www.jgrweb.com/images/uploads/JGR_guide_to_I_H_F_new.pdf.
[100] ibid.

sharing on a cooperative basis consisting of a number of participants. It should be stated that *takaful* has been accepted by the *Shari'ah* scholars to be fully consistent with *Shari'ah* law.[101]

2.6.7 Legal Representation

With a conventional mortgage, the Bank and the customer would instruct a single solicitor to act for them both. However, with Islamic finance, because the Bank effectively becomes the vendor to the customer, there is a potential conflict of interests.[102] In addition, solicitors, under their own rules, are generally not allowed to act for both the buyer and seller of a property in a transaction.[103] This means that taking up Islamic home finance would require the appointment of two sets of solicitors, which also makes the product more expensive. Therefore, it is suggested that the Law Society[104] should consider giving the Islamic home finance providers an exemption from a second set of solicitors.[105]

2.6.8 *Shari'ah* Board

There are a few issues raised concerning the *Shari'ah* scholars who act as advisors and help in the development of Islamic financial products. If an institution wants to offer an Islamic product to the public, it must first be scrutinized and approved by a board of Islamic scholars.[106] However, even for an identically named Islamic financial product on offer, there are variations in the structure and working of it by different providers; as well as disagreements

---

[101] Norton Rose. *What is Takaful?* Retrieved 2 September 2006, from http://www.nortonrose.com/html_pubs/view.asp?id=6247.
[102] Russell, J. G. (2004). *Guide to Islamic Home Finance.* Retrieved 1 September 2006, from http://www.jgrweb.com/images/uploads/JGR_guide_to_I_H_F_new.pdf.
[103] Alburaq. *Halal Home Finance: Diminshing Musharaka Key Features Guide.* Retrieved 1 September 2006, from http://www.alburaq.co.uk/keyfeaturesguide.pdf.
[104] Khan, I. *Issues and Relevance of Islamic Finance in Britain.* Retrieved 1 September 2006, from http://www.islamic-banking.com/aom/ibanking/ia_khan.php.
[105] Matthews, R. and I. Tlemsani (2003). Ethical Banking: The Islamic Mortgages in the United Kingdom. *Business Research Yearbook* Vol. X: pp 293 - 298.
[106] Hetherington-Gore, J. (2006). *Islamic Finance - An Alternative Alternative.* Retrieved 4 September 2006, from http://www.investorsoffshore.com/html/specials/february06_islamic.html

amongst *Shari'ah* scholars on the legitimacy of the products.[107] Criticisms are raised on products like *murabaha* and *ijara* contracts, which are criticized for being too similar to conventional forms of financing, and not fully applying the concept of risk and profit sharing which is one of the central tenets of Islamic finance.[108]

Since products are designed according to the legal opinions of the *Shari'ah* scholars, the opinions of individual scholars can vary and there may not be consensus in the end, as, what is acceptable to one, may not be to another. For example, the *Shari'ah* council in the United Kingdom accepts that Islamic mortgages comply with the requirements of *Shari'ah* law, whilst experts elsewhere would heavily disagree. [109] This divergence between the interpretations of theory by *Shari'ah* scholars and the practice is due to the different interpretation of the Islamic principles by the four different Schools of Islamic jurisprudence.

Regarding Islamic scholars, there is also another issue of concern with regard to Islamic finance industry, which is the shortage of well qualified and trained *Shari'ah* scholars who are equally knowledgeable on Islamic jurisprudence, Islamic financial principles as well as conventional finance. In the UK, many of the institutions offering Islamic home finance have the same names as members of the *Shari'ah* board: for example Sheikh Nizam Yaquby and Justice Muhammad Taqi Ismani. This gives rise to the issue of authenticity and acceptability of the product, because once a scholar gives his backing to a particular product, then ultimately other institutions with the same scholar would follow suit in offering the same or similar products.[110]

---

[107] Wilson, R. *Standardising Islamic Financial Products.* Retrieved 4 September 2006, from http://www.sc.com.my/eng/html/iaffairs/ioscoislamicpdf/Standardising.pdf.
[108]Hetherington-Gore, J. (2006). *Islamic Finance - An Alternative Alternative.* Retrieved 4 September 2006, from http://www.investorsoffshore.com/html/specials/february06_islamic.html
[109] Corcoran, M. (2005). Overcoming Compliance Issues. *Islamic Banking & Finance* Autumn 2005 (Issue 7).
[110] Shahid, I. (2005). *Islamic House Financing in the UK.* Nottingham, Nottingham University Business School. M.A.

Related to this is the issue of having no standard requirement regarding *Shari'ah* scholars' eligibility and qualifications. It is important that the *Shari'ah* scholars, as the members of the *Shari'ah* Boards of the Islamic financial institutions, are highly credible, in order for Islamic banking activities to be credible and acceptable by the public. This is also because in every Islamic financial institution, there should be a *Shari'ah* Supervisory Board consisting of scholars who issue religious rulings (*fatwa*) on financial transactions. Therefore, they need to have a reputation as trustworthy scholars with in-depth knowledge and experience on modern dealings and transactions.[111]

2.7 CONCLUSION

This chapter is a background study on the area of housing finance. It discusses the conventional housing finance and its products particularly in the two leading economies of the world: the United Kingdom (UK) and the United States (US). In the UK, residents who wish to take up mortgages can choose to either pay back the capital they borrowed or pay only the interest on the capital they borrowed. Whereas in the US, residents have the option of taking up a fixed rate loan or variable rate loan or a combination of the two. The chapter, then, continues with a discussion on the state of the housing market and housing finance in developing countries, particularly in Asia. There is also a discussion on the form of improvements that are needed in order to achieve a better housing market and housing finance in the developing countries.

A section discusses the case study of the housing market and housing finance in the developed countries, mainly a discussion related to the United Kingdom. Issues relate to the conventional housing finance like costs involved in buying a house, the tax regime, issue of refinancing, early and late repayment, as well as the form of financial help that is available to a home buyer.

---

[111] Rahman, Z. A. *Complying with the Shari'ah*. 4 September 2006, from http://www.rhbislamicbank.com.my/articles/2006/07-19.htm.

A section is also devoted to study the norms and ethics of Islamic housing finance, with prohibition of *riba* being central to Islamic financial ethics and law. There is also a discussion of the types of products that are being widely used internationally, namely *murabaha*, *ijara wa iqtina'* and diminishing *musharakah* and *ijara*, their concepts, advantages and disadvantages of each of them as well as the comparisons between them.

Lastly, related issues under the Islamic housing market and housing finance are also discussed, such as the products on offer, the market potentials of Islamic products in the UK, and the advantage of participation in the market from a customer as well as the product provider's point of view, in particular the market for Islamic home finance.

Problems that occur in the area of Islamic home finance in the UK are also discussed, for example the capital adequacy standards and the difficulty it brings to products like *ijara*; lack of state financial assistance if an Islamic home finance is taken up; as well as other related costs of taking up the product for example the costs of having to take up two solicitors. *Shari'ah* scholars and board is also discussed, for example concerning the disagreements amongst them, availability of scholars as well as their credibility.

In summary, it can be said that there is a huge market potential for Islamic housing finance despite the problems faced. The demand for Islamic housing finance has grown very rapidly over the years. The developments of new regulations and standards for Islamic financial services over the years have helped in this rapid growth. There is also an increasing level of awareness concerning the Islamic home financing product as an alternative made available for Muslims and non-Muslims alike for the past few years. This is possibly due to the fact that more and more financial institutions themselves are aware of the potentials that exist and thus decide to offer Islamic financial products as an

alternative to the public. Therefore, it can be said that Islamic home finance is no longer a novelty for it has moved into the mainstream.

Chapter 3: HOUSING FINANCE IN MALAYSIA

3.1 INTRODUCTION

Malaysia is a fast developing country and is said to be the third largest economy in South East Asia[1]. The real Gross Domestic Product has expanded at a rate of 5.9% in the second quarter of 2006 with the private sector playing a major role in economic activities. The key factors that contributed to growth during the quarter were services, manufacturing and agriculture in contrast to construction and mining which have recently shown signs of recovery. Malaysia also has a strong domestic demand with a growth of 6.9% even though inflation as measured by the Consumer Price Index (CPI) has increased to 4.1%.[2]

Malaysia is also a developing country which has its own social policy to address certain social concerns and problems, for example housing, education, health, poverty and crime. Social policy itself has its own objectives and strategies with an aim to improve the welfare of people, particularly for example, that of women, youth, children, the elderly and the disabled.[3] Normally it is the Government who plays the leading role in social policy. However, in recent years non-governmental organizations and the private sector have become more involved in the provision of social services.[4]

The social policy discussed here mainly concerns housing policy in Malaysia. The Economic Planning Unit at the Prime Minister's Department of Malaysia said that the housing policy in Malaysia has a main objective to provide adequate, affordable and quality housing for all Malaysians. The housing

---

[1] Phang, S. *Malaysia's Economy Expands at a Fastest Pace in a Year.* Retrieved 12 September 2006, from http://www.bloomberg.com/apps/news?pid=20601080&sid=ays75T__6NvY&refer=asia

[2] Malaysia, B. N. (2006). *Economic and Financial Developments in Malaysia in the Second Quarter of 2006.* Retrieved 12 September 2006, from http://www.bnm.gov.my/view.php?dbIndex=0&website_id=1&id=574.

[3] Abbas, F. A. (2003). Social Policy in Malaysia. *Social Policy Series.* New York, Economic and Social Commission for Western Asia, United Nation

[4] ibid

policy also puts an emphasis on the low income group. Together with this is the availability of financial support and other incentives to home buyers.[5]

In this chapter, the housing policy is discussed first, so as to give a background study on the state of the housing market in Malaysia. It is then followed by a discussion on the housing financial market, since the availability of houses built by the public and private sector under these housing policies is meaningless if there are no means of attaining them. Here the financial sector plays an important role. Thereafter is a discussion on the conventional financial institutions which give out housing loans. This is then followed by a discussion from various aspects with regard to the Islamic banking institutions.

3.2 THE HOUSING MARKET IN MALAYSIA

Housing is important in Malaysia not only as a place of dwelling but also because the construction industry contributed about 3.4% of Gross Domestic Product of Malaysia for the year 2000. This is why every five years, the Malaysian government sets out a target in its 5-year Plan for the public and private sectors to deliver houses. In the Eighth Malaysia Plan (8MP) 2001-2005, the target for housing units is 615,000 of which 50.7% is to be produced by the public sector and 49.3% by the private sector. In the Seventh Malaysia Plan (7MP) 1996-2000, a target of 800,000 housing units was planned. By the end of 2000, a target of 107.4% was achieved giving a total of 859,480 units of houses being constructed by both the public and the private sector.[6]

In terms of eligibility, all Malaysian citizens are allowed to purchase houses within Malaysia if they so wish, with the exception of low cost houses and houses built on Malay reserved land. To buy low cost houses, applications should be made through land offices or registries based on rules of eligibility which is normally meant for the low income group. As for houses built on Malay reserved land, they can only be purchased by Malays. For each housing project, there is a requirement that 30% of the houses are to be

---

[5] Economic Planning Unit, Prime Minister's Department, Malaysia. *FAQ.* Retrieved 8 January 2004, from http://www.epu.jpm.my/new%20folder/FAQsocial.htm.
[6] Ministry of Housing and Local Government. *Towards Successful Housing Development in Malaysia.* Retrieved 8 January 2004, from http://www.kpkt.gov.my/jpn/artikel4.htm.

reserved for Bumiputera (indigenous people of Malaysia) purchasers who also enjoy 5% to 8% discount on the purchase price.[7]

The Malaysian government also has a concern for the Malaysians of the low income group. Hence, in its housing policies, the government always shows a strong commitment in ensuring that housing resources are equally distributed and benefit the poor. In 1986 The Ministry of Housing and Local Governments even established a Special Low Cost Housing Programme and in 1993 a Low Cost Housing Fund with an allocation of RM500 million. The government also makes it mandatory for the public and private sectors to construct low cost houses. Since 15 August 1982, the government has imposed a social obligation on developers of a 30% low cost housing quota to shoulder the government's efforts to provide affordable housing for all.[8] Take for example the Eighth Malaysia Plan whereby out of the mentioned 615,000 housing units, 192,000 of low-cost houses are to be constructed by the public sector, whilst 40,000 low-cost houses are the responsibility of the private sector.[9]

The low cost houses are especially important to the low income group as the house prices have increased faster than inflation and incomes. The housing price index (HPI) had risen from 100 in the year 2000, to 115.6 in 2005.[10] As for the consumer price index, it went up from 100 in the year 2000 to 103 in year 2005.[11]. Of all types of properties, residential properties always exceed other properties in terms of price trend and demand. In 2005, the residential property sub-sector also remained the driving force in the property market, accounting for 65.7% of total transactions volume and represented 50.0% of the total transaction value. The total volume of transactions in year 2005

---

[7] Lawyerment.com.my. *Buying a House in Malaysia.* Retrieved 31 January 2004, from http://www.lawyerment.com.my/real_estate/bshouse.shtml.
[8] Ministry of Housing and Local Government. *Towards Successful Housing Development in Malaysia.* Retrieved 8 January 2004, from http://www.kpkt.gov.my/jpn/artikel4.htm.
[9] Umakanthan, G. (2003). Impact of Budget 2004: Public Sector. *Property Times* Retrieved 8 January 2004, from http://property.nst.com.my/Weekly/PropertyTimes/News/Focus/20030923181036/Article/.
[10] Valuation and Property Services Department. (2006). *The Malaysian House Price Index.* Retrieved 20 March 2007, from http://www.jpph.gov.my/pdf/ihr06.pdf.
[11] Bank Negara Malaysia. (2005). *The Malaysian Economy in 2005.* Retrieved 20 March 2007, from http://www.bnm.gov.my/files/publication/ar/en/2005/cp01.pdf.

declined by 5.7% against that of 2004 to 276,508 transactions. Correspondingly, the value of transaction registered in 2005 dropped to RM56.78 billion, which is a decrease of 5.3% from 2004.[12]

In terms of buying trend, the most popular type of houses reviewed in 2005 in all the states in Malaysia were the terraced unit, with the exception of Kuala Lumpur and Pulau Pinang where high-rise units were preferred. In contrast, in Terengganu and Kelantan, vacant plots were the favourite. As for the price range, properties priced at RM150,000 and below were high in demand, accounting for 68.1% of the total number of residential transactions. The residential stock in the country in 2005 totalled 3,647,887 units. [13]

There is a problem of property overhang in Malaysia consisting of properties remaining unsold after having been on the market for more than nine months. In the year 2005, the number of residential property overhang units was 19,577, valued at RM2.63 billion. This is an increase of 25.8% from 15,558 in the year 2004.[14] This problem can be translated as oversupply. The government therefore urged the developers to develop innovative marketing strategies to improve absorption rate of newly launched housing units. In the year 2003 and 2004, under the economic stimulus package, the government provided incentives to help boost the demand for residential properties. These incentives include the exemption of stamp duty, waiver of processing fee, higher margin of financing, tax relief or bank subsidies on interest payments and Real Property Gains Tax exemptions.

There is also a concern by the government over the issue of abandoned private sector housing projects. The Ministry of Housing and Local Government defines an uncompleted project as firstly, all work at site which has ceased for at least six months or work that has yet to be completed after the scheduled date of completion as stated in the sale and purchase agreement; secondly, the developer admits to his inability to complete the

---

[12] National Property Information Centre. (2005). *Property Market Report 2005*. Retrieved 20 March 2007, from http://www.jpph.gov.my/pdf/lph05.pdf
[13] *ibid*
[14] *ibid*

project and thirdly, the ministry feels that the developer cannot fulfil his obligations as a developer.[15] To tackle this issue, the government established the Abandoned Housing Projects Fund in 1990 under the administration and supervision of Bank Negara Malaysia. The allocation was further increased from RM300 million to RM600 million in order to assist worthy housing developers to complete their projects and for buyers to secure their houses.[16]

There are various problems and criticisms with regard to the current house-buying system. Firstly, there is criticism over the government's handling of the Certificate of Fitness for Occupation (CFO) issue. Homeowners cannot occupy their houses until the Certificate of Fitness for Occupation (CFO) has been issued by the local authority. The CFO is issued to ensure that every house built conforms to the various prerequisites, by-laws and the approved layout and building plans. Owners can be sure that they would not end up moving into houses which are dangerous, of sub-standard and unfit for human occupation.[17] However, there seem to be loopholes in the government rules and regulations.

The present rule in the Housing Development Act allows developers to hand over vacant possession after certain conditions are met[18], even though the CFO has not been issued:

a. The developer's architect has certified that the building has been completed according to specifications and connected with water and electricity supply.
b. The developer has applied and certified that Form E has been sent to the local authority for the issuance of a CFO.

---

[15] Ministry of Housing and Local Government. *Ministry's Role in Reviving Stalled Housing Projects.* Retrieved 12 April 2004, from http://www.kpkt.gov.my/artikel/perumahan/eng11.html.
[16] Ministry of Housing and Local Government. *Towards Successful Housing Development in Malaysia.* Retrieved 8 January 2004, from http://www.kpkt.gov.my/jpn/artikel4.htm.
[17] National House Buyers Association. (2002, 18 May). The Mystical CFO. *New Straits Times* Retrieved 9 April 2004, from http://www.hba.org.my/buyer_watch/mytstical_cfo.htm
[18] Ministry of Housing and Local Government. *Pitfalls to Avoid After Taking Vacant Possession.* Retrieved 12 April 2004, from http://www.kpkt.gov.my/artikel/perumahan/eng06.html.

c. The house buyer has made all the necessary payments stipulated in the SPA.

d. The buyer has implemented and adhered to all the terms and conditions on his part.

Some unscrupulous developers would exploit this rule whereby they rush to hand over the 'finished' house to buyers as soon as the architects have declared 'completion'. Somehow, the developer gets the architect of the project to issue a certificate which states that the proper stages have been completed and thus allow the developer to hand over the keys to the vacant possession. This would be detrimental to the buyers as the 'eagerness' of the developer to hand over the property could also result in poor quality of workmanship.

The developers rush to hand over the property for various reasons, but mainly in fear of having to pay damages to the buyer if vacant possession is not delivered on time. The Housing Developers (Control and Licensing) Act 1989 states that if the developers do not hand over vacant possession to the house-buyers within 24 months (36 for apartments and condominiums), from the date of the sale and purchase agreement (SPA) they would have to incur late delivery penalty. Secondly, once they have delivered vacant possession they can then demand the full and final 20% (including the 5% held in trust by their solicitors until the defect liability period ends) of the progress payments. Thirdly, due to the fact that the 18-months defect liability period starts to run from the date of the hand over.[19]

In a study by the HBA it is found that the late delivery of CFO is usually not due to the inefficiency of the issuing Authority but that of the developers who do not fulfil the requirements of obtaining the CFO.[20] The Local Authority rejects the developer's application for CFO if it is incomplete. In the past, incomplete meant that the developer submitted Form E without all seven letters of support obtained from seven technical departments certifying that

---

[19] National House Buyers Association. (2002). The Mystical CFO. *New Straits Times.* Retrieved 9 April 2004, from http://www.hba.org.my/buyer_watch/mytstical_cfo.htm

[20] National House Buyers Association, N. H. B. (2002). Power to Change. *Property Times.* Retrieved 9 April 2004, from http://www.hba.org.my/buyer_watch/power_to_change.htm

the developer has fulfilled each department's conditions. These departments include Public Works Department, Fire and Rescue Department, Indah Water Consortium, Drainage and Irrigation, National Energy Incorporated, Health Department and Water Supply Department.[21] However, since October 2003 the new CFO issuing procedure requires the developers to get approval for their completed projects from only the Sewerage Services Department. It is hoped that the new simplified procedure will increase efficiency. There is also a new regulation that all CFO applications should be approved by the local authorities within 14 days after which if no reply is received, the application would automatically be considered approved.[22]

There is also an 18-months warranty period stipulated by the government which states that any defects found in their houses must be rectified by the developer within 30 days from the time they receive the complaint[23]. The defect liability period starts from the date of delivery of vacant possession. However, if the CFO has not been issued then homeowners are not permitted to stay in their house. This makes it difficult for homeowners to identify any defects that exist which might only be discovered when they move into their house. Thus the House Buyers Association urges the government to consider adopting the concept of 'Vacant Possession only upon issuance of Certificate of Fitness for Occupation (CFO)'.[24]

When the vacant houses have been handed over to the prospective homeowners, they would have no choice but to take over their house within 14 days.[25] After this period developers would not be responsible for the

---

[21] National House Buyers Association (2002). The Mystical CFO. *New Straits Times* Retrieved 9 April 2004, from http://www.hba.org.my/buyer_watch/mytstical_cfo.htm

[22] National House Buyers Association of Malaysia. (2004). Self-Certification or Self-Destruction. *Malaysian Business - Housing & Property* Retrieved 17 April 2004, from http://www.hba.org.my/articles/buyer_watch/biz_mag/2004/self.htm.

[23] Ministry of Housing and Local Government. *Pitfalls to Avoid After Taking Vacant Possession.* Retrieved 12 April 2004, from http://www.kpkt.gov.my/artikel/perumahan/eng06.html.

[24] National House Buyers Association (2002). Power to Change. *Property Times* Retrieved 9 April 2004, from http://www.hba.org.my/buyer_watch/power_to_change.htm

[25] Ministry of Housing and Local Government. *Pitfalls to Avoid After Taking Vacant Possession.* Retrieved 12 April 2004, from http://www.kpkt.gov.my/artikel/perumahan/eng06.html.

maintenance of the property or any damages to the house caused by, for example vandalism, fire and theft. On top of that, these homeowners would have to continue with rental payments for the property they are currently occupying. Again it is suggested that the property should only be handed over once the CFO has been issued for two reasons. Firstly, that it would be expensive for homeowners to maintain two houses at the same time. Secondly because it would be difficult for homeowners to secure the house they own against acts of vandalism for example, if nobody was staying in the house, not because the owner does not want to but because the owner is simply not allowed to do so by law without the CFO.

Once home buyers sign the Sale and Purchase Agreement (SPA) they also have to start taking on the responsibility of paying various bills such as the quit rent, assessment rate, water and electricity. This would be costly to the home buyers thus there should be a regulation which stipulates that all such payments should only take effect from the date of vacant possession and when the utilities have been connected and not before.[26]

The House Buyers Association (HBA) also suggested that there should be a buy-then-sell or buy only completed houses concept to try and eliminate the problem faced by numerous homebuyers whose houses were abandoned by developers. There are many cases of housing projects being abandoned and homebuyers being left high and dry having to repay loans they borrowed from financial institutions in order to make progress payments to the developer throughout the stages of construction, after the project's supervising architect had certified that the portion of work has been done. In some cases the projects were abandoned at advanced stages when the loans would have almost been fully released to the developer. [27] In most cases, homebuyers whose houses were abandoned would also have to pay the rental of the house they are staying in while waiting for their houses to be ready.

---

[26] National House Buyers Association (2002). Not There Yet. *New Straits Times* Retrieved 9 April 2004, from http://www.hba.org.my/news/2002/not_there_yet.htm

[27] National House Buyers Association (2003). Pay Only for Completed Houses. *Property Times*. Retrieved 9 April 2004, from http://www.hba.org.my/buyer_watch/pay_only.htm

Something has to be done to remedy or possibly to avoid the problem of abandoned projects. The Government should be stricter in their monitoring and enforcement of the law regarding new housing projects.

Currently there is a Monitoring and Enforcement Division under the Ministry of Housing and Local Government which takes necessary actions against any housing developer who violates the law. Violations include carrying out housing projects without having obtained a valid license and approvals, violation of licensing conditions and failure to properly maintain their Housing Development Accounts. All housing developers are required to open an account into which all money collected from home buyers must be remitted. This is to ensure that developers channel the revenue for the purpose of completing the housing project.[28] Those who carry out construction activities without a proper license or fail to open a Housing Development Account can be fined up to RM500,000 or five years imprisonment or both. For other offences, the developer can face up to RM50,000 fine or three years imprisonment or both depending on the rules they violate. The housing developer's license might also be revoked if the offence that he committed is considered as endangering the interest of the public. This division also monitors housing projects regularly through inspections at the project site, area and office. It ensures housing projects are progressing as scheduled, based on the progress reports submitted by the developers twice a year, checks whether developers' published advertisements comply with the law and also oversee any complaints received from the public regarding the project.[29] Despite all the monitoring going on and seemingly strict penalty on errant developers there are still many abandoned projects.

Concerning the issue of abandoned projects, the government has revealed that in the year 2003, there were a total of 82 abandoned housing projects in the country, with properties worth RM403 million involving a total of 38,049 units of houses. This has caused hardship to 22,685 purchasers. Most of the

---

[28] National House Buyers Association. (2003). Questioning the Housing Safeguard. *News Straits Times.* Kuala Lumpur.
[29] Ministry of Housing and Local Government. *Legislation to Protect House Buyers.* Retrieved 12 April 2004, from http://www.kpkt.gov.my/artikel/perumahan/index2.html

abandoned housing projects are low-medium and medium cost properties due to various reasons including financial reasons and structural defects.[30] Although efforts have been made by the government to revive some of the abandoned housing projects, more still needs to be done about the stalled projects. At the moment, the government is giving priority to projects that are viable and close to completion only. The government should also alleviate the hardship endured by the house buyers by urging the banks to reduce if not waive the interest charged on the housing loans that they have taken out. Also, these projects should be revived within a certain time frame in order not to leave the house buyers paying interest on their loans and not knowing when their projects will be revived. The government also needs to identify the problems of how these housing projects become abandoned and in future must try to prevent other projects from ever being abandoned.

Some of these abandoned projects are the result of business failures but there are also developers who intended to commit fraud right from the start of their housing scheme. The rules set up by the government are either breached or avoided in order to make substantial quick gains from house buyers. The fine that these developers could face if they are caught, prosecuted and convicted is small compared to the money they can get away with. Stricter penalties for such developers are needed to deter them from ever conducting fraudulent schemes. There should also be a study on the developers who abandon housing projects and how the situation ever came about.[31] If they are found to conduct fraudulent activities then they should be prosecuted and blacklisted in order to prevent the same developer from operating his fraudulent scheme again. Those who abandoned projects should also not be allowed to be directors of other companies and thus cause hardship to more members of the public.[32]

---

[30] Then, S. (2003). 82 Projects Abandoned. *The Star.* Retrieved 20 April 2004, from http://www.hba.org.my/news/2003/803/82_projects.htm.
[31] National House Buyers Association (2002). A Firm Hand. *New Straits Times* Retrieved 9 April 2004, from http://www.hba.org.my/buyer_watch/firm_hand.htm
[32] Chin, V. K. (2003). Act Against Errant Developers. *The Star.* Kuala Lumpur.

Not only is it the responsibility of the housing developers to be ethical but also for the home buyers to be vigilant and careful in ensuring that housing developers have the valid licenses and permits to advertise and sell. The home buyers need to be reminded not to rush and commit themselves too quickly by putting down a deposit to buy a house that is yet to be built.[33] The home buyers should make a visit to the project site to ensure that the sort of house and the facilities offered are indeed as mentioned in the advertisement. They should also check with the Land Office on the issue of ownership, lot number and whether the land title is freehold or leasehold. This check can be done through a search service by paying a nominal fee.[34] The authorities should also increase the monitoring of housing projects as well the enforcement and ensure that developers follow the letter of the law.[35] Most importantly they should impose strict procedures when issuing licenses to developers and make sure that they are also financially fit and able to carry out the housing projects.[36]

A Housing Tribunal was set up by the government in 1 December 2002 to help home-buyers with any complaints that they have regarding the developers and their houses. However, the tribunal only accepts cases regarding houses bought after 1 December. This means that there would not be any complaints until December 2004 at the earliest as the minimum period for the completion of a house is 24 months. This is to the disappointment of those who had problems with their developers and houses long before the launch of this tribunal.[37] Therefore, the government should consider accepting complaints from those who have signed Sales and Purchase Agreements (SPA) even before the date of launch of the Housing Tribunal. The common complaints reported are defects caused by poor workmanship,

---

[33] National House Buyers Association. *The Challenges of Buying a Residential Property.* Retrieved 12 April 2004, from http://www.hba.ort.my/speaking_up/2001_su/challenges.htm.
[34] Ministry of Housing and Local Government. *What a Purchaser Should Do When Buying a House.* Retrieved 12 April 2004, from http://www.kpkt.gov.my/artikel/perumahan/eng05.html.
[35] National House Buyers Association. (2002). The Way We See It. *Property Times.* Retrieved 9 April 2004, from http://www.hba.org.my/buyer_watch/way_we.htm.
[36] Ministry of Housing and Local Government. *Legislation to Protect House Buyers.* Retrieved 12 April 2004, from http://www.kpkt.gov.my/artikel/perumahan/index2.html
[37] Leng, Y. B. (2003). Tribunal a Big Letdown. *The Star.* Retrieved 8 April 2004, from http://www.hba.org.my/news/tribunal/trib_big_letdown.htm.

developers using inferior quality building materials, the specifications of the building are not as stated in the SPA and also that it is not built according to the agreed plan.[38]

There is also a concern over the Special Low Cost Housing Programme. In 2004 more than 5,000 units remained unsold to people in the lower-income bracket. This figure is expected to exceed 11,700 in the year 2007. These houses are apart from the private-sector housing projects. The government realises that something needs to be done about this problem. Firstly a new 'formula' is yet to be devised to determine eligibility criteria for low-cost house buyers, taking into account the buyer's income and the number of dependants. At the moment the threshold of eligibility for low-cost houses are those earning RM1,500 or less a month. The Real Estate and Housing Developers Association (REHDA) suggested that the ceiling should be raised to RM3,000 as their survey showed that about one million families with a monthly income between RM1,500 and RM3,000 were ineligible for low-cost housing. Other possible solutions are organising a low-cost housing expo, and for rentals to be converted into instalment payments for houses. [39]

REHDA has also identified weaknesses in the low cost housing distribution system. Currently, the State Government handles the distribution of low cost housing units that have been developed by the private sector via a computerized open registration system. Developers are not able to market these low cost houses directly but instead need to get a list of eligible buyers from their State Government. However, survey shows that this system seems to be inefficient as these lists are often outdated and only 10% to 20% of potential purchasers listed will take up the low cost units offered. In effect, there would be a mismatch between supply and demand of these low cost houses.

---

[38] Ministry of Housing and Local Government. (2004). *Understanding the role of the Housing Ministry*. Retrieved 12 April 2004, from http://www.kpkt.gov.my/artikel/perumahan/eng01.html.

[39] Ministry of Housing and Local Government. (2004). Low Cost Housing - Call for a New Formula. *New Straits Times*. Retrieved 18 April 2004,from http://aplikasi.kpkt.gov.my/akhbar.nsf/0/40f3e8d977e918a148256e7b000c475a?OpenDocument.

Currently, there is National Property Information Centre (NAPIC) which was established on 1 October 1999 under the advice of National Economic Action Committee (NEAC). It is the responsibility of NAPIC to provide accurate, comprehensive and timely information as well as to portray the actual situation of demand and supply of property to the government agencies, property developers and all parties involved in property industry. It is hoped that this information would assist the developers, planners and policy makers in making appropriate planning of their project developments to be in tandem with the prevailing property market environment.[40]

3.3 HOUSING FINANCE IN MALAYSIA

In terms of financiers of housing loans, there are various banks and other financial institutions that have different packages of housing loans to suit different needs of individuals in addition to assisting home buyers in their purchase. Among them are Islamic banking institutions that provide financing for those who want to purchase a property based on *Shari'ah* principles. There are also conventional banks in Malaysia which give out Islamic forms of housing loan. Besides these private banks and financial institutions, the government under the Treasury Home Loans Division also gives out home loans.

There are housing loans reserved for government officers who have worked for at least one year. The government officer must have a permanent post and be a Malaysian citizen. Housing loans given out by the government range between RM48,000 for those whose pay is RM599 or less, and RM360,000 for those whose pay is RM3,500 and above.[41] Those who are eligible for a housing loan can use the money to: buy a house which has already been built or is in the process of being built; build a house on his/her own land; buy a piece of land or alternatively use the money to pay up a housing loan from any bank or financial institution.

---

[40] National Property Information Centre. *NAPIC - Objectives*. Retrieved 21 March 2007, from http://www.jpph.gov.my/V1/index2kandungan.php?versi=2&bilms=10&bilmu=2.
[41] Treasury Malaysia. *About Housing Loan*. Retrieved 19 March 2007, from http://www.treasury.gov.my/index.php?ch=76&pg=299&ac=930&lang=eng.

Currently, there are also various companies in Malaysia which offer housing loans for their employees. Employees are a company's most important asset and therefore these companies have benefit plans which are designed to attract employees to work for a particular company and/or to retain and reward existing employees by ensuring that employees stay healthy, productive and motivated.[42] Examples of the benefits that employees receive are medical benefits; retirement, life and accident insurance; employee training; conducive work environment; paid leave; and car and housing loans available to eligible employees at a highly subsidised rate.

There is another type of loan given out by the Ministry of Housing and Local Government to those who are in the low income group namely those with a household income between RM500 and RM1,200. Eligibility criteria are that the applicant must be a Malaysian citizen age between 18 and 48 years, must not already have a house and is not a government officer or working with a financial institution. The maximum amount is RM20,000. This housing loan can be used to build a new house costing not more than RM25,000 or alternatively used to buy a newly built low-cost house or that which is in the process of being built. The whole amount of RM20,000 must be paid back in full including a 'service payment' of 4%. The first RM10,000 is exempted from 'service payment', whilst the other RM10,000 is charged 4% as 'service payment'.[43]

These banks and finance companies are regulated by several laws and regulations which are being administered by various authorities. These include the Moneylenders Act, 1951; Banking and Financial Institutions Act (BAFIA), 1989; Islamic Banking Act, 1983. The Moneylenders Act 1951 is to regulate money lending activities and is under the jurisdiction of the Ministry of Housing and Local Government. As for BAFIA 1989 and the Islamic Banking Act 1983, both are under the purview of the Ministry of Finance and administered by the Central Bank of Malaysia. BAFIA 1989 regulates the

---

[42] Intel Malaysia. *Jobs at Intel - Malaysia.* Retrieved 25 September 2006, from http://www.intel.com/jobs/malaysia/bencomp/benefits.htm#top.
[43] Ministry of Housing and Local Government. *Housing Loan Scheme.* Retrieved 23 April 2004, from http://www.kpkt.gov.my/kpkt_en/main.php?Content=sections&SectionID=3&DC=.

business of commercial banks and finance companies while the Islamic Banking Act 1983 regulates the business activities of Bank Islam Malaysia.[44]

In Malaysia there is another avenue to part-finance the cost of buying a house that is from a government statutory body called The Employees Provident Fund (EPF). It is an institution which provides retirement benefit for members through management of their savings as well as for employers to meet their obligations to their employees as stated by the Law of Malaysia.[45] This fund acts as a social security depository for monthly contributions from employers as well as the employees, with dividends being paid annually. EPF members can withdraw the accumulated sum of their EPF savings at the time of their retirement, usually at the age of 55 or opt to withdraw part of their EPF savings for other purposes.[46] Under EPF, there are two savings accounts being opened for each member for different purposes, like housing finance, education, investment, retirement and medical. The first account, Account 1 stores 70% of the member's monthly contribution whilst 30% of the member's contribution is credited into EPF Account 2. Savings from Account 2 can be withdrawn for down payments or to reduce or settle the balance of a housing loan.[47]

When buying a house there is a stamp duty that has to be paid. It is levied on the document of transfer; either the memorandum of transfer (if the title that is issued for the piece of land on which the house is erected has been issued) or the deed of assignment of Principal Sales & Purchase Agreement (if the title has not been issued). The stamp duty is based on the purchase price of the house and is charged as follows (item 32 [a] of the Stamp Act 1949):-[48]

---

[44] Lim, Y. K. (2004). *Consumer Credit Regulations in Malaysia: A Country Report* Kuala Lumpur, Ministry of Domestic Trade and Consumer Affairs Malaysia..
[45] Employees Provident Fund. *About EPF.* Retrieved 16 March 2007, from http://www.kwsp.gov.my/index.php?ch=p2corporateinfo&pg=en_p2corporateinfo_geninfo&ac=1856.
[46] The Star Online. Employee Provident Fund. *All Malaysia.info* Retrieved 6 February 2004, from http://allmalaysia.info/msiacommerce/resources/.
[47] Wikipedia. *Employees Provident Fund.* Retrieved 16 March 2007, from http://en.wikipedia.org/wiki/Employees_Provident_Fund#Accounts.
[48] Valuation and Property Services Department. *Stamp Duty.* Retrieved 21 March 2007, from www.jpph.gov.my/bmdutisetemb.htm.

a. 1% on the first RM 100,000.00
b. 2% on the next RM 400,000.00
c. 3% on the next RM 1,500,000.00

There is also a stamp duty on the loan agreement which is 0.5% of the loan amount.

In recent years the government has waived the stamp duty for a certain limited time period in order to reduce the number of property overhang in Malaysia. One example is a stimulus package which was announced on 21 May 2003, with stamp duty exemption given on all instruments relating to the purchase of residential properties up to RM180,000 effective from 1 June 2003 up until 31 May 2004. As for the purchase of low cost houses, with effect from 1 July 2003, stamp duty is exempted on all documents related to that purchase.[49]

The government of Malaysia also charge Real Property Gains Tax on gains arising from the disposal of real property situated in Malaysia. The tax rates levied on the gains from the sale (disposal) of the property made by all house sellers are as follows:

a. Disposal within 2 years - 30%
b. Disposal in the 3rd year - 20%
c. Disposal in the 4th year - 15%
d. Disposal in the 5th year - 5%
e. Disposal in the 6th year and thereafter - nil

Individuals who are citizens or permanent residents are entitled to an exemption of RM5,000 or 10% of the gains, whichever is greater. They are also entitled to a one-time tax exemption on the gains arising from the disposal of one private residence. As for non-citizens and non-permanent resident individuals, gains from the disposal of real property within 5 years are subject to tax at a flat rate of 30%. In the sixth year and thereafter, disposal

---

[49] Treasury Malaysia. (2003). *Highlight of Economic Stimulus Package on Property Sector.* Retrieved 24 February 2004, from http://www.treasury.gov.my/englishversionbaru/index.htm. *(06 February 2004)*

gains will be taxed at 5%.[50] However, the government has recently exempted any person from the payment of capital gains tax in respect of chargeable gains accruing on the disposal of any chargeable asset with effect from 1 June 2003 until 31 May 2004.[51]

There are also legal fees that are collected by lawyers for work done in handling the sale or purchase of a house based on the purchase price as follows (First Schedule of the Solicitors Remuneration Order 1991):-[52]

a. 1% on the first RM100,000.00
b. 0.5% on the next RM4,900,000.00
c. 0.25% on the remainder.

For each sale and purchase of a house, the solicitors concerned can only collect fees based on the above scale from either the seller or the purchaser and not from both of them.

There is another fee called disbursement fee which is a professional fee charged by financial institutions to anyone wanting to take out a housing loan. This includes fees for registration of charge, land search and bankruptcy search. The disbursement fee is charged prior to the loan being disbursed (paid out) by the financial institution. The loan would only be paid out once the buyer has received advice from his lawyer when the legal process has been completed and the loan documents are in order. At this time the person who is taking out the loan will be informed of the date and amount of the first installment he/she has to make. Disbursement fees vary by states, land office and type of property. For example, in Selangor and Wilayah Persekutuan, the fees could range from RM300 to RM700.

There is also a processing fee which is a one time fee charged by the financial institution for loan processing. The rate is charged as follows:[53]

---

[50] Lawyerment.com.my. *Malaysia Tax Law - Property Tax Law.* Retrieved 6 February 2004, from http://www.lawyerment.com.my/tax/property.shtml.
[51] Treasury Malaysia. (2003). *Highlight of Economic Stimulus Package on Property Sector.* Retrieved 24 February 2004, from http://www.treasury.gov.my/englishversionbaru/index.htm. *(06 February 2004)*
[52] Lawyerment.com.my. *Buying a House in Malaysia.* Retrieved 31 January 2004, from http://www.lawyerment.com.my/real_estate/bshouse.shtml.

a. RM50 for loan range of RM25,001 - RM30,000
b. RM100 for loan range of RM30,001 - RM100,000
c. RM200 for loan range of RM100, 001 above.

A valuation report may be required if a prospective home buyer purchases a fully completed property from a house owner. The financial institution will appoint a property evaluator from its panel of evaluators to appraise the property and to determine the amount and terms of a mortgage offer. The prospective home buyer may be charged for the valuation and would receive a copy of the valuation report. A valuation is not a survey. It is only a limited inspection to identify problems that may affect the security of the mortgage lender's loan.[54] According to the guidelines under the 7th Schedule Valuers, Appraisers and Estate Agent Act, 1981, the scale of fees are as follows:-[55]

a. Fees of RM1,500 for property value RM 1 - RM50,000
b. Fees of RM2,500 for property value RM50,001 - RM500,000
c. Fees of RM3,500 for property value RM500,001 - RM1,000,000
d. Fee of 6/25 of property value RM1,000,001 - RM2,000,000
e. Fee of 5/25 of property value RM2,000,001 - RM7,000,000
f. Fee of 3/20 of property value RM7,000,001 - RM15,000,000
g. Fee of 3/50 of property value RM15,000,001 - RM50,000,000
h. Fee of 6/250 of property value for any amount over 50,000,000

The Real Estate House Developers' Association (REHDA) Malaysia called for the government to designate a registered body to monitor sales transactions of residential properties costing RM180,000 and below, particularly within the New Strategies Package Period of 1 June 2003 to 31 May 2004. This is important in order to assess more accurately the state of the property market before developers embark on new launches. It is also important for the government to evaluate the impact of the Stimulus Package.

---

[53] Central Bank of Malaysia and the Association of Banks in Malaysia. *Banking Info.* Retrieved 13 February 2004, from http://www.bankinginfo.com.my/index.php?tpl_id=47.)
[54] National House Buyers Association. *Frequently Asked Questions.* Retrieved 12 February 2004, from http://www.hba.org.my/faq/list.htm#What%20are%20valuations%20and%20surveys.
[55] Colliers International. *Appraisal/Valuation Information.* Retrieved 12 February 2004, from http://www.colliers.com.my/services/value_guide.htm.

There is an opinion that the Malaysian housing industry is highly regulated. According to REHDA, it is governed by more than 50 pieces of legislation ranging from laws on land and buildings to the environment and workers' safety. On top of that, there are separate laws, policies and guidelines which are administered by federal, state and local governments and agencies. There have also been significant increases in regulatory requirements and delays in obtaining approval for provision of these requirements. This is pushing costs up, indirectly causing house prices to soar and thus threatening to slow down growth in the country's home ownership. Therefore, REHDA believes that there should be changes in the way the industry is regulated in order to address this trend of increasing regulatory and compliance costs.[56]

There is also a concern over access to home financing for the low cost house buyers. Even though at present the financing costs are very competitive and generally the public has easier access to home financing; nevertheless, the conditions set by the financial institutions can sometimes be an obstacle to the low cost house buyers. Some of these conditions can be hard on these groups of buyers to meet, although they do have the means to service their monthly installments, for example some of these buyers might not have enough money to pay the down payment. Therefore, it has been suggested that there should be financing with a lower down payment and maybe installments as well.[57]

After discussing the housing market and housing finance in Malaysia, the following sections discuss conventional and Islamic housing finance in Malaysia in detail.

---

[56] Chen, E. (2003). Accessibility to Adequate Housing - Role of Housing Developers. *Economic, Social and Cultural Rights on Accessibility to Basic Needs*. Kuala Lumpur, Real Estate and Housing Developers' Association Malaysia

[57] *ibid.*

3.4 CONVENTIONAL HOUSING FINANCE IN MALAYSIA

Currently in Malaysia there are banks which offer both conventional as well as Islamic methods of house financing. In this section I will discuss the conventional method of financing a house.

3.4.1 Interest Rate Charge

Like all other conventional financial institutions, those in Malaysia charge those wanting home loans a certain percentage of interest either on daily rests or monthly rests depending on the products offered. In the case of daily rests, the loan interest is calculated on a daily basis, while in the case of monthly rests, interest is calculated once a month based on the previous month's balance. Under both types of loan, the principal sum immediately reduces every time a loan instalment is made. The interest rate depends on the BLR (base lending rate) which is an adjustable interest rate solely controlled by Bank Negara Malaysia (Central Bank of Malaysia). The level of interest rate is highly dependent on the economy's measurement indicators for example the economy's growth rate and the inflation rate. From historical experiences, during times of prosperity, BLR tends to go higher and vice versa.

3.4.2 Financing Margin and Tenure

The amount (margin) of financing provided by a financial institution varies and could be as high as 100% of the value of the house and is assessed on factors such as:-

a. Type of property
b. Location of property
c. Age of borrower
d. Income of borrower

As for the loan tenure, the length of a loan, it can range from anytime up to 30 years or until the borrower reaches age 65 or any other age determined by the financial institution.

3.4.3 Housing Loan Packages

In terms of housing loan packages, financial institutions generally offer either of the three, namely a *term loan*, *overdraft* or a *combination of term loan and overdraft*:-[58]

a. With the *term loan* package, the borrower needs to pay a regular predetermined monthly instalment which is fixed for a period of time, for example 30 years. The instalment payment consists of the loan amount plus the interest.
b. As for the *overdraft facility*, it is a facility with a predetermined limit granted on the borrower's credit line. There is no fixed monthly instalment; instead the loan's interest is calculated based on the daily outstanding balance. This package gives the borrower a certain degree of flexibility to repay the loan anytime he/she is able to as well as the freedom to re-use the money that he/she has paid to the mortgage lender. However the interest charged is generally higher than the term loan.
c. With regard to the *term loan and overdraft combined*, it is a combination of the two packages mentioned above. For example, 70% as term loan and 30% as overdraft. For the term loan portion, a regular loan instalment is required. Whereas for the overdraft portion, flexibility on the repayment is given.

3.4.4 Graduated Payment Scheme

There is also a scheme given out by financial institutions that allow lower instalment payments at the beginning of the loan which will gradually increase over time. This scheme is called *graduated payment scheme*. As less money is used for loan repayment during the initial few years, more money can be allocated for other purposes. As times goes by, a house buyer's earnings would normally increase, making them more capable of repaying the loan with higher amounts of instalments. This payment scheme also enables the house

---

[58] Central Bank of Malaysia and the Association of Banks in Malaysia. *Banking Info.* Retrieved 13 February 2004, from http://www.bankinginfo.com.my/index.php?tpl_id=47.

buyer to purchase a more expensive house but is restricted in terms of his/her repayment capability during the initial years.

3.4.5 Charges

There are various fees which might be charged by conventional financial institutions for different reasons. Such fees are like *processing fees* which is a one time fee charged by financial institution for processing the loan. They might also charge borrowers if late payments are made. *Late payment fees* are also charged when repayments are not made. Interest is charged on the overdue instalment payment and is calculated on a daily basis.[59] Financial institutions may also impose a *penalty* called *early redemption fee* if a borrower makes full repayment of his/her loan. This is because early repayment disrupts the financial institution's cash flow planning. However some financial institutions might give flexibility to make prepayments and not charge a penalty for an early settlement or maybe impose certain restrictions on the amount to be prepaid. This would normally be stated in the terms and conditions of the loan.[60]

3.4.6 Documentation

When applying for a loan, there are legal documents that need to be signed. The main one is the Loan Agreement which is a contract signed between the buyer and the financial institution. It sets out the principal sum of the loan, the rate of interest, any penalty charges, repayment terms, and any other terms and conditions of the loan as well as the rights and duties of each party in the event of a default. Other legal documents that may need to be signed are Deed of Assignments, Power of Attorney and Charge documents. The property is charged to the financial institution which means that the financial institution has a claim over the property throughout the tenure of the loan.

---

[59] Standard Chartered. (2007). *Fees and Charges for Products and Services.* Retrieved 15 March 2007, from http://www.standardchartered.com.my/cb/fees_and_charges.pdf.

[60] Central Bank of Malaysia and the Association of Banks in Malaysia. *Banking Info.* Retrieved 13 February 2004, from http://www.bankinginfo.com.my/index.php?tpl_id=47.

3.4.7 Insurance

When a person purchases a house, there are two important insurance coverages that he/she needs to consider, namely House Owner/Fire Insurance policy and Mortgage Reducing Life Assurance (MRTA):-

a. The House Owner/Fire Insurance policy provides coverage for the property against natural disasters and malicious damage. However for apartments or condominiums, an organisation called Management Corporation, which is formed by the owners of the individual units in the apartment or condominium to manage the building, would have taken up the insurance for the entire building.
b. MRTA will help to settle the unpaid portion of the housing loan in a lump sum in the event of death or total permanent disability of the borrower.

Financial institutions normally have their own panel of insurers and most of them can arrange insurance on the borrower's behalf with the annual insurance premium being charged to the borrower's loan account.[61]

3.5 ISLAMIC HOUSING FINANCE IN MALAYSIA

Malaysia has a relatively strong economic growth underpinned by strong fundamentals with relative price stability, low unemployment and a strong external balance. This healthy economic environment together with the existence of the Islamic Banking Act 1983 of Malaysia has helped in the rapid pace of development of Islamic finance in Malaysia. There is an opinion by Monzer Kahf who said that there is a close association between the growth and spread of Islamic banks and the newly developed working relationships between bankers and scholars.[62] This is because this relationship has an effect on the invention of new modes of finance and ultimately affects the future of Islamic finance. Thus, it is important for Bank Negara Malaysia to set

---

[61] iProperty.com.my. *Housing Loans*. Retrieved 15 March 2007, from http://www.iproperty.com.my/financing/housingloans.htm.

[62] Albarzinji, Z. (2002). Islamic Finance: Dynamics and Development. *Fifth Harvard University Forum on Islamic Finance*
Harvard University, Massachusetts, Harvard Islamic Finance Information Program.

up its own *Shari'ah* Advisory Board, which sets the rules for the entire Islamic banking sector to ensure uniformity of products and services.[63]

Malaysia has also seen a further deregulation, liberalisation and innovation of the Malaysian financial sector, in order to enhance efficiency, growth and opportunities. An example is the granting of license to three foreign banks to establish Islamic operations locally in 2004. This is one of the Malaysian Government's strategies to integrate the country's Islamic banks into the global financial system and plan to liberalize the sector. [64]

Islamic finance is getting a wider acceptance amongst Malaysians. More financial institutions whether it be Islamic banks or other commercial banks, are getting into the market and offering Islamic products and services. By the end of July 2005, the Islamic financing in Malaysia rose by 9 per cent to RM63.08 billion to capture a higher market share which accounts for 11.8 per cent of the total financing of the banking system.[65] Islamic home financing products are no exception and in Malaysia, they have grown in popularity as an alternative mode of finance to that of the conventional, not only amongst Muslims but also non-Muslims.

3.5.1 Islamic Banks

There are currently nine Islamic banks operating in Malaysia which offer Islamic banking products and services, namely Bank Islam Malaysia Berhad (BIMB), Bank Muamalat Malaysia Berhad, Commerce Tijari Bank Berhad, Hong Leong Islamic Bank Berhad, Kuwait Finance House (Malaysia) Berhad, RHB Islamic Bank Berhad, Affin Islamic Bank Berhad, EONCAP Islamic Bank Berhad and AmIslamic Bank. Initially Malaysia started with only one Islamic bank which was Bank Islam. But since 2002, Bank Negara Malaysia has issued more than seven Islamic banking licenses to local and foreign banks

---

[63] Khan, I. *Issues and Relevance of Islamic finance in Britain.* Retrieved 1 September 2006, from http://www.islamic-banking.com/aom/ibanking/ia_khan.php.
[64] Fittipaldi, S. (2004). Moving To The Next Level. *Global Finance* Retrieved 23 September 2006, from http://www.findarticles.com/p/articles/mi_qa3715/is_200405/ai_n9384600.
[65] NST. (2005). Economic Outlook Remains Favourable. *Malaysia Economic Report 2005 - 2006* Retrieved 24 September 2006, from www.btimes.com.my/Current_News/BT/Friday/economicrep/ecnrp0506.pdf.

with four of them granted to the Islamic subsidiaries (IS) of conventional banks. IS is the transformation of Islamic banking windows into Islamic banking subsidiaries. IS also comes under the governance of the Islamic Banking Act 1983 which would enable them to participate in non-traditional banking business such as wholesale and retail trading, purchase of assets, landed properties and equities via joint-venture and portfolio investments.[66]

BIMB started its operation as Malaysia's first Islamic bank on the 1 July 1983. The second fully fledged Islamic Bank, Bank Muamalat Malaysia Berhad, started its operations on 1 October 1999 with combined assets and liabilities brought over from the Islamic banking windows of Bank Bumiputra Malaysia Berhad, Bank of Commerce (M) Berhad and Bank Bumiputera Finance Malaysia Berhad which have merged to form Bank Bumiputera-Commerce Bank Berhad and Bank Muamalat Malaysia Berhad.

3.5.2 Other Participating Financial Institutions

There are also a number of other commercial banking institutions which participate in the Islamic Banking Scheme (IBS) and offer various Islamic banking products and services. The participating banks are Alliance Bank Malaysia Berhad, Citibank Berhad, HSBC Bank Malaysia Berhad, OCBC Bank (Malaysia) Berhad, Public Bank Berhad, Southern Bank Berhad and Standard Chartered Bank Malaysia Berhad. Apart from these banks there are also a number of development financial institutions offering Islamic Banking Services namely Bank Kerjasama Rakyat Malaysia Berhad, Bank Simpanan Nasional, Bank Pembangunan Malaysia Berhad, Bank Pertanian Malaysia and Bank Perusahaan Kecil dan Sederhana Malaysia Berhad.[67]

3.5.3 Bank Negara Malaysia Regulations

Effective from 8 January 2003, Bank Negara Malaysia (BNM) has instructed that all financial institutions offering Islamic Banking products are to use

---

[66] Rosly, S. A. (2005). *From Windows to Subsidiaries for Islamic Banking.* Retrieved 17 September 2006, from http://www.mier.org.my/mierscan/archives/pdf/drsaiful31_10_2005.pdf.
[67] Bank Negara Malaysia. *List of Financial Institutions Offering Islamic Banking Services.* Retrieved 17 September 2006, from http://www.bnm.gov.my/index.php?ch=174&pg=467&ac=369.

standard generic names approved by BNM with the compliance date being 31 December 2004. These products shall be hyphenated with the letter 'i' at the end of each generic product name. Nevertheless, all these financial institutions can still continue using the Arabic product name to reflect the product concept together with the approved generic names.[68]

Any financial institutions in Malaysia wanting to participate in the Islamic Banking Scheme are required to obtain permission from Bank Negara Malaysia before they can offer Islamic banking products to the public. There are also other requirements which financial institutions need to abide by if they want to participate in the Islamic banking scheme. There are two primary ones, namely that they need to have separate accounts from conventional banking business and that the financial institution needs to appoint *Shari'ah* advisers.[69]

The financial institutions must have separate accounts for the Islamic and conventional banking business to ensure that all deposits accepted under the Islamic banking scheme are only used to invest in Islamic banking assets. Likewise, all Islamic financing is only funded by Islamic deposits. They are also required to appoint *Shari'ah* advisers in order to advise the financial institutions on all aspects of Islamic banking business.

3.5.4 BBA Financing Concept

All except one of the financial institutions in Malaysia which offer Islamic home financing, base its scheme on the al-Bai Bithaman Ajil (BBA) contract. Nevertheless, some of the banks give different names to identify the product as Islamic home financing. BBA refers to a sale with a deferred payment customer and deferred payment plan of monthly instalments.

---

[68] Association for Islamic Banking Institutions Malaysia. *Islamic Banking Products and Services in Malaysia.* Retrieved 18 February 2004, from http://www.aibim.com/01/02baIslamic%20Banking%20Products.htm.

[69] Standard Chartered Malaysia. *Islamic Banking Guidelines.* Retrieved 17 September 2006, from http://www.standardchartered.com.my/ib/info/guide.html

Under this contract, the Bank will purchase the required asset at a cost price and resell it to the customer at a profit margin (cost plus profit) on deferred payment basis. The selling price would have been agreed by both the customer and the Bank and will remain unchanged until the end of the repayment period and would remain so even if there is a change in the duration of payment and the market price. The total amount is repayable by fixed instalments which are determined by the selling price and the repayment period. The purchased property's ownership will be under the Bank's claim and will be handed over to the customer upon full payment.

3.5.5 MM Financing Concept

Kuwait Finance House is the exception to this practice since it recently became Malaysia's first foreign Islamic bank to receive approval from Bank Negara Malaysia on the 20 March 2006 to introduce a brand new product based on *Musharakah Mutaqanisah* (MM) contract. The product is called KFH *Musyarakah Mutanaqisah* Home and Property Financing-i which applies the *Shari'ah* concept of diminishing partnership and *ijara*. It is a diminishing partnership contract because the Bank and the customer jointly purchase and acquire the property. It is also an ijara contract because the property is then leased with the customer having to make monthly rental payments to the bank. The amount paid monthly will be applied towards increasing the customer's ownership of the property until the customer fully owns the property at the end of the tenure.[70]

3.5.6 Financing Margin and Tenure

The amount of financing provided by a financial institution offering Islamic home financing differs from one to another. Generally, the amount ranges from 70% to 100% against the price of the property as stated in the Sales and Purchase Agreement or the current market value. The margin of financing that the institution can offer to the customer also depends on the capacity of

---

[70] Kuwait Finance House. (2006*). KFHMB is The First In Malaysia to Introduce Musyarakah Mutanaqisah Home & Property Financing-i.* Retrieved 19 September 2006, from http://www.kfh.com.my/about_us/media_centre/news_events/articles/article.php?intPrefLangID=1&&intArticleID=16.

the customer to make the repayments.[71] As for the tenure of home financing, the maximum repayment period can be as long as 30 years or until the customer reaches the age of 65 (whichever is earlier).[72] A longer tenure would mean lower monthly installments and makes the purchase of the property more affordable for customers.

3.5.7 Early Settlement Flexibility

Financial institutions do have some form of flexibility towards their customers, for example under Islamic home financing, early settlement is allowed and there is no early settlement penalty charge imposed on customers who wish to do so. Early settlement here means that financing is settled before the completion or end of the financing tenure. In addition to this, the customer is not required to give advance notice to the financial institution for the early settlement.[73] However, the terms and conditions imposed might differ between different Islamic banking institutions.

3.5.8 Rebate

Financial institutions might also give a rebate on the concept of *ibra'* to customers for the early redemption made on the Islamic home financing. It is customary for the financial institutions to give *ibra'* at the time of full settlement by the customer.[74] Normally the rebate is in the form of a reduction in the balance outstanding of the selling price. The amount after deducting the rebate is the early settlement amount. [75] *Ibra'* however has very strict applications, for example the terms of *ibra'* cannot be pre-agreed between the

---

[71] Bank Negara Malaysia. *Frequently Asked Questions on Al-Bai' Bithaman Ajil (BBA) House Financing.* Retrieved 25 September 2006, from http://www.bnm.gov.my/index.php?ch=174&pg=469&ac=388.

[72] Central Bank of Malaysia and The Association of Banks in Malaysia. House Financing-i. *Banking Info* Retrieved 25 December from http://www.bankinginfo.com.my/index.php?ch=24&pg=98.

[73] Bank Negara Malaysia. *Frequently Asked Questions on Al-Bai' Bithaman Ajil (BBA) House Financing.* Retrieved 25 September 2006, from http://www.bnm.gov.my/index.php?ch=174&pg=469&ac=388.

[74] Haneef, R. *My Say: BBA not suitable for long-term financing.* Retrieved 25 September 2006, from http://www.theedgedaily.com/cms/content.jsp?id=com.tms.cms.article.Article_40873e81-cb73c03a-1a1ff900-fc7fa618.

[75] Central Bank of Malaysia and the Association of Banks in Malaysia. House Financing-i. *Banking Info* Retrieved 25 December from http://www.bankinginfo.com.my/index.php?ch=24&pg=98.

parties and cannot be incorporated into the contract. Also, once the amount of *ibra'* has been fixed, it cannot be varied.[76]

3.5.9 Charges

There are various fees charged on different types of transactions which a financial institution may impose on a customer who wishes to take up Islamic house financing. Examples of fees charged are processing fees, late payment fees and early redemption or full settlement fees. The processing fee charged on a customer differs according to the amount of financing he/she takes up. For example, a customer who takes up a higher financing amount would be charged more compared to those with a lower amount. As for the late payment fee, it is a compensation charge on a customer in the case of a default in payment. It is charged at a rate of 1% per annum on overdue instalments and the amount of compensation is not compounded.[77] Scholars allow such a fee to be charged so as to encourage financial responsibility and to recover administrative expenses.[78] The early redemption charge is for settlement being made before a specific required minimum period of financing or if insufficient notice is given.[79]

3.5.10 Documentation

The legal documents for the Islamic house financing consist of letter of offer, property sale agreement, property purchase agreement, legal charge or assignment and power of attorney.[80] The property sale agreement is a contract containing details of the sale of the property by the financial institution to the customer. The details include the selling price, terms of payments and

---

[76] Haneef, R. *My Say: BBA not suitable for long-term financing.* Retrieved 25 September 2006, from http://www.theedgedaily.com/cms/content.jsp?id=com.tms.cms.article.Article_40873e81-cb73c03a-1a1ff900-fc7fa618.

[77] Standard Chartered (2007). *Fees and Charges for Products and Services.* Retrieved 25 September 2006, from http://www.standardchartered.com.my/cb/fees_and_charges.pdf.

[78] HSBC Amanah. "FAQs." Retrieved 25 September 2006, from http://www.hsbcamanah.com/hsbc/amanah_banking/faqs#32.

[79] Central Bank of Malaysia and the Association of Banks in Malaysia. House Financing-i. *Banking Info.* Retrieved 25 December from http://www.bankinginfo.com.my/index.php?ch=24&pg=98.

[80] Bank Negara Malaysia. *Frequently Asked Questions on Al-Bai' Bithaman Ajil (BBA) House Financing.* Retrieved 25 September 2006, from http://www.bnm.gov.my/index.php?ch=174&pg=469&ac=388.

financing, duties of the financial institution and the customer in the event of default and the rights of each party. Whilst the property purchase agreement is a contract detailing the purchase of the property by the financial institution from the customer.[81]

3.5.11 Islamic Insurance/Takaful

Takaful is a protection plan using the concept of mutual assistance and is based on the *Shari'ah* principle. A person contributes a sum of money to a collective pool of funds in the form of participative contribution (*tabarru'*). He/she then undertakes a contract to become one of the participants by agreeing to mutually help each other, should any of the participants suffer a loss.

When purchasing a property it is important to take up two *takaful* plans as a form of financial security should an unfortunate event occur. These two types of *takaful* plans are:

a. House owners *Takaful* Plan which is a plan which provides coverage for a residential property against loss or damage caused for example by flood and fire.
b. Mortgage *Takaful* (Mortgage Reducing Term Assurance or MRTA) is a financial protection given on the home financing amount in the event of unexpected and sudden loss of life or disability due to natural or accidental causes to the customer.[82] Mortgage *takaful* would provide for full settlement of his/her outstanding balance of the Islamic housing finance taken up with the financial institution. There is no monthly or yearly contribution as the amount of contribution is paid only once and is usually included in the financing amount and spread over the financing tenure.[83]

---

[81] Central Bank of Malaysia and the Association of Banks in Malaysia. House Financing-i. *Banking Info* Retrieved 25 December from http://www.bankinginfo.com.my/index.php?ch=24&pg=98.

[82] Maybank. *Mortgage Takaful.* Retrieved 25 September 2006, from http://www.maybank2u.com.my/business/other_services/islamic_banking/maybank/mortgage_takaful.shtml.

[83] Central Bank of Malaysia and the Association of Banks in Malaysia. House Financing-i. *Banking Info.* Retrieved 25 December from http://www.bankinginfo.com.my/index.php?ch=24&pg=98.

3.5.12 Example of Products

Bank Islam is the first Islamic bank in Malaysia which offers an Islamic housing finance scheme, called *Baiti*. *Baiti* enables a customer to use the loan to purchase a house, to renovate one or even to refinance his old home. This home financing scheme is also inclusive of a 'Long Term House Owner's *Takaful*' and '*Takaful* Mortgage Plan'. The 'Long Term House Owner's *Takaful* is a long term *takaful* (insurance) policy to protect the scheme holder's house from a wide range of disasters throughout the financing duration whereas '*Takaful* Mortgage Plan' helps to guarantee payment of outstanding finance in the event of death or permanent disablement of the scheme's holder. *Baiti* gives up to 100% financing of the purchase price of the house with a repayment period of up to 32 years or maximum age of 65 years of age, whichever is earlier. *Baiti* also offers flexible repayment schemes, special discounts for the first 24 months and special rebates for early full settlement. There are no processing fees, no security deposits, nor are there any hidden charges.[84]

Bank Muamalat is the second Islamic bank which offers an Islamic home financing. The product is called Muamalat BBA Home Financing-i which can be used to finance completed houses, to purchase houses from developers or even to refinance existing housing loans. The repayment period is up to 35 years or until attainment of 60 years of age, whichever is earlier. This form of contract benefits especially those who prefer to pay a fixed house price with a fixed amount of instalment and a fixed period of time. The customers are also covered by the '*Takaful* Mortgage Plan' with the *Takaful* (insurance) contribution payment can be incorporated into the financing amount.[85]

---

[84] Bank Islam. *Baiti Home Financing*. Retrieved 11 February 2004, from http://www.bankislam.com.my/cms/default.asp?cms_articleID=9&languageID=0.
[85] Bank Muamalat. *Muamalat Home Financing - i*. Retrieved 11 February 2004, from http://www.muamalat.com.my/default.asp?page=financing

3.6 CONCLUSION

This chapter contains an extensive description of the housing market in Malaysia. There is a mention of the Malaysian government's planning to achieve a certain target of housing units to be constructed by the public and private sectors. Concerns regarding the low income group and the availability of houses to them are also discussed in this chapter. In this chapter, the issue of unsold property or property overhang and abandoned housing projects are also brought to our attention.

There is a section allocated to assessing the housing market which discussed the various problems and criticisms on the current system of owning a property. This includes the rulings in the Housing Development Act and the rights of a buyer when dealing with developers. In this section, there is also a mention of the government's involvement in dealing with the problem of abandoned housing projects and further suggestions are given on how the problem should be dealt. Also, a discussion on the way the low cost housing is being handled and the weaknesses of the distribution system.

This section is followed by a discussion on the housing finance market which includes the financiers in the market who are offering conventional housing loans. These financiers consist of banks and other financial institutions, the government of Malaysia and companies which offer housing loans as a form of benefit to their employees. This section also mentioned the buying process and the charges incurred, for example stamp duty, real property gains tax, legal fees, disbursement fees and processing fees. There is also an assessment of the housing finance market which contains discussion of various important issues under the heading of conventional and Islamic housing finance such as the packages on offer, charges incurred, insurance/*takaful* take up and the documentations involved.

In short, the Malaysian government seems very aware of the importance of having a sound housing market and housing finance through its various incentives, for example, by encouraging housing developers in the provision of low-cost housing and by giving out a low rate of housing finance

to government employees in order to help and encourage home ownership. The Bank Negara Malaysia has also been very supportive and has played a big role in the success of the Islamic financial institutions, and hence indirectly the Islamic housing finance as well. It endeavours to build a comprehensive, efficient, dynamic, robust and resilient Islamic financial system which can be seen with the entry of foreign Islamic banks, the transformation of Islamic banking windows into Islamic subsidiaries, the ever increasing consumer awareness on Islamic financial products and the strengthened regulatory, legal and *Shari'ah* infrastructure. [86] Thus, with this, it can be said that Islamic housing finance has a sound and firm background to flourish in Malaysia.

[86] Aziz, Z. A. (2005). Governor's Speech at the Launch of Commerce Tijari Bank Berhad. Retrieved 7 October 2006, from http://www.bnm.gov.my/index.php?ch=9&pg=15&ac=167.

Chapter 4: METHODS AND METHODOLOGY

4.1. INTRODUCTION

The research that I have done is in the area of social sciences and humanities which thus makes it a social research. Social sciences and humanities help to provide an understanding of the way in which societies are organised and governed and how they evolve and change. They also provide us with a better understanding of human and social behaviour and of identifying the factors which contribute to the social, economic, political and cultural changes.

The importance of research in social sciences and humanities cannot be over emphasised. It can provide solutions, for example, to the questions concerning the change of living conditions, the current economic trends, the need to have new forms of governance, the impact of values, religion, etc. It plays, therefore, a fundamental role in the formulation and the implementation of the policies at all levels.[1]

This chapter discusses the definition of research methodology and the types of research methods that researchers generally used. There is also a discussion on the type of research method that I used in my research and the reasons for using it. There is also mention as to the way in which the data was analysed as well as the limitations and difficulties in performing the analysis.

4.2. RESEARCH METHODOLOGY

Research itself is an organised and systematic way of finding answers to questions.[2] Research is also a process for collecting, analysing and interpreting

---

[1] EU Research in Social Sciences and Humanities. *Why Social Sciences and Humanities*. Retrieved 9 October 2006, from http://ec.europa.eu/research/social-sciences/index_en.htm.

[2] Henrichsen, L., M. T. Smith, et al. *Research Methods in TESL and Language Acquisition*. Retrieved 10 October 2006, from http://linguistics.byu.edu/faculty/henrichsenl/ResearchMethods/RM_2_03.html.

information to answer questions. The research question is central to the research as it gives a purpose to the research and thus must be focused on useful and important ones.[3] Methodology is the framework associated with a particular set of paradigmatic assumptions that you will use to conduct your research. The path taken in order to find answers to the research questions is what constitutes research methodology.[4]

In order to qualify as research, this process must possess as far as possible certain characteristics: the procedures used to find answers to questions are relevant, appropriate and justifiable; procedures adopted are systematic; the conclusion of the findings is correct and is verifiable; and procedures used have undergone critical scrutiny.[5]

In designing a research, it is important to decide on the general strategy and formats to carry out the research in order to achieve the desired results. There are various strategies and formats that can be used. The research classification which is based on the approaches to inquiry or the process taken to find answers to the research questions is divided into two major types of research which are:

4.2.1 Quantitative Research

This approach to inquiry is a structured and rigid methodology. It is a research strategy which is usually designed to produce conclusions in the form of numerical data, and typically uses 'closed' questions.[6] The analysis of data subjects variables to frequency distributions, cross-tabulations or other statistical procedures.[7] Whilst the organisation in the communication of findings is more

---

[3] ibid
[4] Kumar, R. (2005). *Research Methodology A Step by Step Guide For Beginners*. London, Sage Publication
[5] ibid
[6] Arksey, H. and P. Knight (1999). *Interviewing for Social Scientists* by_London, Sage Publications.
[7] Kumar, R. (2005). *Research Methodology A Step by Step Guide For Beginners*. London, Sage

analytical in nature and it makes inferences and conclusions for example by means of testing the magnitude and strength of a relationship between variables.

4.2.2 Qualitative Research

Its approach to inquiry is usually unstructured with a flexible methodology.[8] It is a research strategy which usually gives an emphasis on words rather than quantification in the collection and analysis of data.[9] It explores experiences, meanings, perceptions and feelings.[10] The analysis of data subjects responses and narratives data to identification of themes and it then describes these. As for the organisation of the communication of findings, it tends to be more descriptive and narrative in nature.[11]

For the purpose of this study, multi strategy research had been used whereby quantitative and qualitative researches were combined. This very much relates to the research methods that were used for the purpose of this study as well. There are various reasons for using both qualitative and quantitative researches in this study. One of them is that sometimes a researcher cannot rely on either a quantitative or a qualitative method alone. Certain findings from one research strategy were reinforced with a method drawn from the other research strategy. That is the case with this study whereby the findings from the quantitative research method of survey is further reinforced by the findings from the qualitative research method of conducting semi structured interviews.

Secondly, combining research strategy enables researchers to explore an area in both ways. This study for example, collects qualitative data which gains access to the perspectives of the people under study, whilst quantitative data allows specific issues to be explored further.

---

[8] ibid
[9] Bryman, A. (2004). *Social Research Methods*, Oxford Press
[10] Kumar, R. (2005). *Research Methodology A Step by Step Guide For Beginners*. London, Sage Publication
[11] ibid

4.3. RESEARCH METHOD

Research entails a researcher to use a set of procedures or specific techniques in collecting and analysing the data which are used in answering the questions that were initially posed.[12] Research method is simply a set of instruments to be used for data collection and analysis[13]. The research strategy and the techniques employed must be appropriate for the questions to be answered or research questions.[14] That entails that the selection of method or methods to be employed must be based on what kind of information is wanted, from whom and under what circumstances.[15]

There are two broad categories of methods that researchers normally use for their research projects. They are:

a. Quantitative Method

Quantitative method is most often used when the motives for research are explanation, description or evaluation. Data that are treated as quantitative can either be in numbers or attributes which can be ordered in terms of magnitude for example, people's attitude and behaviour.[16] The main research method associated with quantitative research is surveys.[17] Surveys gather data at a particular point in time and vary in their levels of complexity from providing simple frequency counts to that which present a relational analysis.[18]

b. Qualitative Method

Qualitative method is most often used when the motive is exploration. Data that is treated as qualitative are mainly those which are written or spoken words or

---

[12] Robson, C. (2002). *Real World Research*, Blackwell Publishing.
[13] Cohen, L., L. Manion, et al. (2005). *Research Methods in Education*_London, Routledge Falmer.
[14] Robson, C. (2002). *Real World Research*, Blackwell Publishing.
[15] ibid
[16] Schutt, R. K. (2001). *Investigating the Social World*, Pine Forge Press.
[17] Arksey, H. and P. Knight (1999). *Interviewing for Social Scientists* by London, Sage Publications.
[18] Cohen, L., L. Manion, et al. (2005). *Research Methods in Education* London, Routledge Falmer.

observations which do not have a direct numerical interpretation.[19] The main research methods associated with qualitative research are participant observation, qualitative interviewing, focus groups, language-based approaches to the collection of data such as conversation analysis and the collection and qualitative analysis of texts and documents.[20]

For this study, both the qualitative and quantitative method are used. The combination of methods is called multiple methods, mixed methods or triangulation. Quantitative method was used by carrying out questionnaire surveys on relevant respondents who represent samples of the population. This is done in order to get the respondents' view, attitudes, reasoning and behaviour on the topic of research. Whilst qualitative method using semi-structured interviews were conducted with officials in charge in order to get a better understanding of the findings of the questionnaire responses.

There exist, proponents and opponents of combining both these methods. However, there is an inclination for this study to accept the reasons given by the proponents of multiple methods. One of the reasons for this is that both the qualitative and quantitative methods have their own merits which would complement each other and thus would enrich this research. Another reason is that links between the questionnaire and interview findings can also be looked into and verified against one another. Added to this reason is that applying multiple methods would provide a more holistic understanding of the study as it retrieves and blends both the qualitative and quantitative elements. The most important reason is that by having both methods, the credibility of the research outcomes would be further enhanced when for example an outcome utilising the quantitative method is verified and confirmed against another by means of the qualitative method.

---

[19] Schutt, R. K. (2001). *Investigating the Social World*, Pine Forge Press.
[20] Bryman, A. (2004). *Social Research Methods*, Oxford Press

4.3.1 Quantitative Method - Questionnaire

Questionnaire is an important instrument of research and a tool for data collection. It serves the function of measurement.[21] It is also a survey instrument containing questions in a self-administered survey.[22] There are three ways in which this questionnaire is administered, namely, self-administered questionnaires, face-to-face interview and telephone interview. [23] Self-administered questionnaire can be in different forms as well for example, postal questionnaire.

There are various reasons for using or not using questionnaire as a method for data collection. Below is a list of advantages and disadvantages of using a questionnaire:

4.3.1.1 Advantages of Questionnaires

a. It provides a relatively simple and straightforward approach to the study of attitudes, values, beliefs and motives.
b. There is a high degree of data standardization as all respondents are posed with exactly the same questions; and there are no variations in the wording of the questions or the manner in which the question is asked.
c. It is the quickest way of attaining information as questionnaires can be sent out through the post or otherwise distributed in very large quantities at the same time.
d. It is of relatively low cost to administer as it can be sent out to a geographically dispersed sample, thus it saves time and cost of travel.
e. It allows anonymity, which can encourage frankness especially when sensitive information is involved.
f. It is convenient for respondents as well as they can complete the questionnaire whenever and at any pace they want

---

[21] Oppenheim, A. N. (1992). *Questionnaire Design, Interviewing and Attitude Measurement,* Pinter Pub Ltd., p. 100.
[22] Schutt, R. K. (2001*). Investigating the Social World*, Pine Forge Press, p.222.
[23] Robson, C. (2002). *Real World Research*, Blackwell Publishing, p. 236

4.3.1.2 *Disadvantages of Questionnaires*

a. Data are affected by the characteristics of the respondents for example their knowledge, memory, experience and personality.
b. Respondents do not necessarily report their beliefs, attitudes, etc. as accurately as they could, for example they may do so to show themselves as having socially desirable attitudes.
c. Ambiguities and misunderstandings of the survey questions could occur and may not be detected.
d. Respondents may not treat the questionnaire seriously and this may not be detected either.

Even though there is a list of disadvantages of using a questionnaire, the advantages seem to outweigh the disadvantages, thus the reason for the insistence on carrying out the survey method of questionnaire for the purpose of this research.

4.3.1.3 *Questionnaire Design*

The context created by the questionnaire has a major impact on how individual questions are interpreted and whether they are even answered. Therefore, very careful attention must be given to the design of the questionnaire and the questions in it.[24]

When designing this questionnaire, there were a few steps that had to be taken. Initially, the aim and objectives of the questionnaire were set out. This was to ensure that the purposes of the questionnaire were clear. Secondly, the topics that needed to be covered to meet these purposes were identified. This simply means, to move from a generalized idea to specific ones. The questionnaire was made to be as comprehensive and exhaustive in its coverage as possible. What needs to be measured, whether it is attitude, belief or behaviour of each individual to be surveyed in the questionnaire was also identified. It was also

---

[24] Schutt, R. K. (2001). *Investigating the Social World*, Pine Forge Press, p. 221.

ensured that all questions asked were relevant and indeed necessary to elicit the most appropriate data in order to fulfil the research agenda.[25] The questions that were formulated took into account all of the above mentioned factors.

When writing the questionnaire, the questions that were put forward were written in such a way as to make them as unambiguous and as brief as possible, straight to the point, simple, with no acronyms, abbreviations, jargon or technical terms without explanations to them, clear. In an effort to make the questionnaire used in this research a good one, efforts were also made to ensure that there were no questions which would suggest an answer, called leading questions or questions which were too hard or over-taxing on the respondent's memory, or offensive to the respondent.[26]

Each question in the questionnaire covered not more than one issue and it was not too sensitive so as to cause the data elicited to be biased and unreliable. Any questions which seemed sensitive were put later in the questionnaire so as not to put off the respondent from responding to the questionnaire right from the start, for example the question on joint household income level which might be sensitive to some people. The questions were also laid out in such a way that made it seem to have a logical sequence from one to the other.[27]

4.3.1.4 Aim and Objectives

As mentioned in the previous section, the aim and objectives of the questionnaire were set out to ensure that the purposes of the questionnaire were clear. In this section the aims and objectives are listed as follows:

---

[25] Cohen, L., L. Manion, et al. (2005). *Research Methods in Education*, London, Routledge Falmer., p.248.
[26] Oppenheim, A. N. (1992). *Questionnaire Design, Interviewing and Attitude Measurement*, Pinter Pub Ltd.
[27] Department of Health and Community Services. (2002). "*Information gathering tools for planning and evaluation.*" Retrieved 28 May 2004, from http://www.nt.gov.au/health/healthdev/health_promotion/bushbook/volume1/info.html.

The aim of the survey is to find out the attitudes and interest of Malaysian Muslim clients towards Islamic housing finance. The objectives are to study the Muslim clients' perception of Islamic housing finance; to study their interest in Islamic housing finance; their views on the policies of their mortgage provider as well as on the product that they are being offered; to study the sort of property they buy; to find out their awareness of using other Islamic products; to find out more concerning any cases of non-payments amongst the clients; also on what they think their mortgage provider and the government can do to improve Islamic housing finance; to find out the satisfaction level of the product that they are currently using; as well as to know a bit about their background and their awareness on the prohibition of *riba*.

4.3.1.5 Types of Questionnaire Items

There are two basic types of survey questions namely open-ended and closed-ended questions. Open-ended questions are questions which do not have a definite answer. Whilst close-ended questions are those with a finite set of answers from which the respondents can choose from. For my questionnaire, most of the questions consist of close-ended questions. They were however questions which give the respondents an opportunity to give answers which were not mentioned as part of the answer section.

Within the close-ended type there are also five main styles of questions namely, Likert-scale which is useful to know the respondents' feelings or attitudes about something as they are asked to indicate how closely their feelings match the question or statement on a rating scale; multiple choice question which is useful if the respondent is to choose only the best answer or answers from among all the possible options; ordinal questions are used if all the possible answers are to be rank ordered; categorical questions are chosen when the possible answers for a question are in categories and to which a response must belong in either one of them; and numerical questions are asked when the answer is a real

number.[28] The main styles of questions that were used in my questionnaire consist of multiple choice questions, ordinal question and categorical questions.

4.3.1.6 The Layout of the Questionnaire

The appearance of a questionnaire is equally as important as the questionnaire itself. The questionnaire was made to look easy, attractive and interesting. It was not cluttered but instead provided plenty of space for questions and answers so as to make it more encouraging to respondents. Clarity of wording, simplicity of design and clear instructions to guide the respondents were also given attention. The questionnaire was broken up into subsections with section headings so as to group together questions with a specific issue. This was to avoid having questions on a particular topic scattered through the questionnaire. This would also indicate an overall logic and a smooth progression through the questionnaire.[29]

The questionnaire used in this research consisted of sixteen sections. These sections consisted of questions concerning their mortgage provider and the type of housing finance the respondents were taking out. There were questions on the reason for using or not using Islamic housing finance, questions on which housing finance they were currently using and whether they made comparisons before deciding on which to take on. There were also questions on the respondents' preferred method of product information dissemination and whether the staff of various mortgage providers had sufficient information to give to them.

There were also questions on the mortgage providers' policies on the products they were offering, for example, whether they were making it compulsory for customers to take up housing mortgage insurance, also on whether they had made the procedure to apply for housing finance an easy one, and the process

---

[28] Encyclopedia of Educational Technology. "*Types of Survey Questions.*" Retrieved 16 October 2006, from http://coe.sdsu.edu/eet/Articles/surveyquest/index.htm

[29] Czaja, R. and J. Blair (2004). *Designing Surveys*, Pine Forge Press.

of getting the application approved a quick one or otherwise. There were also a few questions concerning the repayments of the housing finance in terms of the monthly amount, the term and period of repayment, how much this amount was in relation to the respondents' household income. These questions were asked in order to find out the average amount and the preferred repayment duration as well as the method of repayments that the respondents are subjected to by their mortgage provider.

Questions on non-payment were also asked in order to find out further about the experiences of those facing this sort of problem. There were also questions on how flexible the mortgage providers are on certain aspects of the product being offered in contrast to the respondent's preference. There were also questions to find out whether those respondents who were already taking up Islamic housing finance have the awareness to use other Islamic financial products and compare that with those who were not taking up Islamic housing finance.

There were also questions on what was important and influenced respondents when choosing a property to buy as well as their perception of its value in later years. The respondents were also being asked whether they were satisfied with the housing finance they were currently using, in order to see whether those using Islamic housing finance were satisfied with this product or otherwise, and compare that to those who were not using Islamic housing finance. They were also asked to give their views on which aspects of the housing finance were giving them that satisfaction or dissatisfaction and ways of improving Islamic housing finance even if they were not using this product.

There were also questions to find out the respondents' personal information in order to compare between different income and age groups. Finally it was important to have a question on whether the respondents knew about the Islamic ruling of *riba* or not in order to find out how many of them were still using non-Islamic housing finance despite the knowledge that they had on this issue.

4.3.1.7 Cover Letter

A cover letter for each questionnaire was provided in order to explain the purpose of the research, the potential value of the survey response as well as the importance of the individual's response. There was also mention of what would be done with the information provided from the questionnaire. Assurance of confidentiality and anonymity were also given to respondents. It also indicated what to do if questions or uncertainties arise. The covering letter also expressed a note of appreciation for anticipated co-operation and willingness to complete the questionnaire.

For the questionnaire used in this research, a cover letter containing all the above mentioned information was provided, as it is imperative to have one. This would help the respondents to understand the aim of the research and its importance, to assure them of confidentiality, and most importantly to encourage their replies.[30]

4.3.1.8 Potential Sources of Errors

There were some respondents who felt that their presentation of self was threatened by the questions posed to them in the questionnaire. They either felt reluctant to answer the question or not answer it completely and truthfully. This is one source of error as the respondents try to under-report or avoid revealing too much about themselves.[31]

In addition to the above, there is also what is known as social desirability bias. It occurs when respondents distort answers to make their reports conform to social norms. They tend to over-report, exaggerate or make false claims of having socially desirable behaviour. [32]

---

[30] Cohen, L., L. Manion, et al. (2005). *Research Methods in Education* London, Routledge Falmer, p. 259.
[31] Neuman, W. L. (2005). *Social Research Methods. Qualitative and Quantitative Approaches* Allyn & Bacon.
[32] Neuman, W. L. (2005). *Social Research Methods. Qualitative and Quantitative Approaches* Allyn & Bacon.

Realizing this and in order to try and reduce these sources of errors, phrasing or wording of the questions in the questionnaire were carefully done.

4.3.1.9 Validity and Reliability in Questionnaire

Validity is an important requirement for both quantitative and qualitative research as an invalid research is a worthless one. The validity of the questionnaire depends on whether respondents complete it accurately, honestly and correctly. It is also acknowledged that it is impossible for research to be 100 per cent valid. However, it is realised that the validity of data can be improved through careful sampling, appropriate instrumentation and the appropriate statistical treatments of the data.[33] The advantage of questionnaires is that it encourages greater honesty as it is anonymous. This helps in improving the validity of the data.

As for reliability in quantitative research, it means consistency and replicability over time, over instruments and over groups of respondents. This means that if the research is carried out on a similar group of respondents in a similar context, similar results would be found.[34] Reliability is a necessary but insufficient condition for validity in research, and reliability is also a necessary precondition of validity. One of the ways that was used to ensure the reliability of the questionnaires was by pilot testing all the questions beforehand.

4.3.1.10 Choice of Survey Instrument

For survey, there are various methods that can be used to carry this out. Examples are questionnaire survey asked in person (face-to-face) or sent out through the post (mail), survey carried out via the telephone and with the internet age there are surveys posted on the internet through web-pages as well as through e-mail. Frequently, the postal questionnaire is the best form of survey and the most viable way, especially if there is the usual constraint over finance

---

[33] Cohen, L., L. Manion, et al. (2005). *Research Methods in Education,* London, Routledge Falmer, p.105

[34] ibid., p. 117

and resources.[35] Taking into account the advantages of using a postal questionnaire have resulted in my using this method to send out my questionnaires to respondents.

4.3.1.11 Piloting the Questionnaire

When the questionnaire was ready, a pilot study was then conducted on the survey questions before the survey was officially carried out. Piloting was done in order to increase the reliability, validity and practicability of the questionnaire. That is so because, amongst other reasons, piloting serves to check as well as to gain feedback on the clarity of the questionnaire items, instructions and layout or whether they are easily misunderstood; to check whether the questionnaire is too long, too difficult or too offensive or otherwise; and to check the time taken to complete the questionnaire.[36]

Once comments were received, the questionnaire was modified if this needed to be done. Then a pilot test on the modified questionnaire was carried out on a few people from the target group to make sure that there were no flaws in it and that it will get the information needed. The questionnaire was revised if there were still flaws detected from the first pilot test. A second pilot was also conducted and if there was anything wrong with any of the questions in the questionnaire, then they were amended and retested again until the questionnaire was seen fit to be used in the field. A final revision was done before doing the field work for real and before people were asked to complete the questionnaire.[37]

For the pilot study, a total of fifteen people were surveyed initially in the United Kingdom, before going back to Malaysia and doing the real fieldwork.

---

[35] Cohen, L., L. Manion, et al. (2005). *Research Methods in Education,* London, Routledge Falmer.
[36] ibid., p.260.
[37] Department of Health and Community Services. (2002). "*Information gathering tools for planning and evaluation.*" Retrieved 28 May 2004, from http://www.nt.gov.au/health/healthdev/health_promotion/bushbook/volume1/info.html.

Acquaintances that were using Islamic or conventional housing finances to buy their houses were approached and asked to help and give their cooperation in filling in the questionnaires. The amended version was then asked to a different set of people to see if it was any better, namely Malaysian Muslim home owners back in Malaysia. When the fieldwork began in Malaysia, it was then realized that there were acquaintances who were actually taking out housing finance offered by their employers, better known as 'company loan/finance'. Therefore, the questionnaire was again amended and, this time, incorporated company as another choice of mortgage provider, apart from bank and government.

4.3.1.12 Sampling

In terms of sampling, there are two main categories of samples namely, probability and non-probability samples. The former ensures that samples taken are true representatives of the population as each person in the population has an equal chance of being included in the sample. The latter are used when it is difficult or inappropriate to ensure that each person in the population has an equal chance of being in the sample.

Types of probability samples are simple random sample, systematic sample, stratified random sampling and multi-stage cluster sampling. As for non-probability sampling, the types under this category for example, are purposive or convenience sampling, snowball sampling and quota sampling.[38]

The questionnaire was directed towards two sets of Muslims. One group consisted of Muslims who were currently using Islamic mortgages when buying their houses. Whilst the second group consisted of Muslims who were not using Islamic mortgages but conventional ones. This was done mainly in order to compare the attitudes and perceptions of these two groups towards Islamic mortgages.

---

[38] Bryman, A. (2004). *Social Research Methods*, Oxford Press

The sample group was chosen using the method of 'purposeful sampling' which is a type of non-probabilistic sampling. With this method, a sample was selected from the available population members specifically to meet the purpose of the research. The logic of purposeful sampling was based on a sample of information-rich cases that was studied in depth.[39] This involved using a judgement as to who should be included in the sample. 'Snowball sampling' was also used, whereby individuals initially selected suggest the names of others who might be appropriate for the sample.[40]

4.3.1.13 Questionnaire Administration

The names and addresses of Muslim home owners who use Islamic mortgages and those of conventional ones were attained from friends and family. These names and addresses were then used to send out questionnaires through the post or given personally to potential respondents by hand. Together with this questionnaire was a stamped self-addressed envelope where the respondent could return the answered questionnaire.

Questionnaires were given out to Muslim acquaintances who use Islamic housing finance as well as to those who use conventional ones when buying their houses. Snowball sampling method was used to ask these acquaintances whether they knew of anyone else who was using Islamic mortgages or using conventional ones. The questionnaires were given personally to these acquaintances for them to answer. As for those whom these acquaintances recommended and mentioned the names of, the questionnaires were passed on through them. Acquaintances of mine were also given the responsibility of giving me back all the questionnaires entrusted to them, soon after they had been completed.

---

[39] Wiersma, W. (1999). *Research Methods in Education: An Introduction*, Boston, Allyn and Bacon, p. 285.
[40] ibid., p. 287

As the questionnaires were passed on personally, this in a way gave it a personal touch. In doing so, this helped to increase the response rate compared to that if it had been sent out through the post only. The respondents were given the choice of either filling it in then and there or he/she was given a day or two before the questionnaire was collected personally from him/her. If the respondent had any queries or anything else which could not be understood, then by collecting it personally it enabled the respondent to clarify it straight away with my acquaintance and/or myself.

Three hundred and ninety questionnaires were sent out and two hundred and seven questionnaires were returned. But not all could be used for example, there are some questionnaires where, the respondents answered 'I do not know' for the question on what type of housing finance they use, from a choice of 'Islamic', 'conventional' and 'I do not know' answers.

4.3.2 Qualitative Method – Semi-structured Interviews

Interview constitutes generating conversations with people on a specific topic or range of topics and interpretations from the resultant data. It gives insights into people's experiences, opinions, values, attitudes and feelings.[41]

Like the questionnaire method, there are various advantages and disadvantages to using the interview method. Below is a list of them:

4.3.2.1 Advantages of Interviews[42]

a. Interview allows the interviewer to probe on the subject of discussion and thus produce data in greater depth and detail.
b. The interviewer is able to gain insights on the subject based on the depth of the information gathered and the wisdom of the interviewee. The

---

[41] May, T. (2001). *Social Research, Issues, Methods and Process*, Buckingham, Open University Press.
[42]Denscombe, M. (1998). *The Good Research Guide for a Small Scale Social Research Projects*, Open University Press

interviewee has the opportunity to expand their ideas, explain their views and what they regard as important.

c. Interview does not require much, just a simple piece of equipment and conversation skills which researchers already have.
d. Direct contact with the interviewee enables the interviewer to check for accuracy as the data is being collected thus ensuring data validity.
e. As the interviews are generally prearranged and scheduled at a convenient time and location, this ensures a relatively high response rate.

4.3.2.2 Disadvantages of Interviews

a. Analysis of data can be difficult and time-consuming as transcribing and coding of data that has been collected is a major task for the researcher especially because the interview method tends to produce non standard responses.
b. There is a problem of reliability as consistency and objectivity are hard to achieve. The data collected is unique to the specific context and specific individuals involved in the process of interview.
c. There is what is called an interviewer effect as the interviewee's statements can be affected by the identity of the interviewer. The data from interviews are also based on what people say and not on what they do and both are not necessarily the same.
d. The tape recorder can actually be daunting to some people and thus inhibit the interviewee which could lead the interview to become an artificial situation.
e. The costs of the interviewer's time, travel and of transcription can be relatively high especially if the interviewees are geographically widespread.

Even though there are disadvantages to using interview method, it is still used in this research simply due to the advantages of this method and because it is

seen to be one of the best methods of soliciting information on a specific topic from people with a speciality in the area of study.

4.3.2.3 Interview Design

Before the interview, preparations needed to be made. Initially, in order to help with the process of constructing the questions, variables to be studied were listed. These variables came from the research questions of a research study. They would then be translated into interview questions. The questions constructed were relevant to those to be interviewed.

The questions that were asked took into account the aims and objectives of the interview, which were to be elicited from the respondents, whether it is facts, opinion or attitudes, whether it consists of general or specific questions, and whether it be open questions, closed questions or a mixture of both. Another important aspect that was considered was the position held by those to be interviewed and the level of knowledge and experience they might have. The questions were put into subsections so as to facilitate both the interviewer and interviewee in the interview process.

4.3.2.4 Aim and Objectives

The aim of the interview was to find out the opinions and perspectives on issues pertaining to Islamic housing finance from the top managements of various banks and companies; government officials, as well as *Shari'ah* scholars who advise the banks on *fatwa* issues.

The objectives were to find out from managers information regarding the management issues of the Islamic mortgage products; product awareness and the demand for Islamic mortgage; the existence of an advisor or council of *Shari'ah* scholar in the bank; the management of collateral and non-paying clients; and re-mortgaging of an Islamic mortgage.

Among other objectives were to enquire from *Shari'ah* scholars concerning the advisors themselves; concerning the acceptability of the mortgage products from an Islamic perspective; concerning the scholars' dealings with members of the public; to seek scholars' opinion on funding issues as well as seizure of collateral in the case of non-repayment.

4.3.2.5 Type of Interviews

There are various types of interviews. Qualitative interviewing is divided into four different forms namely, structured interview which involves the use of a questionnaire instrument so that the same question is asked in the same way to each person and the interviewee has very little freedom to express his/her own opinions in his/her own way; semi-structured interview does allow the interviewer the freedom to probe beyond the answers and expand on issues raised whilst the interviewee is allowed to answer more on their own terms; unstructured interview has an open-ended character in the sense that even though the interviewer has an aim in mind, the interviewee nevertheless is given more freedom to talk about the topic; and group interview as the name suggests is an interview which involves eight to twelve individuals discussing a particular topic stated by the interviewer.[43]

For the purpose of this research, semi-structured interview was used as it gives flexibility. There was a list of questions to be covered, namely interview guide, but there was no need to follow it exactly in the way outlined on the schedule. Questions that had not been included in the guide were also asked, as ideas were attained by picking up on things that the interviewees had said during the conduct of the interviews. However, generally all of the questions were asked and similar wordings had been used from interviewee to interviewee.[44]

---

[43] May, T.(2001). *Social Research, Issues, Methods and Process*, Buckingham, Open University Press.
[44] Bryman, A. (2004). *Social Research Methods*. Oxford Press

4.3.2.6 Potential Sources of Error

There are a few potential sources of error in interview data. One of which is called a response effect which is the difference between the actual response and the true response. Actual response is the answer or information provided by the respondent, whereas the true response is the real and correct information. This normally happens when the respondents give inaccurate or incorrect information either because he does not have the necessary information to answer the question or if he is feeling uneasy about giving out the information.

In his research, in order to avoid this potential source of error, it was important to be aware if the interviewee seemed to misunderstand the question or if he/she looked uneasy with the question. When that happened then decisions had to be made on the spot as to whether or not to ask additional questions in order to probe further on the feelings and perceptions of the interviewee.[45]

There were also other potential sources of error when collecting interview data. These errors could occur if the interviewee was lacking in motivation to respond, or if he felt threatened by the interview, or if he gave a response which was deemed to be socially or professionally preferred, regardless of his or her true feeling. Again, these sources of error were hopefully avoided by making sure that there were no controversial questions, either totally or at least until a reasonable rapport had been established between the interviewer and the interviewee. Care was taken in order not to imply a preferable response. As the interview progressed, it was possible to check at different points in the interview, on the consistency of responses made by the interviewee. This was done by constructing questions which had different wordings but essentially asking for the same information.[46]

---

[45] Wiersma, W. *Research Methods in Education: An Introduction*. Boston, Allyn and Bacon, p. 188.
[46] Wiersma, W. *Research Methods in Education: An Introduction*. Boston, Allyn and Bacon.

Another possible source of error was when either or both the interviewer and the interviewee did not feel at ease during the interview, or a rapport had not been built sufficiently, or either the interviewer or the respondent had stereotyped the other party. All these could be avoided by also making sure that these potential problems or sources of error were realized and borne in mind before the start of every interview. At best, as an interviewer, steps were made to do otherwise, namely by making sure the interviewee felt at ease as much as possible during the interview, to try and build a rapport as best as possible.

The procedure used when conducting the interview is also important. The interview session held was not too long or it could cause the interviewee to become tired and bored. If this was the case, then in turn, it could lead to a possible source of error. It had been the case that in all of the interviews except for one, the interviewee did not give me any time limit as to when the interview session should be ended. However, there was a self-set time limit on how long each interview was to last, depending on the characteristics of the interviewee.

Another important matter is that there should not be anyone else present during the conduct of the interview, which was the case for all the interviews conducted. The location of the interview was also important and should be convenient and comfortable, especially for the interviewee. All of the interviews were done at the interviewees' offices and indeed fulfilled the criteria mentioned. All these help in ensuring the confidentiality and the smooth running of the interview.

4.3.2.7 Validity and Reliability in Interviews

In qualitative data, the subjectivity of the interviewee, their opinions, attitudes and perspectives contribute to a degree of bias. Therefore, invalidity would always exist to a certain degree and can only be minimized rather than abdicated altogether whilst at the same time trying to maximise the level of

validity as much as possible.[47] Greater validity in interviews can be achieved if the amount of bias is minimized. The sources of bias consist of the characteristics of the interviewer, the characteristics of the interviewee and the questions being asked.

For a successful interview, it is important to consider the characteristics of the interviewer as well. These include their attitudes, opinions and expectations. It is also important that the interviewer put aside any preconceived notions. Having them might cause the interviewer to have a tendency to seek answers that support these notions. Therefore, the interviews were conducted whilst having an open mind and by being ready to accept any answers that were given during the course of the interview.

The way the questions were asked can also be another source of bias and thus have an effect on the reliability of the interview as the interviewee could misunderstand what is being asked. The characteristics of the interviewee and the way he or she answers the questions that were put forward to him/her, can also be a source of bias, especially if understood wrongly by the interviewer rather than what the interviewee is trying to convey. It is normally the case that during the interview, if there were any answers given by the interviewee, which were not completely understood then he/she was asked further in order to clarify this.

Criteria of reliability in qualitative methodologies such as interviews differ from that of quantitative methodologies such as questionnaires. The former requires a true to life context and situation-specificity, authenticity, comprehensiveness, detail, honesty, depth of response and meaningfulness to the respondents for the methodology to be acceptable as being reliable.[48]

---

[47] Cohen, L., L. Manion, et al. (2005). *Research Methods in Education.* London, Routledge Falmer, p. 105.
[48] Cohen, L., L. Manion, et al. (2005). *Research Methods in Education.* London, Routledge Falmer.

4.3.2.8 Sampling

Sampling for qualitative and quantitative methods was approached differently. For qualitative research, rarely was a representative sample drawn from such a huge number of cases in order to be intensely studied. The sample size was also rarely determined in advance and there was very limited knowledge about the population from which the sample was taken. The ways in which the samples of people to be studied were selected were according to their relevance to the research topic rather than whether they represented the population.[49]

Qualitative researchers tend to use non-probability or non-random samples. In contrast to a quantitative researcher who uses a pre-planned approach based on mathematical theory, a qualitative researcher usually selects a sample in which the sampling elements are selected using something other than a mathematically random process. Examples of non-probability sampling techniques are convenience sampling, quota sampling, purposive sampling and snowball sampling.

There were four sets of questions for four different groups that were interviewed. The first set was for bank managers who were in charge of the daily management of the Islamic housing finance. There were five bank managers from different banks who were interviewed. The second set was for *Shari'ah* scholars who acted as advisors to the bank on issues relating to Islamic housing finance. Again five advisors were interviewed, also from different banks. The third set was for company officials who were in charge of the application process of company's employees in getting a housing loan/finance from his/her company. Five officials were chosen and interviewed from five different institutions. The final set was for government officials in charge of the housing loan/finance application process for a government officer.

---

[49] Neuman, W. L. (2005). *Social Research Methods. Qualitative and Quantitative Approaches.* Boston, Allyn & Bacon, p. 220.

4.3.2.9 *Interview Administration*

Prior to the interview, letters or emails were written or telephone calls were made either directly to the interviewees or through their secretary to make an appointment to see and interview each one of them. The names of the officials were found out from the website or by asking the receptionist as to whom to speak to concerning Islamic housing finance at the particular institution. Failing that, the names of officials in charge were retrieved directly from the personnel, by going in person to these institutions and making an appointment to see him/her thereafter.

In the letter or email, an explanation was given as to the reasons for conducting the interview, as well as what is to be achieved from it. An explanation was also given on the purpose of the study and the importance of the respondent's contribution towards the research. There were also occasions when the interviewees were informed as to how long the interview was expected to last, especially if this question was asked.

The interviewees were also informed of the subsequent use of the data and were made not to feel threatened by the interview. They were also reassured regarding the confidentiality of the information. Each interview was made to be as business-like and as efficient as possible, but nevertheless friendly. The interviewee was also allowed to ask questions, if any. The interviews were recorded using a voice recorder but with prior consent from the each respective respondent. As much as possible, the recording process was done as discretely as possible so that it did not interfere with the process of interview.

Another common rule of conducting interview is that there should not be any digressions from either the interviewer or the interviewee unless they relate directly to the subject and are part of the probing for information.[50] As much as

---

[50] Wiersma, W. (1999). Research Methods in Education: An Introduction Boston, Allyn and Bacon, p. 187.

possible, this rule was adhered to, although there were interviewees who seemed to be interested in asking questions concerning life in the United Kingdom and family questions. These questions were answered politely in order not to make the interview too formal but at the same time, still making sure that the interview reached the objectives that had been set out initially.

Each question that had been asked and responded to was also marked so as to avoid asking the questions repeatedly. Each question that was listed had indeed been asked. However, if there was any time constraint, prioritising the questions to be asked was essential and all the important ones were answered before the end of the time limit if the interviewee had set one for the interview.

At the end of the interview, the interviewee was given the chance to ask any questions he/she may have concerning the interview. After everything had been asked or the time given for the interview had ended, the interview would be ended with a note of appreciation to the interviewee for agreeing to participate in the interview, for sparing some of his valuable time for the interview and for the valuable information that he/she had given.

4.4 ANALYSIS OF DATA

Data that was attained from conducting survey and semi structured interviews was analysed. The way in which the analysis had been done is discussed in two separate sections below:

4.4.1 Analysing Questionnaire Data

The mass amount of data that was obtained from the survey was edited, or in other words checked. Editing questionnaires involves checking for *completeness* to make sure there was an answer to every question and checking that all questions were answered *accurate*ly for example not ticking in

the wrong box. All these are intended to identify and eliminate any errors that might be made by respondents. [51]

After that the data underwent a process called 'data reduction'. This process involved reducing all the data into a form suitable for analysis which consists of coding data by hand. Coding here means systematically reorganizing raw data into a format that was easy to analyse using computers. For this purpose, a coding procedure and a codebook were used. Coding procedure is simply a set of rules which states that certain numbers are assigned to variable attributes. A codebook is a document describing the coding procedure and the location of data for variables in a format that computers can read.[52] This would be most suitable when using closed ended questions.

Data from the questionnaires was then transferred onto the computer in a grid format. In the grid, each row represens a respondent, subject or case and is called data records. Each column or a set of columns represents specific variables and is called a data field. It is extremely important to have accuracy when coding data. This is because, errors made when coding or entering data into a computer would threaten the validity of measures and give misleading results and ultimately ruin a whole research project.

These numbers that represent data were then manipulated and summarized using statistics. Analysis of questionnaires involved examining patterns among replies to questions. The relationship between variables that the questions represent and the extent to which one variable was influenced by another was also explored.[53]

---

[51] Cohen, L., L. Manion, et al. (2005). *Research Methods in Education London*, Routledge Falmer, p. 265.
[52] Neuman, W. L. (2005). *Social Research Methods. Qualitative and Quantitative Approaches* Boston, Allyn & Bacon.
[53] May, T. (2001). *Social Research, Issues, Methods and Process Buckingham*, Open University Press.

There are several computer packages that can process questionnaire survey data, examine the data using a wide range of statistics and producing graphs and tables as well. One of these computer packages that is made available in the market and that was coincidentally used for this research is called SPSS. It is a comprehensive statistical package to help with the data analysis and produce tables, charts and statistics. The interpretation of these charts, tables and statistics is also done in order to have a better understanding of what all the results mean. Usually, this is a reflection of something in the real social world.[54] The analysis of the data and the interpretations they bring about are discussed in Analysis Chapter Five.

4.4.2 Analysing Interview Data

During interviews, audio recorders were used. This is because, normally we can summarize what people said during the interview, but we simply cannot rely on our recollections of conversations and it is almost impossible to remember or note down every single detail during the interview.[55] Also, all the recorded conversation of the interviews was transcribed in as much detail as possible. The way to do this is by listening to the recordings of the interviews over and over again whilst transcribing, from the beginning until the end of the tape.

What was retrieved constitutes the undigested complexity of reality.[56] It was then my task as a researcher to simplify and make sense out of that complexity. There are various ways of analysing the data. The method used for this research was to go through a few steps in the process of analysing the data. The first step was to get to know the data at hand by reading and re-reading the text and/or tape recordings. The second step was to focus on the analysis by reviewing the purpose and what needed to be found out from the analysis. Here the analysis can either be focused by question or topic; or by organizing the interviewee's answers about a case or group and then analysing it as a whole;

---

[54] Neuman, W. L. (2005). *Social Research Methods. Qualitative and Quantitative Approaches* Boston, Allyn & Bacon.
[55] Silverman, D. (2005). Doing *Qualitative Research.* Sage Publication
[56] Patton, M. Q. (2002). *Qualitative Research & Evaluation Methods.* Sage Publication

or a combination of these two approaches, analysing for example by question and group. For the purpose of this research, the last option was chosen whereby the two approaches were combined and then analysis done on them.

The third step was to categorize the information, referred to as coding the data whereby similar themes or patterns of ideas are identified and then organized into the same categories. This step can be done in either of two methods, either by identifying the themes before data was categorized and then search the data for text relating to these topics, or by finding themes that recur in the data and categories are then listed down. These ways can be combined whereby some categories are initially listed down and later on, other new categories can be added on to this list. For the purpose of this research, the first method was used.

The fourth step was to identify patterns and connections within and between categories, for example, finding any similarities or differences in the answers given, or any relationship that might exist between a theme and another, identifying the number of times that different interviewees mentioned a particular theme which could signify the importance of it to the interviewees, and whether any of the categories could be combined in order to build up a larger idea from a number of specific categories. The fifth and most important step was to bring all the themes and connections together and interpret them in order to give meaning and significance to the analysis of the data.

In the process of analysing my data, firstly the data were organized according to the interview questions and secondly by organising the interviewee's answers according to groups. The answers to each of the interview questions addressed to the interviewees were filled in according to the transcript. This was done because the answers to these questions were initially rather scattered throughout the transcript. Next, from the data that was organized according to questions and groups, main themes were identified by going through the interviewee's responses to each question and getting an understanding of what

they all meant. Any related themes were then combined into categories. Broad themes were developed in order to reflect these meanings. From the transcripts of all the interviews, it can be seen that there were a lot of similarities as well as differences in the response given by some of the interviewees. Those responses which were similar were classified under the same theme whilst those which were different were under different main themes.

Finally, after having identified responses that fall within the different main themes, these themes and responses were integrated to form a report of the analysis. What is important is how this discovery of information can be interpreted even further in order to be of significance and bring value to the research.

4.5 LIMITATIONS AND DIFFICULTIES

Like any other research projects, this research is no different in that it has its limitations. They were:

a. The ability of the respondents to comprehend the questions asked. The respondent's comprehension of the questions in the questionnaire could be at various level, whether low or high. There is a limitation in knowing whether the respondent has been diligent enough to ask, if in doubt, via personal email which was given in the introduction of the questionnaire for correspondence purposes or if the respondent had any questions to ask.
b. The diligence of the respondents in answering the questionnaire from the beginning until the end, honestly and earnestly, instead of simply for the sake of putting down an answer.
c. The data collection method was limited to survey and semi-structured interview without including other methods, for example focus group.
d. It would have been more beneficial if more respondents were surveyed, more *Shari'ah* scholars, bank managers and company

officials were interviewed in order to further enrich the findings. However, due to a limitation of time, this was not possible.

In addition to the limitations mentioned above, there were a few difficulties that were encountered during the course of this research. These include:

a. Getting More Respondents

There was difficulty in getting respondents to fill in the questionnaire. This was possibly because the questionnaire was rather long and respondents might have been put off by that. It would have been desirable if more questionnaires were filled in, but there was a time constraint. It was not possible to stay in Malaysia for longer than three months and therefore, it had also not been possible to get more respondents. However, it was still pleasing to have two thirds of the questionnaires that had been sent out, returned.

b. Analysing

There was also difficulty in analysing respondents with more than one property. This would make the analysis rather complicated as there were respondents who did not indicate which answer was for which property. Nevertheless, there were only a small number of respondents who had more than one property.

Sometimes, with even one property, there were people who did not even fill in the questionnaire properly, for example, instead of noting down the ranking numbers to the answers given, they only ticked the appropriate answers. The person who was held in charge of getting back the questionnaires did not seem to notice this slight mistake when the questionnaires were given back to them so by the time the questionnaires were finally attained, it was difficult to trace the respondents as they were not asked to put down their names for anonymity reasons.

c. Transcribing

There was also difficulty in transcribing a few parts of some of the cassettes, partly because the voice of the interviewee did not seem clear enough and partly because of bad recording where a lot of background noise can be heard. Nevertheless, because the recorded interviews were transcribed soon after the interviews, it was possible to remember some of the missing statements from the interviewees.

4.6 CONCLUSION

This chapter gives an overview of the methodology and methods that are available in research and those which were used in this research. The aim and objectives that the survey and interview methods were trying to reach were also explained here. Also discussed was the justification for combining the quantitative and qualitative methods of data collection. The way in which each method was administered and how the data was analysed were also discussed. Finally, like any other research project, there were limitations and difficulties encountered throughout, which were also noted in this chapter so as to give a true picture that all was not plain sailing.

Chapter 5: SURVEY ANALYSIS AND FINDINGS

5.1 INTRODUCTION

This chapter discusses the results of the data analysis on the survey that has been carried out. These results were used to answer the research questions that were set out beforehand. There were 207 questionnaires that were returned but 9 were rejected, thus leaving a total 198 questionnaires that were analysed on the SPSS.

5.2 DATA FILE SCREENING AND CLEANING PROCESS

Before data is analysed, it needs to be checked for any form of errors. To check for errors, I firstly used the Frequencies analysis for each of the variables. It is important to check for any values which fall outside the range of possible values for a variable. This is because any values outside this range would have an effect on any analysis done on the data.[1]

The second step is to find where the error is in the data file. Thirdly, the error in the data file has to be corrected. In order to correct the error it is necessary to go back to the questionnaires by checking the ID number. The correct value which should have been entered for that person is then checked. After that, the data set is then corrected accordingly. Fourthly, the Frequencies analysis is repeated in order to double-check and make sure that any noticeable errors have been fully eliminated.

After the data file has been 'cleaned', the variables can then be explored and specific statistical techniques can be conducted on them.

5.3 PRELIMINARY DATA ANALYSIS

In deciding which statistical techniques to use to analyse the data, I would firstly have to determine what I have and what I want to do with it. Julie

---

[1] Pallant, J. (2004). *SPSS Survival Manual : A Step by Step Guide to Data Analysis Using SPSS version 12,* New York. Open University Press, p.41.

Pallant in her book[2] has set out a number of steps to help out with the decision-making process of choosing the statistical techniques.

Step 1: List out all the questions that need to be answered from the research
Step 2: Find the questionnaire items and scales that will be used to address these questions. This is very important to help determine which statistical techniques are suitable for this purpose.
Step 3: Identify the nature of each of the variables and the relationship between these variables.
Step 4: Find out what needs to be considered, whether it is the *relationship* between two variables or is it the *difference* between the two groups of subjects.
Step 5: Decide which statistical technique is appropriate.
Step 6: When all the information needed has been collected, they would be analysed and interpretations made from the results of the analysis.

5.4 LIST OF QUESTIONS

Step 1: Listing out all the questions that need to be answered from the research.
The survey was conducted in order to help answer the questions that had been set out. Below is the list of questions:

- To find out whether there is a significant influence of faith for Muslims in using Islamic housing finance with prior knowledge that it is *haram* to be involved with a conventional facility.
- To find out other factors that have a significant influence on Muslims using or not using the Islamic housing finance.
- To find out whether a respondent who uses Islamic housing finance compares the differences between the Islamic and the conventional facility. Also to find out whether a respondent who uses conventional housing finance looks at the differences

[2] Pallant, J. (2004). *SPSS Survival Manual : A Step by Step Guide to Data Analysis Using SPSS version 12,* New York. Open University Press, p. 98 - 104.

between the Islamic and the conventional facility. The outcome of both of the above was then compared.

- To find out what are the most important criteria to respondents when making comparisons between the two types of housing finance.
- To find out the respondent's perception of the Islamic housing finance as an outcome of comparing between the Islamic and the conventional housing finance. From this, to look into whether the respondent's perception has any effect on whether they take up the Islamic housing finance or not.
- To find out whether there are any differences between respondents with different mortgage providers in terms of whether they compare between the Islamic and the conventional housing finance or not.
- To find out the perception of those using Islamic housing finance on the variety of products available to them and compare that to the perception of those using conventional housing finance.
- To find out the means of advertisement which are preferred by respondents and thus would be more effective in giving the awareness concerning which products the mortgage providers have on offer, in particular, the Islamic housing finance.
- To find out whether the staff were helpful to the respondents in providing information on the housing finance offered by their mortgage provider. To also find out whether there are any differences between the answers to this question by those using Islamic and those using conventional housing finance. The outcome of both the results is compared between different mortgage providers.
- To find out the current policies of mortgage providers that have any significant influence in creating confidence and encouraging members of the public to use Islamic housing finance.
- To find out whether the respondents have other sources apart from the mortgage provider in order to get financial assistance, for

example if he/she is required to provide down payment for the property.

- To find out the perception of the respondent towards housing mortgage insurance and whether the respondent has the awareness to take it up. To find out whether there is any relationship between those taking it up or not and which mortgage provider he/she is with. To also find out whether there is any relationship between those taking it up or not and the type of housing finance.
- To find out what respondents mostly prefer in terms of repayment period. Also to find out whether there exists any difference in preference between those taking up the Islamic and the conventional facility.
- To find out whether there is a relationship between the monthly repayment amount a respondent has to pay and his/her monthly income and the type of housing finance he/she is taking up.
- To find out whether there is any difference in terms of loyalty to the mortgage provider between Islamic and that of the conventional housing finance. Loyalty is measured here by looking at the length of time a person has been making the monthly repayments to his/her mortgage provider.
- To find out whether there are any defaulters amongst those already using Islamic housing finance and compare this to the number of defaulters from the conventional facility. The major factors that influence a mortgagee to default are also found out.
- To find out what the average length of time is for a respondent to be in a state of default. This would then be related to the reaction of the respondent's mortgage provider in dealing with cases of non-payment.
- To find out whether those experiencing default in payments, take up housing mortgage insurance or not.
- To find out what the important issues are to a respondent when making a decision to buy a certain property. Are there any factors

concerning the property which could have a bearing on the type of housing finance taken up.

- To find out what the general perception of respondents is regarding the value of his/her property after it has been bought. Also to find out whether there are any other motives for buying a property, other than to stay in it, for example if the reason for not moving to the new property is because the respondent is renting out the house to earn extra income.
- To find out whether the respondents who are taking out Islamic housing finance are generally pleased with it. If this is not the case, then to find out what the most likely reasons for this are.
- To make a comparison between those who are taking out Islamic housing finance and are generally pleased with it and those who are not using Islamic housing finance and are pleased with it.
- To find out what the perceptions of Muslims are on Islamic housing finance and how they perceive the way to improve on the product.
- To find out what the mortgage providers' policies are that can be improved on in order to influence people to use Islamic housing finance.
- To find out whether respondents who are not using Islamic housing finance are aware about the prohibition of *riba* or otherwise.
- To find out whether there is any relationship between respondent's income and those using Islamic housing finance. Also to find out whether the respondents with high income have a higher awareness about using Islamic housing finance than those on low income.
- To find out whether there is a relationship between a respondent who uses Islamic housing finance and any particular age category, for example are younger people more inclined to use Islamic housing finance compared to the older generation?

5.5 STATISTICAL TESTS CONDUCTED

Step 2: Finding the questionnaire items and scales that will be used to address these questions. This is very important to help determine which statistical techniques are suitable for this purpose.

Step 3: Identify the nature of each of the variables and the relationship between these variables. The information for this does not come from the data but rather from the understanding of the topic area, for example, it is important to be clear about the relationship between the variables and whether it is doing the influencing (independent) or it is the one being influenced (dependent) as this will help with some of the analysis.

Other important information is to know the level of measurement for each of the variables, whether it be categorical (nominal), ordinal (ranking) or continuous. This is because a variable which is categorical for example, would have different statistics applied to it as compared to a continuous one.

Step 4: Almost all of the questions from the list of questions given above have mentioned whether we are considering the relationship between two variables or whether we are comparing between two groups.

Step 5: In making a decision on whether to use a parametric or a non-parametric statistical technique, I need to make sure that the data is parametric. For the data to be parametric, four basic assumptions must be fulfilled, namely that the data is from one or more *normally distributed* populations; that the *variances* should be *homogenous*; the data should be an *interval data* which means that the distance between all parts of the scale are equal; and that the data from a respondent is *independent* from another. If these assumptions are not fulfilled, then using a parametric test on a data which is not parametric would likely cause the results of the test to be inaccurate. Thus, if these assumptions are not met, then a non-parametric technique would have to be used instead.

Step 6: When all the necessary information has been collected, only then would I be able to consider the options available to me on which statistical techniques to use.

5.6 SURVEY FINDINGS

The survey was conducted in order to find out more about the perception and behaviour of the consumers of housing finance. The information gathered very much relates to the questions asked and how the data is utilised. There are many important aspects of the usage of housing finance which can be retrieved from the data gathered. Below are some of those important aspects:

5.7 ISSUES ON USAGE AND NON-USAGE OF ISLAMIC HOUSING FINANCE

5.7.1 Influence of Faith in Using Islamic Housing Finance

One of the important facts to find out is whether faith has any influence on whether Muslims use Islamic housing finance or not. This is especially so, when given the fact that some of the respondents have prior knowledge that it is *haram* to be involved with conventional ones.

Table 5.1 cross tabulates between types of housing finance and whether they are aware of the Islamic ruling and prohibition of *riba*. Note that Row % relates to the percentage of the data on the horizontal axis, whereas the Column % percentage refers to percentage of the data on the vertical axis.

Table 5.1: Islamic ruling awareness amongst Islamic mortgage customers

			Islamic ruling awareness			Row Total
			Yes	No	I am not sure	
Type	Islamic	Count	103	4	4	111
		Row %	92.8%	3.6%	3.6%	100.0%
		Column %	57.2%	100.0%	33.3%	56.6%
	Conventional	Count	68	0	7	75
		Row %	90.7%	.0%	9.3%	100.0%
		Column %	37.8%	.0%	58.3%	38.3%
	I do not know	Count	9	0	1	10
		Row %	90.0%	.0%	10.0%	100.0%
		Column %	5.0%	.0%	8.3%	5.1%
Column Total		Count	180	4	12	196
		Row %	91.8%	2.0%	6.1%	100.0%
		Column %	100.0%	100.0%	100.0%	100.0%

From table 5.1, it can be said that a majority of respondents, namely around 93%, who are using Islamic housing finance are actually aware of the ruling, that *riba* is *haram*. However, around 4% of them actually do not know or are not sure about the ruling. Therefore it can be said that a majority of Muslims who use Islamic housing mortgage, are using the product with the knowledge of the fact that Islam prohibits *riba*. Thus, the influence of faith could well be the factor behind the usage of the Islamic product.

As for those who use conventional housing finance, again a majority, namely around 90.7% of them actually know of the Islamic ruling against riba. It can also be said from this that those using conventional products are using it despite the fact that it is *haram* to be involved in *riba*. Here, faith does not have any influence in deterring them from using conventional products. It is important to find out the factors that influence these respondents in using conventional housing finance instead of the Islamic facilities, in order to provide suggestions to help boost the market for Islamic housing finance. This will be discussed later on in this chapter.

Table 5.2 Conforms with faith

Preference ranking		Frequency	Percent[3]	Valid Percent[4]
Valid	1	87	44.2	87.9
	2	9	4.6	9.1
	3	2	1.0	2.0
	4	1	.5	1.0
Total		99	50.3	100.0

From the finding mentioned in the section above, namely '*that a majority of Muslims who use Islamic housing mortgage, are using the product with the knowledge of the fact that Islam prohibits riba'* it can be verified from Table 5.2 which identifies that respondents' primary reason for using Islamic housing finance is that it conforms with faith.

This table depicts those who are using Islamic housing finance and chose *'conforms with my faith of abstaining from riba'* as the answer to the question of *'What is the reason for using Islamic mortgage'*. Number 1 to 4 is the ranking of preference, that is, number 1 being the most important reason for using Islamic mortgage and number 2 the next most important reason, so on and so forth, up to the least important. It can be seen that a majority of them, that is around 88%, use the product primarily due to the reason that it *'conforms with faith'*. Therefore, it can be said that religion is an important issue to these respondents.

5.7.2 Other Reasons for Choosing Islamic Housing Finance

There are other reasons why people choose to use Islamic housing finance. This section tries to identify other factors that have a significant influence on whether Muslims use Islamic housing finance or not. Tables 5.3 – 5.5 lay out the total number of people as well as the ranking preference of the reasons given other that the factor of faith, in the question of *'what is the reason for using Islamic mortgage'* which are: *'The fixed monthly repayment enables me*

[3] Percent in the table signifies the percentage calculated from the total respondents from the survey.
[4] Valid percent is the percentage calculated from the number of respondents who chose the answer.

to manage my cash flow better'; 'I like the rates that are being charged by my mortgage provider'; 'recommended by friends and family'.

Table 5.3 Ability to manage cash flow better

Preference ranking		Frequency	Percent	Valid Percent
Valid	1	18	9.1	23.1
	2	51	25.9	65.4
	3	7	3.6	9.0
	4	2	1.0	2.6
Total		78	39.6	100.0

Table 5.4 Good rates being charged

Preference ranking		Frequency	Percent	Valid Percent
Valid	1	5	2.5	8.5
	2	10	5.1	16.9
	3	35	17.8	59.3
	4	9	4.6	15.3
Total		59	29.9	100.0

Table 5.5 Recommended by friends and family

Preference ranking		Frequency	Percent	Valid Percent
Valid	1	2	1.0	4.2
	2	2	1.0	4.2
	3	10	5.1	20.8
	4	34	17.3	70.8
Total		48	24.4	100.0

From the survey and from looking at Tables 5.3 – 5.5 above, it can be said that the second most important reason, after the faith factor, chosen by respondents who use Islamic housing finance is the fact that Islamic housing finance *'enables me to manage cash flow better'.* What this means is that, unlike the United Kingdom, in Malaysia, only an Islamic housing finance product offers its customers fixed rates, whereas conventional ones only offer variable rates. Thus, with fixed rates, it is understandable why customers of Islamic housing finance find that using this product enables them to manage their cash flow better.

The third most important reason chosen by respondents is 'good *rates being charged'* by Islamic housing finance. Providers of Islamic housing finance products do try to be competitive in their offering of products. But only an average number of respondents think so, as can be seen from Table 5.4 whereby only around 8% of respondents put this down as ranking 1, and around 17% gave a ranking of 2, whilst a majority of those who choose this reason, gave a ranking of 3.

Most of those who chose the reason of *'recommended by friends and family'* state this as the fourth most important reason for choosing Islamic housing finance. Most respondents, around 71% put this reason as their fourth one, which could well mean that to a certain extent, they succumb to social and peer pressure to conform to *Shari'ah.* This means that if many of their friends and family take up Islamic housing finance and recommend this to the respondents, then they somehow feel compelled to give in to this form of social pressure. Otherwise, the respondent may feel socially outcast and seemingly un-Islamic.

Very few, namely two of the respondents have put down *'an instrument made available by employer'*, meaning that they took up Islamic housing finance because of the fact that it is a facility offered by their employer and thus it would seem to be a waste if the employees do not take the facility up. It is normally the case that the rates offered by companies and the government are lower than the ones offered by banks. Also, one of the respondents have put down *'able to get full financing'* in the '*other reasons (please specify)'* category.

5.7.3 The Reasons why Muslims are not using Islamic Housing Finance

This survey also attempts to find out the reasons behind the non-usage of Islamic housing finance amongst Muslims themselves. Tables 5.6 – 5.8 identify the reasons why Muslims are not using Islamic housing finance.

Table 5.6 Expensive monthly repayments

Preference ranking		Frequency	Percent	Valid Percent
Valid	1	32	16.2	76.2
	2	5	2.5	11.9
	3	5	2.5	11.9
Total		42	21.3	100.0

Table 5.7 Lack of product variety

Preference ranking		Frequency	Percent	Valid Percent
Valid	1	18	9.1	54.5
	2	6	3.0	18.2
	3	8	4.1	24.2
	4	1	.5	3.0
Total		33	16.8	100.0

Table 5.8 Not much flexibility

Preference ranking		Frequency	Percent	Valid Percent
Valid	1	13	6.6	40.6
	2	12	6.1	37.5
	3	7	3.6	21.9
Total		32	16.2	100.0

Table 5.6 shows that many of the respondents, namely around 76%, chose *'expensive monthly repayments'* as the most important reason for not using Islamic housing finance and instead use conventional housing finance. Therefore, it can be suggested that Islamic housing finance has not fully succeeded in making the product seem competitive against its rival which is conventional housing finance. The providers of Islamic housing finance seemed to rely on faith factor to attract customers as stated in Section 5.7.1. This is further collaborated by the fact that a great majority of those using conventional housing finance do know about the prohibition of *riba* (Table 5.1) and yet continue to use the product.

Most of those who chose the reason *'lack of product variety'* rank this reason as number one and an almost equal number of respondents who chose the

reason of *'not much flexibility'*, made it their primary or secondary reason for not using Islamic housing finance. It can be suggested from these two choices of reasons that there is a possibility that the product is not very well developed, thus making it harder to provide a variety in order to capture a niche in the market.

Other reasons which a small percentage of respondents have also given in the *'other reasons (please specify)'* category is *'Islamic mortgage is not being provided', 'no reason', 'recommended by friend'* and *'Islamic mortgage is not suitable for me'.* It is interesting to note from this that there is a possibility that people do not have access to Islamic housing finance, most probably because their employer does not offer the product to them and to take up Islamic housing finance from banks would prove to be more costly to them.

5.8 ISSUES ON COMPARISON OF HOUSING FINANCES

5.8.1Comparison between Opposing Types of Housing Finance

Amongst other information that was gathered is whether respondents compare the Islamic finance modes with conventional modes of housing finance. Comparison is also made between the Islamic and conventional housing finance users who do compare the two products when making a decision on which of the two products to be used.

Table 5.9 Compare

		Frequency	Percent	Valid Percent
Valid	Yes	102	51.8	53.4
	No	89	45.2	46.6
Total		191	97.0	100.0

Table 5.9 above shows the number of people who compare the Islamic housing finance with that of the conventional mode. It can be said that there are more people who compare between the two facilities than those who do not.

Table 5.10 Comparison between different types of mortgages

			Compare		Row Total
			Yes	No	
Type	Islamic	Count	63	43	106
		Row %	59.4%	40.6%	100.0%
		Column %	61.8%	48.3%	55.5%
	Conventional	Count	37	38	75
		Row %	49.3%	50.7%	100.0%
		Column %	36.3%	42.7%	39.3%
	I do not know	Count	2	8	10
		Row %	20.0%	80.0%	100.0%
		Column %	2.0%	9.0%	5.2%
Column Total		Count	102	89	191
		Row %	53.4%	46.6%	100.0%
		Column %	100.0%	100.0%	100.0%

Table 5.10 breaks down further the people who do compare to find out how many of them are currently using Islamic housing finance as well as conventional. This is done by cross tabulating between the type of housing finance currently being used and whether respondents compare the two facilities or not. From the table it can be said that a greater number of respondents who take out Islamic housing finance do make a comparison between the Islamic and the conventional housing finance, whereas a slightly higher number of respondents who take out conventional housing finance do not compare between the two. Out of the 10 people who do not know what type of housing finance they have, most of them do not compare between the Islamic and conventional facilities anyway.

Therefore, it can be suggested that those who take up Islamic housing finance, insist on taking up this facility even after the results from the comparison between the two products might prove to be non-favourable. On the other hand, it can be suggested that those who take up Islamic housing finance even though they do not compare, might have taken it up purely due to the reason of faith.

As for those who take up the conventional housing finance after comparing between the two facilities, it can be suggested that they take it up as a result

of that comparison, whereby the conventional housing finance seemed better to them from different aspects compared to the Islamic housing finance. Whereas if those who do not compare still take up the conventional housing finance, then this could suggest that they do not care about the faith reason or any other criterion for that matter.

5.8.2 Most Important Criteria When Making Comparisons

This section discusses what the important criteria are to the respondents who do compare between the two opposing facilities.

Table 5.11 Monthly repayments amount

Preference ranking		Frequency	Percent	Valid Percent
Valid	1	52	26.4	98.1
	2	1	.5	1.9
Total		53	26.9	100.0

Table 5.12 Term of monthly repayment

Preference ranking		Frequency	Percent	Valid Percent
Valid	1	52	26.4	92.9
	2	3	1.5	5.4
	3	1	.5	1.8
Total		56	28.4	100.0

Table 5.13 Repayment period

Preference ranking		Frequency	Percent	Valid Percent
Valid	1	33	16.8	86.8
	2	2	1.0	5.3
	3	2	1.0	5.3
	5	1	.5	2.6
Total		38	19.3	100.0

Tables 5.11 – 5.13 show the three most important comparison criterions resulting from the survey. It can be said that the criterion which are important to the respondents who do compare between the two facilities, are mainly the

monthly repayments amount, *term of monthly repayment* and *repayment period*. Other criterion which are less important are *speed in processing the application*, followed by the *requirements set by mortgage provider*, the *quality of customer services provided* and lastly the *terms set by mortgage provider*.

Note here that, *monthly repayments amount* is the amount a respondent has to pay every month, whereas *term of monthly repayment* is how the monthly repayment amount is set out for example, whether it be fixed or variable throughout the period of repayment. Repayment period is how long the respondents have to pay to their mortgage providers for the property they have bought, with the minimum and maximum number of years normally set by the mortgage providers.

5.8.3 Perception of the Islamic and Conventional Housing Finance

This section discusses the perception of respondents of the Islamic housing finance as an outcome of comparing between the Islamic and the conventional housing finance in terms of monthly repayment. The question asked in the questionnaire is *'did you find the Islamic housing mortgage product cheaper or more expensive than the conventional one in terms of monthly repayment?'* A cross tabulation between the response to this question and the type of housing finance taken up is also done in order to see the effect of this perception on whether to take up the Islamic facility or otherwise.

Table 5.14 Islamic housing finance cheaper or more expensive

			Cheaper/Expensive				
			Islamic cheaper	Islamic more expensive	Islamic mortgage is as cheap/expensive	I am not sure	Row Total
Type	Islamic	Count	17	26	13	15	71
		Row %	23.9%	36.6%	18.3%	21.1%	100.0%
		Column %	85.0%	45.6%	92.9%	68.2%	62.8%
	Conventional	Count	2	30	1	7	40
		Row %	5.0%	75.0%	2.5%	17.5%	100.0%
		Column %	10.0%	52.6%	7.1%	31.8%	35.4%
	I do not know	Count	1	1	0	0	2
		Row %	50.0%	50.0%	.0%	.0%	100.0%
		Column %	5.0%	1.8%	.0%	.0%	1.8%
Column Total		Count	20	57	14	22	113
		Row %	17.7%	50.4%	12.4%	19.5%	100.0%
		Column %	100.0%	100.0%	100.0%	100.0%	100.0%

Table 5.14 above suggests that almost half of the people who compare the two facilities find Islamic housing finance more expensive than the conventional facilities. If this number is broken down further, it can be seen that a higher percentage of respondents using Islamic housing finance find the Islamic facilities more expensive compared to those in the other category (*'Islamic cheaper', 'Islamic mortgage same'* and *'not sure'*). For this type of respondent, it can be said that even though they perceive the Islamic housing finance more expensive, they chose to use the facility possibly due to reasons other than price. Nevertheless, there are a number of respondents who find the Islamic housing finance cheaper than the conventional facilities. This might suggest that one of the reasons that these people use Islamic housing finance could be because they perceive the Islamic facility to be cheaper.

In any case, the difference in the number of respondents in four categories of perception (*cheaper, more expensive, the same* and *not sure*) for those using Islamic facilities is not so distinct between each of the categories as compared to those using conventional housing finance. As seen in Table

5.14, most of those currently using conventional housing finance perceive the Islamic facilities to be more expensive than the conventional facilities. Therefore, from this it can be said that one of the reasons why most of those who use conventional housing finance is possibly due to their perception of the Islamic housing finance being more expensive than the conventional housing finance.

The question of people's perception of whether Islamic housing finance is more expensive or otherwise when compared with the conventional facilities, and whether this perception corresponds to reality will be looked into in the chapter of analysis and the results of the semi-structured interview.

5.8.4 Comparison between the Different Mortgage Providers

This section looks into whether respondents with different mortgage providers compare the Islamic housing finance with conventional housing finance or not.

Table 5.15 Attitude of those with different mortgage providers

			Compare		Row Total
			Yes	No	
Mortgage provider	Bank	Count	63	32	95
		Row %	66.3%	33.7%	100.0%
		Column %	61.8%	36.0%	49.7%
	Government	Count	25	35	60
		Row %	41.7%	58.3%	100.0%
		Column %	24.5%	39.3%	31.4%
	Company	Count	14	22	36
		Row %	38.9%	61.1%	100.0%
		Column %	13.7%	24.7%	18.8%
Column Total		Count	102	89	191
		Row %	53.4%	46.6%	100.0%
		Column %	100.0%	100.0%	100.0%

Table 5.15 is a cross tabulation of various mortgage providers and whether they compare or not. From this, it can be seen that respondents who take out their housing finance with a bank are most likely to compare between the

Islamic housing finance and that of the conventional. Whilst those taking out housing finance with the Government or their Companies do compare. It seems that there are more people who do not compare than those who do. This is very much expected because there is no difference between the Islamic and conventional housing finance, in terms of the rates charged by the Government as well as the Companies. The Islamic housing finance is normally offered at the same rate as that of the conventional housing finance.

There might be a difference in the terms and conditions set by different mortgage providers for the two opposing types of mortgages, nevertheless the difference is very slight. Again, this will be discussed further in the chapter of analysis and results of the semi structured interview.

5.8.5 Perception of the Variety of Products Available

This section discusses the perception of respondents on the variety of products available to those using Islamic housing finance and that of the conventional facilities users.

Table 5.16 The variety made available to different types of mortgages

			Variety				Row Total
			Wide variety	Sufficient variety	Lack of variety	I do not know	
Type	Islamic	Count	17	37	24	24	102
		Row %	16.7%	36.3%	23.5%	23.5%	100.0%
		Column %	65.4%	50.0%	50.0%	64.9%	55.1%
	Conventional	Count	8	31	22	12	73
		Row %	11.0%	42.5%	30.1%	16.4%	100.0%
		Column %	30.8%	41.9%	45.8%	32.4%	39.5%
	I do not know	Count	1	6	2	1	10
		Row %	10.0%	60.0%	20.0%	10.0%	100.0%
		Column %	3.8%	8.1%	4.2%	2.7%	5.4%
Column Total		Count	26	74	48	37	185
		Row %	14.1%	40.0%	25.9%	20.0%	100.0%
		Column %	100.0%	100.0%	100.0%	100.0%	100.0%

Table 5.16 is a cross tabulation between the type of mortgages they are currently using and the perception of respondents on the variety made

available to them. It can be seen that out of the four categories, the highest number of respondents using Islamic housing finance are in the *'Sufficient variety'*. There are the same number of respondents who felt that there is a lack of variety in the Islamic mortgage product as those who do not have any knowledge on this. The least number of respondents felt that there is a wide variety of this product.

When the results of the Islamic facilities were compared to that of the conventional housing finance, most of the respondents, like those using the Islamic housing finance also felt that there was a sufficient variety of products in the conventional sector. Like the Islamic housing finance too, the least number of respondents felt that there was a wide variety of products being offered to them. Surprisingly, a high number of respondents using the conventional facilities perceived that there was lack of variety made available to them.

Generally, there seemed to be no real difference in perception between the Islamic and conventional mortgage product users.

Table 5.17 The variety made available by different mortgage providers

			Variety				Row Total
			Wide variety	Sufficient variety	Lack of variety	I do not know	
Mortgage provider	Bank	Count	15	34	29	14	92
		Row %	16.3%	37.0%	31.5%	15.2%	100.0%
		Column %	57.7%	45.9%	60.4%	37.8%	49.7%
	Government	Count	8	21	11	17	57
		Row %	14.0%	36.8%	19.3%	29.8%	100.0%
		Column %	30.8%	28.4%	22.9%	45.9%	30.8%
	Company	Count	3	19	8	6	36
		Row %	8.3%	52.8%	22.2%	16.7%	100.0%
		Column %	11.5%	25.7%	16.7%	16.2%	19.5%
Column Total		Count	26	74	48	37	185
		Row %	14.1%	40.0%	25.9%	20.0%	100.0%
		Column %	100.0%	100.0%	100.0%	100.0%	100.0%

Table 5.17 above is a cross tabulation of the respondents' current mortgage providers and the variety of products being offered to them. It is interesting to note that there are a large number of people whose current mortgage providers are banks, namely around 60%, and who felt that there is a lack of variety in the products being offered. Nevertheless, this number is almost the same as those who felt that there is a wide variety of products being offered by their own bank.

With the other two mortgage providers, namely the Government and Companies, most of their users found that a sufficient variety of products are being offered to them. It is also interesting to note that with the Government as mortgage provider, there are a high number of respondents who do not know about the variety of products being offered.

5.9 ISSUES ON ATTAINMENT AND PROVISION OF INFORMATION

5.9.1 Means of Attaining Information about Different Housing Finance

This section discusses the means of advertisement preferred by respondents. This is particularly important for the Islamic sector, in order to be more effective in creating awareness as well as disseminating information on different products offered by different mortgage providers.

Table 5.18 Mass media

Preference ranking		Frequency	Percent	Valid Percent
Valid	1	62	31.5	47.0
	2	25	12.7	18.9
	3	20	10.2	15.2
	4	22	11.2	16.7
	5	3	1.5	2.3
Total		132	67.0	100.0

Table 5.19 Materials produced by mortgage providers

Preference ranking		Frequency	Percent	Valid Percent
Valid	1	61	31.0	44.5
	2	39	19.8	28.5
	3	21	10.7	15.3
	4	13	6.6	9.5
	5	3	1.5	2.2
Total		137	69.5	100.0

Table 5.20 Visit to the mortgage provider

Preference ranking		Frequency	Percent	Valid Percent
Valid	1	37	18.8	30.1
	2	26	13.2	21.1
	3	27	13.7	22.0
	4	17	8.6	13.8
	5	16	8.1	13.0
Total		123	62.4	100.0

Table 5.21 Recommendation from family and friends

Preference ranking		Frequency	Percent	Valid Percent
Valid	1	30	15.2	26.5
	2	21	10.7	18.6
	3	19	9.6	16.8
	4	15	7.6	13.3
	5	28	14.2	24.8
Total		113	57.4	100.0

From Tables 5.18 – 5.21 above, it can be suggested that around 67% - 70% of respondents received information concerning housing finance mainly from the mass media and materials produced by the mortgage providers. Around 62% of them also preferred to pay a visit to the mortgage provider and around 57% listened to recommendations from family and friends in order to find out more about certain housing finance.

Interestingly, there are respondents who preferred to get information regarding the housing finance products on offer through the internet. There are people who added to the list of ways of getting information for example, by calling up the mortgage provider; from property exhibition and also developers helping to promote on behalf of the mortgage providers. This is done by making it compulsory for house buyers to choose from a list of banks given to them by their developers.

5.9.2 How Informative were the Staff

It is important to find out whether the staff of different mortgage providers were helpful in providing information on the housing finance offered by them. In the questionnaire the respondents were asked *'were the staff who dealt with your mortgage informative in answering any questions on the mortgage product that you might have had?'* It is also important to find out whether there is any difference between the answer given to this question by those using Islamic facilities and those using conventional facilities.

Therefore, Table 5.22 is a cross tabulation table of the different mortgage providers against the perception of respondents with regards to the information supplied by their respective staff members. Table 5.23 is a cross tabulation of the type of housing finance against the respondents' perception on whether the staff were informative enough.

Table 5.22 Staff of different mortgage providers informative or not

			Staff informative			
			Enough	Insufficient	No questions	Row Total
Mortgage provider	Bank	Count	69	22	6	97
		Row %	71.1%	22.7%	6.2%	100.0%
		Column %	54.3%	52.4%	28.6%	51.1%
	Government	Count	36	10	10	56
		Row %	64.3%	17.9%	17.9%	100.0%
		Column %	28.3%	23.8%	47.6%	29.5%
	Company	Count	22	10	5	37
		Row %	59.5%	27.0%	13.5%	100.0%
		Colum %	17.3%	23.8%	23.8%	19.5%
Column Total		Count	127	42	21	190
		Row %	66.8%	22.1%	11.1%	100.0%
		Column %	100.0%	100.0%	100.0%	100.0%

Comparison between the mortgage providers in Table 5.22 seems to suggest that most of the respondents are happy with the information given by their mortgage providers. Nevertheless, it is worth noting that a rather large number of respondents, whose mortgage provider is a bank or a company, found that its staff had not provided them enough information regarding the housing finance product. In contrast, not many of the respondents who had taken out housing finance with the Government found that the information provided is insufficient. Overall, there is not much difference between mortgage providers in terms of their clients' perception on the amount of information they are receiving from them.

In summary, even though there are many respondents who find the information supplied by the staff of their mortgage providers sufficient, there are still a rather large number of people who felt that information is insufficient. Therefore, it can be suggested from this, that all the mortgage providers should be made aware of the respondents' perception on this. Improvements should also be made in order to improve on the amount of information given by their staff to the clients.

Table 5.23 Different types of mortgages and the information supplied

			Staff informative			
			Enough	Insufficient	No questions	Row Total
Type	Islamic	Count	64	25	16	105
		Row %	61.0%	23.8%	15.2%	100.0%
		Column %	50.4%	59.5%	76.2%	55.3%
	Conventional	Count	57	14	4	75
		Row %	76.0%	18.7%	5.3%	100.0%
		Column %	44.9%	33.3%	19.0%	39.5%
	I do not know	Count	6	3	1	10
		Row %	60.0%	30.0%	10.0%	100.0%
		Column %	4.7%	7.1%	4.8%	5.3%
Column Total		Count	127	42	21	190
		Row %	66.8%	22.1%	11.1%	100.0%
		Column %	100.0%	100.0%	100.0%	100.0%

Looking at Table 5.23, it can be said that generally, most respondents who use the Islamic modes of finance and those using conventional housing finance agree that the information provided by the staff was sufficient. Although, it should be mentioned that an almost equal and significant number, namely around a quarter of both the Islamic and the conventional housing finance users have found that the information given was insufficient.

This has a similar picture as the case of different mortgage providers and the information supplied (Table 5.22). This insufficiency of information should be looked into by the mortgage providers who provided these facilities to their clients, especially with regards to the Islamic housing finance.

5.10 ISSUES ON FINANCIAL ASSISTANCE

5.10.1 Sources of Financial Assistance

In this section, there is a discussion on whether respondents receive 100% on the sales and purchase price of the property. Otherwise, what is the most popular source of financial assistance that respondents use in order to make up for the difference between how much their mortgage providers are willing to finance and that of the price of the property that they have to pay. This section also attempts to find out which mortgage providers normally give

100% finance as well as whether there is any difference between types of housing finance and the amount of finance given.

Table 5.24 100% Financed by mortgage providers

		Frequency	Percent	Valid Percent
Valid	Yes	82	41.6	42.1
	No	113	57.4	57.9
Total		195	99.0	100.0

Table 5.25 EPF as source of financial assistance

Preference ranking		Frequency	Percent	Valid Percent
Valid	1	35	17.8	100.0
Total		197	100.0	

Table 5.26 Own savings as source of financial assistance

Preference ranking		Frequency	Percent	Valid Percent
Valid	1	41	20.8	100.0
Total		197	100.0	

Table 5.24 tells us the number of respondents who are being 100% financed by their mortgage providers if they answer *Yes* to the question of *'did your mortgage provider finance 100% of the Sales and Purchase price of the property you were buying?'* and not being 100% financed if their answer is *No*. Therefore, from this table, it can be said that there are more respondents who are not being 100% financed by their mortgage providers than those who are being 100% financed.

Many of the respondents who have to use other financial sources to cover the difference between the amount that their mortgage providers are willing to finance and the amount of the sales and purchase price of the property that the respondents are buying, seem to be utilising Employees Provident Fund (EPF) as well as their own savings. EPF is a compulsory savings scheme consisting of contributions made together by employers and their employees.

In addition to the above-mentioned financial sources, there are a small number of respondents (not tabulated) who made use of financial resources from parents, personal loans and one even mentioned that he/she used financial investment to cover the difference.

Table 5.27 Mortgage providers giving 100% finance or not

			Finance		Row Total
			Yes	No	
Mortgage provider	Bank	Count	25	74	99
		Row %	25.3%	74.7%	100.0%
		Column %	30.5%	65.5%	50.8%
	Government	Count	40	19	59
		Row %	67.8%	32.2%	100.0%
		Column %	48.8%	16.8%	30.3%
	Company	Count	17	20	37
		Row %	45.9%	54.1%	100.0%
		Column %	20.7%	17.7%	19.0%
Column Total		Count	82	113	195
		Row %	42.1%	57.9%	100.0%
		Column %	100.0%	100.0%	100.0%

Table 5.28 Type of housing finance and the finance given

			Finance		Row Total
			Yes	No	
Type	Islamic	Count	59	51	110
		Row %	53.6%	46.4%	100.0%
		Column %	72.0%	45.1%	56.4%
	Conventional	Count	19	56	75
		Row %	25.3%	74.7%	100.0%
		Column %	23.2%	49.6%	38.5%
	I do not know	Count	4	6	10
		Row %	40.0%	60.0%	100.0%
		Column %	4.9%	5.3%	5.1%
Column Total		Count	82	113	195
		Row %	42.1%	57.9%	100.0%
		Column %	100.0%	100.0%	100.0%

Table 5.27 is a cross tabulation of the mortgage provider and whether respondents are being 100% financed or not. Looking at this table, it can be seen that a high percentage of respondents whose mortgage provider is the

bank, are actually not being 100% financed. In contrast, more of the respondents who are taking up their housing finance with the Government are being 100% financed than those who are not being 100% financed. From this it can be suggested that the Government are better as a mortgage provider in this sense as they are able to provide 100% finance to their clients.

Table 5.28 is a cross tabulation of the type of housing finance taken up and whether respondents are being 100% financed or not. From this table, it is interesting to note that there is a major difference in the percentage of respondents who are taking up conventional housing finance who are not being 100% financed by their mortgage providers, compared to those who are being 100% financed. In contrast there are more respondents who are taking up Islamic housing finance and being 100% financed at the same time, compared to those who are not being 100% financed. From this aspect, it can also be suggested that Islamic housing finance is better than the conventional facilities in this aspect, as it seems to be able to provide 100% finance to more of its clients.

The question of *'did your mortgage provider finance 100% of sales and the purchase price of the property you were buying?' o*nly enables acquisition of information on whether the respondent is able to get exactly 100% or not from their mortgage provider. Therefore, it has not been possible to find out the exact percentage of finance for those not being 100% financed.

5.11 ISSUES ON REPAYMENTS

5.11.1 Preference of Repayment Period

Respondent's repayment period preference is looked into, in this section. Here, the difference in preference between different types of housing finance as well as different mortgage providers is discussed.

Table 5.29 Type of housing finance and the repayment period chosen

			Repayment period					
			10 years or less	11 -15 years	16 - 20 years	21 - 25 years	26 - 30 years	Row Total
Type	Islamic	Count	2	13	15	61	20	111
		Row %	1.8%	11.7%	13.5%	55.0%	18.0%	100.0%
		Column %	50.0%	61.9%	57.7%	59.8%	45.5%	56.3%
	Conventional	Count	2	7	10	35	22	76
		Row %	2.6%	9.2%	13.2%	46.1%	28.9%	100.0%
		Column %	50.0%	33.3%	38.5%	34.3%	50.0%	38.6%
	I do not	Count	0	1	1	6	2	10
	know	Row %	.0%	10.0%	10.0%	60.0%	20.0%	100.0%
		Column %	.0%	4.8%	3.8%	5.9%	4.5%	5.1%
Column Total		Count	4	21	26	102	44	197
		Row %	2.0%	10.7%	13.2%	51.8%	22.3%	100.0%
		Column %	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%

Table 5.29 shows that most of the respondents who take up housing finance whether it is Islamic or the conventional facilities prefer the 21-25 years category as their repayment period. There are also a reasonably large number of respondents who have chosen the 26 – 30 years category. This is undoubtedly a very long period for one to be tied up to a mortgage. It is normally the case that the longer the repayment period, the smaller the repayment amount would be for the respondents. Respondents who are taking up the conventional housing finance seem to be more inclined to choose 26 – 30 years compared to the Islamic housing finance users.

Table 5.30 Mortgage provider and the repayment period chosen

			Repayment period					
			10 years or less	11 -15 years	16 - 20 years	21 - 25 years	26 - 30 years	Row Total
Mortgage provider	Bank	Count	4	15	11	32	37	99
		Row %	4.0%	15.2%	11.1%	32.3%	37.4%	100.0%
		Column %	100.0%	71.4%	42.3%	31.4%	84.1%	50.3%
	Government	Count	0	4	7	44	6	61
		Row %	.0%	6.6%	11.5%	72.1%	9.8%	100.0%
		Column %	.0%	19.0%	26.9%	43.1%	13.6%	31.0%
	Company	Count	0	2	8	26	1	37
		Row %	.0%	5.4%	21.6%	70.3%	2.7%	100.0%
		Column %	.0%	9.5%	30.8%	25.5%	2.3%	18.8%
Column Total		Count	4	21	26	102	44	197
		Row %	2.0%	10.7%	13.2%	51.8%	22.3%	100.0%
		Column %	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%

From Table 5.30, it is also interesting to point out that many of the respondents, whose mortgage providers are banks, are actually able to finance up to a maximum of 26 – 30 years and have thus opted for this repayment period. This is very much expected because of the fact that banks normally charge higher rates than the Government and companies. Therefore, by prolonging the repayment period, the repayment amount their clients have to pay monthly would also be reduced.

Government mortgage providers do allow up to this period, but not many seem to be interested in taking up to the maximum and instead only take up the 21 – 25 years repayment period. This could be because, government rates are normally low anyway, and so there is no need for them to prolong the repayment period in order to reduce the monthly repayment amount.

Also, Table 5.30 shows that very few respondents decide to take up the 10 years or less repayment period with the bank and none with the other types of mortgage providers. Most probably because the repayment amount would be very high if the period is less and therefore very few people can afford to pay this very large amount.

In summary, most people prefer the 21 – 25 years period of repayment. However, given the choice of going beyond this period, there is a reasonable large number of those who opt for a very long period of 26 – 30 years. Many of those who do so consist of those who are from the conventional housing finance type and the bank is their mortgage provider.

5.11.2 Repayment Amount and Income Level

This section looks into respondents' monthly repayment amount and its relationship with his/her jointly household income.

Table 5.31 Joint household income and monthly repayment amount

			Monthly repayment amount						Row Total
			< RM500/ month	RM500 - RM1000/ month	RM1001 - RM1500 / month	RM1501 - RM2000/ month	RM2001 - RM2500 /month	> RM2500/ month	
Joint household income	< = RM40,000 /annum	Count	13	20	1	0	0	0	34
		Row %	38.2%	58.8%	2.9%	.0%	.0%	.0%	100.0%
		Column %	46.4%	22.5%	2.1%	.0%	.0%	.0%	17.3%
	RM40,001- RM45,000 /annum	Count	7	9	4	1	0	0	21
		Row %	33.3%	42.9%	19.0%	4.8%	.0%	.0%	100.0%
		Column %	25.0%	10.1%	8.3%	5.3%	.0%	.0%	10.7%
	RM45,001- RM50,000/ annum	Count	3	10	5	0	0	0	18
		Row %	16.7%	55.6%	27.8%	.0%	.0%	.0%	100.0%
		Column %	10.7%	11.2%	10.4%	.0%	.0%	.0%	9.2%
	RM50,001- RM55,000 / annum	Count	1	6	5	2	0	0	14
		Row %	7.1%	42.9%	35.7%	14.3%	.0%	.0%	100.0%
		Column %	3.6%	6.7%	10.4%	10.5%	.0%	.0%	7.1%
	RM55,001- RM60,000 / annum	Count	2	10	8	1	1	1	23
		Row %	8.7%	43.5%	34.8%	4.3%	4.3%	4.3%	100.0%
		Column %	7.1%	11.2%	16.7%	5.3%	16.7%	16.7%	11.7%
	> RM60,001 / annum	Count	2	34	25	15	5	5	86
		Row %	2.3%	39.5%	29.1%	17.4%	5.8%	5.8%	100.0%
		Column %	7.1%	38.2%	52.1%	78.9%	83.3%	83.3%	43.9%
Column Total		Count	28	89	48	19	6	6	196
		Row %	14.3%	45.4%	24.5%	9.7%	3.1%	3.1%	100.0%
		Column %	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%

From Table 5.31 above, it can be seen that those whose joint household income is RM40, 000 or less per annum, most of their monthly repayment amounts are in the category of less than RM500 per month and RM500 – RM1000 per month. This is normal, as they cannot afford to pay out more than their disposable income.

It is also interesting to point out that, for each category of joint household income, most of the respondents' monthly repayment amount would be in the category of RM500 – RM1000 per month, thus, giving the highest number of respondents in this category in total. Whilst, the second highest is found in the RM1001 – RM1500 per month category. Also, those with a joint household income higher than RM60, 000 per annum can afford to pay a higher monthly repayment amount up to more than RM2500 per month. Again this is normal, as they can certainly afford to pay more out of their disposable income.

5.11.3 Repayment Length and Awareness of Islamic Products

This section discusses the possibility of increase in awareness to use Islamic housing finance amongst new generations of home owners. Also, the respondent's loyalty to a certain mortgage provider is looked into in this section. Here, loyalty is measured by looking at the length of time a person has been making the monthly repayments to his/her mortgage provider.

Table 5.32 Length of time repayment made to mortgage provider

			Repayment made					Row Total
			< 1 year	1 - 5 years	6 - 10 years	11 - 15 years	> 15 years	
Mortgage provider	Bank	Count	29	52	6	6	5	98
		Row %	29.6%	53.1%	6.1%	6.1%	5.1%	100.0%
		Column %	56.9%	56.5%	24.0%	37.5%	41.7%	50.0%
	Government	Count	15	21	12	8	5	61
		Row %	24.6%	34.4%	19.7%	13.1%	8.2%	100.0%
		Column %	29.4%	22.8%	48.0%	50.0%	41.7%	31.1%
	Company	Count	7	19	7	2	2	37
		Row %	18.9%	51.4%	18.9%	5.4%	5.4%	100.0%
		Column %	13.7%	20.7%	28.0%	12.5%	16.7%	18.9%
Column Total		Count	51	92	25	16	12	196
		Row %	26.0%	46.9%	12.8%	8.2%	6.1%	100.0%
		Column %	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%

Table 5.33 Length of time repayment made and type of housing finance

			Repayment made					
			< 1 year	1 - 5 years	6 - 10 years	11 - 15 years	> 15 years	Row Total
Type	Islamic	Count	32	55	15	5	3	110
		Row %	29.1%	50.0%	13.6%	4.5%	2.7%	100.0%
		Column %	62.7%	59.8%	60.0%	31.3%	25.0%	56.1%
	Conventional	Count	14	35	9	10	8	76
		Row %	18.4%	46.1%	11.8%	13.2%	10.5%	100.0%
		Column %	27.5%	38.0%	36.0%	62.5%	66.7%	38.8%
	I do not	Count	5	2	1	1	1	10
	know	Row %	50.0%	20.0%	10.0%	10.0%	10.0%	100.0%
		Column %	9.8%	2.2%	4.0%	6.3%	8.3%	5.1%
Column Total		Count	51	92	25	16	12	196
		Row %	26.0%	46.9%	12.8%	8.2%	6.1%	100.0%
		Column %	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
		% of Total	26.0%	46.9%	12.8%	8.2%	6.1%	100.0%

From Tables 5.32 – 5.33, it can be seen that most of the respondents are in the category of 1 – 5 years with less than 1 year of repayments already made. Thus it can be said that more than half of the respondents are considered as relatively new home owners. There seem to be more of these new home owners taking up Islamic housing finance than the conventional facilities. This is possibly due to an increase in awareness amongst the new generation of home owners.

Looking at Table 5.32, interestingly enough, almost half of the respondents who are in the 6 – 10 years, 11 – 15 years and more than 15 years categories are those who are currently taking up their housing finance with the Government. Whilst Table 5.33 shows that more than half of the respondents who are taking up conventional housing finance have made repayments for as long as 11 – 15 years and more that 15 years. Both these pieces of information could well be related and suggest that some of these respondents are early generations of home buyers whose mortgage provider was the Government.

Before the introduction of Islamic housing finance in the Government sector home buyers were not given the choice between Islamic and conventional housing finance. Therefore, anyone wanting to buy a house would have to choose the only facility made available to them, namely, the conventional facilities. Government housing finance is normally cheaper than the rates given by banks, thus if they are Government officers, then they would surely be more inclined to choose the Government as their mortgage provider even if there are only conventional facilities available.

5.12 ISSUES ON DEFAULT AND INSURANCE

5.12.1 Problems and Reasons for Default

This section discusses the experience of non payment amongst respondents. Comparison is made between different mortgage providers as well as between different types of housing finance. Major factors which influence a mortgagee to default are also identified.

Table 5.34 Non payment experience of mortgagee

		Frequency	Percent	Valid Percent
Valid	Yes	30	15.2	15.4
	No	165	83.8	84.6
Total		195	99.0	100.0

From the table above, most of the respondents have never had any experience of inability to pay the monthly repayments amount. Nevertheless, 15.2% is a significant percentage of respondents who have had a non-payment experience.

Table 5.35 Non payment experience according to type of housing finance

			Non payment experience		
			Yes	No	Row Total
Type	Islamic	Count	14	95	109
		Row %	12.8%	87.2%	100.0%
		Column %	46.7%	57.6%	55.9%
	Conventional	Count	13	63	76
		Row %	17.1%	82.9%	100.0%
		Column %	43.3%	38.2%	39.0%
	I do not know	Count	3	7	10
		Row %	30.0%	70.0%	100.0%
		Column %	10.0%	4.2%	5.1%
Column Total		Count	30	165	195
		Row %	15.4%	84.6%	100.0%
		Column %	100.0%	100.0%	100.0%

Table 5.36 Non payment experience according to mortgage provider

			Non payment experience		
			Yes	No	Row Total
Mortgage provider	Bank	Count	21	78	99
		Row %	21.2%	78.8%	100.0%
		Column %	70.0%	47.3%	50.8%
	Government	Count	7	52	59
		Row %	11.9%	88.1%	100.0%
		Column %	23.3%	31.5%	30.3%
	Company	Count	2	35	37
		Row %	5.4%	94.6%	100.0%
		Column %	6.7%	21.2%	19.0%
Column Total		Count	30	165	195
		Row %	15.4%	84.6%	100.0%
		Column %	100.0%	100.0%	100.0%

Tables 5.35 – 5.36 above are breakdowns of respondents having non payment experiences according to the type of housing finance that they are using and their mortgage providers. It seems that more respondents taking up conventional housing finance are having problems meeting their monthly repayments compared to the respondents taking up Islamic facilities. Also,

an interesting point to note is that a high proportion of those whose mortgage providers are banks are more likely to have non payment experiences compared to those whose mortgage providers are their own employers. This is probably because the rate offered by employers is much lower than that being offered by the high street banks.

Table 5.37 Non payment reasons

		Frequency	Percent	Valid Percent
Valid	Permanent disability	6	3.0	20.0
	Out of work	7	3.6	23.3
	Monthly repayment beyond means	9	4.6	30.0
	Other commitment	6	3.0	20.0
	Overlooked	2	1.0	6.7
Total		30	15.2	100.0

Table 5.37 above shows varied reasons for those respondents who have had problems of inability to make their monthly repayments. Most of them have given the reason of *'out of work'* and *'monthly repayment beyond means'*. Interestingly enough there are such people who have actually overlooked making repayments. This could well be because they do not make a direct debit instruction for repayments to be made automatically each month to their mortgage providers. In the *'other commitment'* category, a further breakdown of this, are respondents giving reasons like *'business problem'* and *'used the reserved payment for emergency'*.

5.12.2 Default Period and Mortgage Providers' Response

This section contains a discussion of the duration defaulters experienced problems. Also discussed in relation to this, is the reaction of the respondent's mortgage provider in dealing with cases of non-payment.

Table 5.38 Non payment period

		Frequency	Percent	Valid Percent
Valid	One month	8	4.1	26.7
	Two months	7	3.6	23.3
	More than three months	10	5.1	33.3
	Still unable to pay	5	2.5	16.7
Total		197	100.0	

Table 5.39 Reaction of mortgage providers

		Collateral seized	Staffs were understanding	Staffs were not understanding	Staffs were helpful	Staffs were not helpful	No actions taken	Actions taken
N	Valid	3	4	3	9	5	2	4
	Missing	194	193	194	188	192	195	193

Table 5.38 shows that the number of respondents who had not been able to pay for one month is equal to those who were unable to pay for more than three months. It is also worth pointing out that there were respondents who were still unable to pay at the point of filling in the questionnaire. This could mean that these respondents were still having problems in paying the monthly repayments.

From Table 5.39, it is also encouraging to find out that most of the respondents who faced the problem of non payment felt that their mortgage providers' staff were very helpful in dealing with cases of non-payment. Although, not that many, it is unfortunate that there were cases of collateral being seized. The category of *'actions taken'* can be further broken down to include those who stated that their mortgage provider had *'taken out from the compulsory deposit with the bank'*, that they were being charged *'late payment interest'* and that it resulted in *'non-delay of payment'* on the part of the respondent.

5.12.3 Perception of Housing Mortgage Insurance

The perception of respondents towards housing mortgage insurance and whether the respondent has the awareness to take it up are discussed in this section. This section also attempts to find out whether there is any relationship between those taking the insurance up or not and which mortgage provider he/she is with. Also whether there is any relationship between those taking it up or not and the type of housing finance he/she is using.

Table 5.40 Mortgage provider and whether insurance is compulsory or not

			Compulsory insurance		Row Total
			Yes	No	
Mortgage provider	Bank	Count	66	31	97
		Row %	68.0%	32.0%	100.0%
		Column %	45.8%	66.0%	50.8%
	Government	Count	47	10	57
		Row %	82.5%	17.5%	100.0%
		Column %	32.6%	21.3%	29.8%
	Company	Count	31	6	37
		Row %	83.8%	16.2%	100.0%
		Column %	21.5%	12.8%	19.4%
Column Total		Count	144	47	191
		Row %	75.4%	24.6%	100.0%
		Column %	100.0%	100.0%	100.0%

Table 5.41 Type of housing finance and whether insurance is compulsory or not

			Compulsory insurance		Row Total
			Yes	No	
Type	Islamic	Count	82	25	107
		Row %	76.6%	23.4%	100.0%
		Column %	56.9%	53.2%	56.0%
	Conventional	Count	54	20	74
		Row %	73.0%	27.0%	100.0%
		Column %	37.5%	42.6%	38.7%
	I do not know	Count	8	2	10
		Row %	80.0%	20.0%	100.0%
		Column %	5.6%	4.3%	5.2%
Column Total		Count	144	47	191
		Row %	75.4%	24.6%	100.0%
		Column %	100.0%	100.0%	100.0%

Table 5.42 Insurance is taken up or not if it is not made compulsory

			Non compulsory take up		
			Yes	No	Row Total
Compulsory insurance	No	Count	22	24	46
		Row %	47.8%	52.2%	100.0%
		Column %	100.0%	100.0%	100.0%
Column Total		Count	22	24	46
		Row %	47.8%	52.2%	100.0%
		Column %	100.0%	100.0%	100.0%

From Tables 5.40 – 5.42 above, it can be seen that a very high percentage of respondents have had to take up the housing finance insurance. Cross tabulation table 5.40 gives a break down of respondents with different mortgage providers and whether each of the mortgage providers makes insurance compulsory to their clients or not. From this table, it can be said that generally most of the mortgage providers make it compulsory to take up the mortgage insurance.

Table 5.41 is a cross tabulation of the type of housing finance taken up and whether it is compulsory to take up the insurance or not. Looking at this table, it suggests that most respondents who are taking up the Islamic or conventional facilities are also being made to take up the housing mortgage insurance.

Table 5.42 is a cross tabulation between those whose mortgage provider does not make it compulsory to take up housing mortgage insurance and whether he/she still takes up the insurance. This table shows that there are an almost equal number of people who still take up the insurance, even though it is not made compulsory to them, and those who decided not take it up at all. This could well suggest that there is a more or less equal level of awareness for respondents to take it up or not.

Table 5.43 Non-take up reasons

		Frequency	Percent	Valid Percent
Valid	Not Islamic enough	6	3.0	25.0
	Cannot afford premium	10	5.1	41.7
	Not beneficial	5	2.5	20.8
	Plan to refinance	1	.5	4.2
	Have taken up a double house loan insurance	2	1.0	8.3
Total		24	12.2	100.0

There are a variety of reasons given by respondents who do not take up the housing finance insurance. Out of the twenty four people, most of them chose the reason that they *'cannot afford premium'.* This could mean that these respondents find that the amount they have to pay for the insurance if beyond their means, thus the reason for choosing not to take the insurance up at all.

The next highest numbers of respondents have given the reason that the insurance is *'not Islamic enough'* and that some of them find that the insurance is *'not beneficial'.* There is one respondent who did not take up the insurance because he planned to refinance his current housing finance. There are respondents giving other reasons such as already having double house loan insurance and not being sure of the insurance period coverage.

It is interesting to note that even though there is only a minority of respondents who perceive the insurance as a problem, and who do not take up housing mortgage insurance, this is still an issue that needs to be looked into and hopefully resolved.

5.12.4 Take Up of Insurance by Defaulters

In this section, a cross tabulation is done between those for whom it is compulsory to take up housing mortgage insurance and those having non payment experiences to see the relationship between the two.

Table 5.44 Compulsory insurance and non payment experience

			Non payment experience		
			Yes	No	Row Total
Compulsory insurance	Yes	Count	24	118	142
		Row %	16.9%	83.1%	100.0%
		Column %	80.0%	74.2%	75.1%
	No	Count	6	41	47
		Row %	12.8%	87.2%	100.0%
		Column %	20.0%	25.8%	24.9%
Column Total		Count	30	159	189
		Row %	15.9%	84.1%	100.0%
		Column %	100.0%	100.0%	100.0%

Table 5.45 Non compulsory take up and non payment experience

			Non payment experience		
			Yes	No	Row Total
Non compulsory take up	Yes	Count	3	22	25
		Row %	12.0%	88.0%	100.0%
		Column %	50.0%	51.2%	51.0%
	No	Count	3	21	24
		Row %	12.5%	87.5%	100.0%
		Column %	50.0%	48.8%	49.0%
Column Total		Count	6	43	49
		Row %	12.2%	87.8%	100.0%
		Column %	100.0%	100.0%	100.0%

From the tables above, it can be seen that most of those having non payment experiences have the back up of housing finance insurance anyway, as it was made compulsory by their mortgage provider to take up the insurance. There are six respondents whose mortgage provider did not make it compulsory for them to take up housing mortgage insurance. Three of them decided to take up the insurance whilst the other three decided not to take it up. Therefore, if the problem of non payment had persisted, then these three

respondents would not have the back up of any insurance company to help them continue making their monthly repayments.

As mentioned in section 5.12.3 above, there are various reasons for respondents not wanting to take up housing mortgage insurance. One of which is that the respondent felt it to be expensive therefore decided not to take it up. It is rather unfortunate that this type of respondent cannot afford to take up housing mortgage insurance, but what is worse is if any of them were to later experience an inability to make monthly repayments.

5.13 ISSUES ON PROPERTY

5.13.1 Important Criteria in Choosing a Property

The important issues to a respondent when deciding to buy a certain property is looked into as well as whether there are any factors concerning the property which could have a bearing on the type of housing finance taken up.

Table 5.46 Location of the property

Preference ranking		Frequency	Percent	Valid Percent
Valid	1	111	56.3	61.0
	2	65	33.0	35.7
	3	3	1.5	1.6
	4	3	1.5	1.6
Total		182	92.4	100.0

Table 5.47 Price of the property

Preference ranking		Frequency	Percent	Valid Percent
Valid	1	88	44.7	47.6
	2	89	45.2	48.1
	3	3	1.5	1.6
	4	5	2.5	2.7
Total		185	93.9	100.0

Table 5.46 shows that most of the respondents felt that *'location of the property'* was the most important reason why they buy a certain property. The second most important criterion is the *'price of the property'*. It has

always been the case that location is the top most priority on the list of criterion for any home buyers, for example whether it is near their workplaces, parents, shops, etc. The price of the property is also very important to a home buyer as it will definitely affect the monthly repayments.

There are quite wide ranges of criterion which are important to respondents when deciding on a property. Two other important criterion chosen by many are the 'size of the rooms' and the 'number of bedrooms'. The fifth most important criterion is the 'availability of a garden'. A few of the respondents gave criterion like having a *'reputable developer with guaranteed workmanship and good customer service'* and the *'surroundings'* as being important to them. There are a few other property features which were also important to the property buyers namely *'number of bathrooms'*, *'type of property'*, *'the design of the property'*, *'the facilities available and security features'*.

Table 5.48 Property bought from

		Frequency	Percent	Valid Percent
Valid	Still being built by developer	78	39.6	39.8
	Finished being built by developer	80	40.6	40.8
	Previous owner	35	17.8	17.9
	Engage own contractor	3	1.5	1.5
Total		196	99.5	100.0

Table 5.49 Discount given to the value of the property

		Frequency	Percent	Valid Percent
Valid	Yes	139	70.6	88.0
	No	17	8.6	10.8
	I do not know	2	1.0	1.3
	Total	158	80.2	100.0
Total		158	80.2	100.0

Table 5.50 Discount influence decision

		Frequency	Percent	Valid Percent
Valid	Yes	91	46.2	64.5
	No	50	25.4	35.5
Total		141	71.6	100.0

From Tables 5.48 above, it is interesting to note that a majority of respondents preferred to buy newly built properties from developers. This can also be because new properties are expanding and the new generations prefer to buy properties in newly developed residential areas.

Normally it is the case that they would get a discount from their developers. Table 5.49 reflects this, whereby a very high percentage of respondents answered 'Yes' to the question of whether they received discounts from their developers or not. More than half of the respondents who did get a discount from their developers found that these discounts have actually influenced them in making a decision of whether to buy the property or not, as seen from Table 5.50. Thus, developers should be aware that giving discounts when selling new properties could well be one of the ways to attract home buyers to buy new properties developed by them.

Table 5.51 Property category

		Frequency	Percent	Valid Percent
Valid	Semi-detached house	21	10.7	10.9
	Detached house	21	10.7	10.9
	Terraced house	109	55.3	56.8
	Multi-storey building	41	20.8	21.4
Total		192	97.5	100.0

Table 5.52 Property category and the type of housing finance

			Type			
			Islamic	Conventional	I do not know	Row Total
Property category	Semi-detached house	Count	5	14	2	21
		Row %	23.8%	66.7%	9.5%	100.0%
		Column %	4.6%	19.2%	20.0%	10.9%
	Detached house	Count	12	8	1	21
		Row %	57.1%	38.1%	4.8%	100.0%
		Column %	11.0%	11.0%	10.0%	10.9%
	Terraced house	Count	71	35	3	109
		Row %	65.1%	32.1%	2.8%	100.0%
		Column %	65.1%	47.9%	30.0%	56.8%
	Multi-storey building	Count	21	16	4	41
		Row %	51.2%	39.0%	9.8%	100.0%
		Column %	19.3%	21.9%	40.0%	21.4%
Column Total		Count	109	73	10	192
		Row %	56.8%	38.0%	5.2%	100.0%
		Column %	100.0%	100.0%	100.0%	100.0%

Table 5.51 shows that, more than half of the respondents preferred to buy terraced houses. This is typical in Malaysian new towns. If this were to be broken down according to the type of housing finance taken up, it is interesting to point out that there is a wide difference between the Islamic and conventional facilities for semi detached houses. From Table 5.52, it can be seen that people seem to be using conventional housing finance when buying properties of this category. Otherwise, there does not seem to be much difference between the types of housing finance used and the category of property they bought.

Table 5.53 State

		Frequency	Percent	Valid Percent
Valid	Kuala Lumpur	42	21.3	21.8
	Selangor	95	48.2	49.2
	Negeri Sembilan	11	5.6	5.7
	Perak	20	10.2	10.4
	Penang	9	4.6	4.7
	Others	16	8.1	8.3
Total		193	98.0	100.0

From Table 5.53, it can be mentioned that almost half of the respondents have bought their houses in Selangor. The second highest amounts of properties bought by respondents were situated in Kuala Lumpur. There were very few from the other states.

It should be mentioned that Selangor is very close to Kuala Lumpur which is the capital city of Malaysia and a centre for financial business and tourism activities. It could be that many people are buying houses in Selangor because it is cheaper than in Kuala Lumpur and yet still not far from the capital city.

Nevertheless, it must also be pointed out that the sample is not representative of all of Malaysia. The reason for this is because most of the respondents who filled in the questionnaire come from the city of Kuala Lumpur and Selangor where I was based when carrying out the survey.

Table 5.54 Value of property

		Frequency	Percent	Valid Percent
Valid	Less than RM100,000	37	18.8	18.9
	RM100,000 - RM150,000	64	32.5	32.7
	RM150,001 - RM200,000	40	20.3	20.4
	RM200,001 - RM300,000	37	18.8	18.9
	More than RM300,000	18	9.1	9.2
Total		196	99.5	100.0

Table 5.55 Type of housing finance taken up and the value of property

			Value					Row Total
			Less than RM100,000	RM100,000 - RM150,000	RM150,001 - RM200,000	RM200,001 - RM300,000	More than RM300,000	
Type	Islamic	Count	23	31	25	26	6	111
		Row %	20.7%	27.9%	22.5%	23.4%	5.4%	100%
		Column %	62.2%	48.4%	62.5%	70.3%	33.3%	56.6%
	Conventional	Count	12	28	13	10	12	75
		Row %	16.0%	37.3%	17.3%	13.3%	16.0%	100%
		Column %	32.4%	43.8%	32.5%	27.0%	66.7%	38.3%
	I do not know	Count	2	5	2	1	0	10
		Row %	20.0%	50.0%	20.0%	10.0%	.0%	100%
		Column %	5.4%	7.8%	5.0%	2.7%	.0%	5.1%
Column Total		Count	37	64	40	37	18	196
		Row %	18.9%	32.7%	20.4%	18.9%	9.2%	100%
		Column %	100.0%	100.0%	100.0%	100.0%	100.0%	100%

Table 5.54 above suggests that most respondents bought their houses with values between RM100, 000 – RM150, 000. This is very much the average value of property affordable to a home buyer. A higher value of property would mean that the home buyer would have to pay a higher monthly repayment.

Table 5.55 shows that for each of the category of values, there is not much difference between the proportion of respondents taking up Islamic finance and that of the conventional with the exception of the 'more than RM300,000' category. It is interesting to point out that not many people in this property value range have taken up with the Islamic facilities but instead decided to take up the conventional housing finance. This could possibly be because Islamic housing finance is usually fixed throughout the repayment period,

thus it would seem to home buyers that they would have to pay a higher monthly repayment compared to that of the conventional facilities.

5.13.2 Perception on the Value of Property and other Motives for Buying a Property

In this section, there is a discussion on home buyer's general perception of the value of his/her property. Also discussed is the question of motives for buying a property, other than to stay in it, for example, in order to let out the house to earn extra income.

Table 5.56 Perception on whether there is a change in value

		Frequency	Percent	Valid Percent
Valid	Gone up	163	82.7	83.2
	Gone down	2	1.0	1.0
	The same	18	9.1	9.2
	I do not know	13	6.6	6.6
Total		196	99.5	100.0

Table 5.57 Home buyers have moved in or not

		Frequency	Percent	Valid Percent
Valid	Yes	103	52.3	52.8
	No	85	43.1	43.6
	In the process	7	3.6	3.6
Total		195	99.0	100.0

Table 5.58 Reason not moved in

		Frequency	Percent	Valid Percent
Valid	House still not ready	33	16.8	36.7
	I am not ready	22	11.2	24.4
	I am renting out the house	31	15.7	34.4
	House under renovation	2	1.0	2.2
	Area not fully developed	2	1.0	2.2
Total		90	45.7	100.0

Table 5.56 above suggests that a high proportion of respondents believe that there is a change in value of their properties. In fact, most of them have an optimistic perception that the value has gone up.

Table 5.57 shows that slightly more than half of the respondents have actually moved into their newly bought houses. Nevertheless, almost the other entire half of the respondents has not moved in. The reasons for them not moving into their newly bought house are shown in Table 5.58. This is mainly because the house is still not ready to be inhabited.

There are also a substantial number of buy-to-let cases, whereby home buyers do not move in to their bought house because they are currently renting it out. The reason why these respondents are getting involved in the activity of renting out, could well be because they want to gain some income from doing this.

Table 5.59 Current accommodation

		Frequency	Percent	Valid Percent
Valid	Private rented	27	13.7	29.7
	Government rented	14	7.1	15.4
	Another owned property	36	18.3	39.6
	Immediate family members	11	5.6	12.1
	Friends	1	.5	1.1
	Wife's house	1	.5	1.1
	Parent's house	1	.5	1.1
	Total	91	46.2	100.0
Total		91	46.2	100.0

From Table 5.59 above, it is also interesting to point out that quite a significant number of respondents have not moved into their newly bought house because they are actually staying in another property which they also own. It is also normally the case that home buyers choose to stay in private rented accommodation for example, while waiting for the house to be ready.

5.14 ISSUES ON SATISFACTION LEVEL AND SUGGESTIONS

5.14.1 Satisfaction Level of Housing Finance Taken Up

In this section, there is a discussion of whether Islamic and conventional housing finance users are generally pleased with it or otherwise. There is also a discussion of the most likely reasons of satisfaction or dissatisfaction of the facilities. Comparison is also made between different mortgage providers.

Table 5.60 Satisfied or not with housing finance taken up

			Satisfaction			Row Total
			Yes	No	Indifferent	
Type	Islamic	Count	86	12	11	109
		Row %	78.9%	11.0%	10.1%	100.0%
		Column %	57.3%	46.2%	57.9%	55.9%
	Conventional	Count	54	14	8	76
		Row %	71.1%	18.4%	10.5%	100.0%
		Column %	36.0%	53.8%	42.1%	39.0%
	I do not know	Count	10	0	0	10
		Row %	100.0%	.0%	.0%	100.0%
		Column %	6.7%	.0%	.0%	5.1%
Column Total		Count	150	26	19	195
		Row %	76.9%	13.3%	9.7%	100.0%
		Column %	100.0%	100.0%	100.0%	100.0%

Table 5.60 above suggests that most of those who are taking up Islamic housing finance are satisfied with the facilities. In fact, the proportion of those who are satisfied using Islamic housing finance seems to be higher than the conventional housing finance users, whereas the proportion of those who are not satisfied seems to be higher for the conventional housing finance users.

Table 5.61 Satisfaction of housing finance against the mortgage providers

			Satisfaction			Row Total
			Yes	No	Indifferent	
Mortgage provider	Bank	Count	70	19	10	99
		Row %	70.7%	19.2%	10.1%	100.0%
		Column %	46.7%	73.1%	52.6%	50.8%
	Government	Count	51	5	4	60
		Row %	85.0%	8.3%	6.7%	100.0%
		Column %	34.0%	19.2%	21.1%	30.8%
	Company	Count	29	2	5	36
		Row %	80.6%	5.6%	13.9%	100.0%
		Column %	19.3%	7.7%	26.3%	18.5%
Column Total		Count	150	26	19	195
		Row %	76.9%	13.3%	9.7%	100.0%
		Column %	100.0%	100.0%	100.0%	100.0%

Table 5.61 is a cross tabulation of the satisfaction level of housing finance taken up against different mortgage providers. From this table, it can be seen that a very high proportion of respondents taking up their housing finance with the Government and Company were happy with their housing mortgage product. On the other hand, around one fifth of those taking up their housing finance with banks seem to be dissatisfied with the product. The reasons for the dissatisfaction are discussed in detail below. Nevertheless, generally, more respondents were satisfied rather than dissatisfied with the facilities that they were using.

Table 5.62 Product has excellent terms of payment

Preference ranking		Frequency	Percent	Valid Percent
Valid	1	58	29.4	54.2
	2	23	11.7	21.5
	3	12	6.1	11.2
	4	10	5.1	9.3
	5	4	2.0	3.7
Total		91	46.2	100.0

Table 5.63 Product is good value for money

Preference ranking		Frequency	Percent	Valid Percent
Valid	1	41	20.8	40.6
	2	25	12.7	24.8
	3	14	7.1	13.9
	4	11	5.6	10.9
	5	10	5.1	9.9
Total		101	51.3	100.0

Table 5.64 Product is simple and clearly understood

Preference ranking		Frequency	Percent	Valid Percent
Valid	1	24	12.2	25.5
	2	15	7.6	16.0
	3	19	9.6	20.2
	4	23	11.7	24.5
	5	13	6.6	13.8
Total		94	47.7	100.0

Table 5.65 Ease of payment

Preference ranking		Frequency	Percent	Valid Percent
Valid	1	20	10.2	22.5
	2	28	14.2	31.5
	3	22	11.2	24.7
	4	11	5.6	12.4
	5	8	4.1	9.0
Total		89	45.2	100.0

Tables 5.62 – 5.65 above are possible reasons for respondents to be satisfied with the product. Table 5.62 shows that a high percentage of respondents were satisfied with the housing finance's *'excellent terms of payment'* as reflected by the percentage of respondents who selected this reason as well as put down this reason as rank number 1, that is, the most important. This is followed by the reason of *'good value for money'* shown in Table 5.63. Therefore, it can be suggested that mortgage providers must keep on improving or at least maintain the excellent terms of payment and

make sure products on offer continue to be good value for money if they want to keep their clients satisfied.

The respondents were also happy with the housing finance because it is *'simple and clearly understood'* as seen in Table 5.64. Therefore simplicity and clarity is good so as not to confuse clients and encourage them to use the products. This is particularly important if mortgage providers want to encourage clients to use Islamic housing finance.

There were also those who were pleased with the product because it offers *'ease of payment'* to the respondents as seen in Table 5.65. There were also respondents who added reasons in the *'Others (please explain)'* category, for example that the product is *'Islamic'* and that there is *'good after sales service'*. As for those who were not pleased with the product, the reasons for that can be seen in the tables below:

Table 5.66 Do not like the terms of payment

Preference ranking		Frequency	Percent	Valid Percent
Valid	1	9	4.6	52.9
	2	2	1.0	11.8
	3	3	1.5	17.6
	4	1	.5	5.9
	5	2	1.0	11.8
Total		17	8.6	100.0

Table 5.67 Not good value for money

Preference ranking		Frequency	Percent	Valid Percent
Valid	1	8	4.1	44.4
	2	4	2.0	22.2
	3	1	.5	5.6
	4	4	2.0	22.2
	5	1	.5	5.6
Total		18	9.1	100.0

Table 5.68 High penalty charges

Preference ranking		Frequency	Percent	Valid Percent
Valid	1	5	2.5	29.4
	2	3	1.5	17.6
	3	3	1.5	17.6
	5	6	3.0	35.3
Total		17	8.6	100.0

From Tables 5.66 – 5.68 above, it can be said that the reasons for those stating that they were dissatisfied with the product were mostly because they *'do not like the terms of payment'* as half of those who chose this reason, ranked it as number one, that is, the most important reason. The second most important reason is that the product was *'not good value for money'*, reflected by the percentage of respondents who ranked this reason as number one. The third most important reason of dissatisfaction is because there were *'high penalty charges'* by their mortgage providers. Other reasons given by respondents were, that the product was *'complicated and difficult to understand'* and that they felt that *'not much flexibility is given'* to them by their mortgage provider on the product.

5.14.2 Perception and Suggestions of Muslims on Islamic housing Finance

In this section, the Muslim's perception and their suggestions on how Islamic housing finance can be improved is looked into. Also, their suggestions on how mortgage providers can make the Islamic housing finance more attractive, thus influencing people to use the facilities.

Table 5.69 Good value for money

Preference ranking		Frequency	Percent	Valid Percent
Valid	1	110	55.8	80.3
	2	14	7.1	10.2
	3	5	2.5	3.6
	4	8	4.1	5.8
Total		137	69.5	100.0

Table 5.70 Less percentage of down payment required

Preference ranking		Frequency	Percent	Valid Percent
Valid	1	27	13.7	24.5
	2	42	21.3	38.2
	3	34	17.3	30.9
	4	7	3.6	6.4
Total		110	55.8	100.0

Table 5.71 Offer great flexibility

Preference ranking		Frequency	Percent	Valid Percent
Valid	1	19	9.6	17.1
	2	41	20.8	36.9
	3	29	14.7	26.1
	4	22	11.2	19.8
Total		111	56.3	100.0

Table 5.69 – 5.71 are tables of ranking preferences for the suggestions made in the questionnaire. An overwhelming majority of respondents ranked the suggestion *'good value for money'* as the most important one to them. More than half of the respondents who filled in the questionnaire chose the suggestion for mortgage providers to require '*less percentage of down payments'*. This means that the mortgage provider would have to finance 100% or close to 100% of the Sales and Purchase price of the property. More than half of respondents also hoped that their mortgage providers would *'offer great flexibility'* to them. There are also quite a few who agree to the idea of *'no collateral required'* and there was one respondent who suggested that the *'terms and conditions should be well explained'* in other words, make it simple, clear and easily understood.

5.15 OTHER ISSUES ON USAGE OF ISLAMIC HOUSING FINANCE

5.15.1 Relationship between Income and Usage of Islamic Housing Finance

This section looks into whether there exists a relationship between the respondent's income and those using Islamic housing finance, for example, do respondents with high income have higher awareness of Islamic housing finance compared to the low income group.

Table 5.72 Type of housing finance and joint household income

			Joint household income						
			< = RM40,000 / annum	RM40,001 - RM45,000 /annum	RM45,001 - RM50,000 / annum	RM50,001 - RM55,000 / annum	RM55,001 - RM60,000 / annum	> RM60,001 / annum	Row Total
Type	Islamic	Count	18	11	5	7	15	55	111
		Row %	16.2%	9.9%	4.5%	6.3%	13.5%	49.5%	100.0%
		Column %	52.9%	52.4%	27.8%	50.0%	65.2%	64.0%	56.6%
	Conventional	Count	15	7	11	5	8	30	76
		Row %	19.7%	9.2%	14.5%	6.6%	10.5%	39.5%	100.0%
		Column %	44.1%	33.3%	61.1%	35.7%	34.8%	34.9%	38.8%
		% of Total	7.7%	3.6%	5.6%	2.6%	4.1%	15.3%	38.8%
	I do not know	Count	1	3	2	2	0	1	9
		Row %	11.1%	33.3%	22.2%	22.2%	.0%	11.1%	100.0%
		Column %	2.9%	14.3%	11.1%	14.3%	.0%	1.2%	4.6%
Column Total		Count	34	21	18	14	23	86	196
		Row %	17.3%	10.7%	9.2%	7.1%	11.7%	43.9%	100.0%
		Column %	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%

Table 5.72 above is a cross tabulation of type of housing finance taken up by respondents and their joint household income. From this table, it is interesting to point out that almost half of the respondents who are in the high income group of more than RM60,000 per annum are taking up Islamic

housing finance. Apart from the RM45,001 – RM50,000 per annum income category, for whom there is not much difference in the number of people choosing between Islamic and conventional housing finance.

Thus, it can be said that generally, there is no relationship between respondent's income and the type of housing finance chosen. Although it can also be mentioned that high income earners seem to have a high awareness of Islamic housing finance, possibly due to higher education and higher level of understanding of the benefits of using Islamic housing finance.

5.15.2 Relationship between Age and Usage of Islamic Housing Finance

In this section, the relationship between age of respondents and the type of housing finance taken up is looked into. Table 5.73 is a cross tabulation of the two.

Table 5.73 Type of housing finance taken up and their age group

			Age group				Row Total
			20 - 30 years	31 - 40 years	41 - 50 years	51 - 60 years	
Type	Islamic	Count	25	58	23	5	111
		Row %	22.5%	52.3%	20.7%	4.5%	100.0%
		Column %	58.1%	61.1%	50.0%	41.7%	56.6%
	Conventional	Count	17	30	21	7	75
		Row %	22.7%	40.0%	28.0%	9.3%	100.0%
		Column %	39.5%	31.6%	45.7%	58.3%	38.3%
	I do not	Count	1	7	2	0	10
	know	Row %	10.0%	70.0%	20.0%	.0%	100.0%
		Column %	2.3%	7.4%	4.3%	.0%	5.1%
		% of Total	.5%	3.6%	1.0%	.0%	5.1%
Column Total		Count	43	95	46	12	196
		Row %	21.9%	48.5%	23.5%	6.1%	100.0%
		Column %	100.0%	100.0%	100.0%	100.0%	100.0%

From Table 5.73 above, it can be seen that most of the respondents are in the 31 – 40 years age group. This is the age when some people have just started to become more established and have just started buying a house. This is followed by an almost equal number in the 20 – 30 years and 41 – 50

years age group. The least number of people are in the 51 – 60 years age group. This is as expected because most people in this age group would have already finished paying for their mortgages.

Table 5.73 also shows that more than half of the respondents in the 31 – 40 years age group have taken up Islamic facilities as oppose to conventional facilities. This might suggest that the people in this 31 – 40 years age group are more aware of taking up the Islamic facilities. This could be because the middle age owners have been more exposed to the Islamic discourse and therefore are more aware. This could also be because in recent years there has been a surge in the number of banks offering Islamic housing finance and more companies are now offering the Islamic facilities to their employees.

In contrast a slightly higher proportion of those in the 41 – 50 years age group have taken the conventional facilities. This could mean that people in the 41 – 50 years age group seem to be less aware of the need to take up Islamic housing finance and instead do not mind taking up the conventional housing finance. It could also be because when they wanted to buy a house, there were not many choices of banks which offer the Islamic facilities and there were some companies who did not even offer any Islamic facilities until recently. Therefore, they had no choice but to take the conventional facilities then, and it is difficult to change it later when Islamic facilities have become more widely available.

What can be learnt from this is that there are a lot of potentials in the market of the young generation of Malaysians. Information dissemination amongst the young generation is therefore highly crucial in expanding the already potential market.

Table 5.74 Number of years repayments already made and the age group of respondents

			Age group				
			20 - 30 years	31 - 40 years	41 - 50 years	51 - 60 years	Row Total
Repayment made	< 1 year	Count	19	26	6	0	51
		Row %	37.3%	51.0%	11.8%	.0%	100.0%
		Column %	44.2%	27.7%	13.0%	.0%	26.2%
	1 - 5 years	Count	20	50	16	6	92
		Row %	21.7%	54.3%	17.4%	6.5%	100.0%
		Column %	46.5%	53.2%	34.8%	50.0%	47.2%
	6 - 10 years	Count	1	11	11	1	24
		Row %	4.2%	45.8%	45.8%	4.2%	100.0%
		Column %	2.3%	11.7%	23.9%	8.3%	12.3%
	11 - 15 years	Count	0	2	10	4	16
		Row %	.0%	12.5%	62.5%	25.0%	100.0%
		Column %	.0%	2.1%	21.7%	33.3%	8.2%
	> 15 years	Count	3	5	3	1	12
		Row %	25.0%	41.7%	25.0%	8.3%	100.0%
		Column %	7.0%	5.3%	6.5%	8.3%	6.2%
Column Total		Count	43	94	46	12	195
		Row %	22.1%	48.2%	23.6%	6.2%	100.0%
		Column %	100.0%	100.0%	100.0%	100.0%	100.0%

From Table 5.74 above, it can be seen that more than half of those in the 31 – 40 years age group have only made repayments towards the mortgage, for somewhere between 1 – 5 years. As mentioned before, this is the age period when most people have just established themselves and have then decided to buy a house. Thus it can be seen that a lot of these people have only recently started paying for the mortgage. Almost three-quarters of those in this age group chose to make repayments within the 21 – 25 years period as can be seen in Table 5.75. This is the average repayment period that people choose so that by the time they retire, they would have finished paying the mortgage.

An interesting thing to point out is that half of those in the 51 – 60 years age group have only made repayments somewhere between 1 – 5 years. It is interesting because, unless they choose the repayment period of 10 – 15 years, it would be the case that they would have to continue making

repayments over and above the age of retirement. Oddly enough, there are also those in this age group who have opted for as long as a 21 – 25 years repayment period. Nevertheless, it might be the case that they have made repayments for a very long time and have only a few more years to go. It would not be right if the people in this age group opted for 21 – 25 years and yet only made repayments somewhere between 1 – 5 years. This is because at the very minimum, they would have turned 67 years by the time they finish paying the mortgage.

Table 5.75 Repayment period chosen and the age group of respondents

			Age group				Row Total
			20 - 30 years	31 - 40 years	41 - 50 years	51 - 60 years	
Repayment period	10 years or less	Count	0	2	0	2	4
		Row %	.0%	50.0%	.0%	50.0%	100.0%
		Column %	.0%	2.1%	.0%	16.7%	2.0%
	11 -15 years	Count	3	2	12	4	21
		Row %	14.3%	9.5%	57.1%	19.0%	100.0%
		Column %	7.0%	2.1%	26.1%	33.3%	10.7%
	16 - 20 years	Count	3	11	10	1	25
		Row %	12.0%	44.0%	40.0%	4.0%	100.0%
		Column %	7.0%	11.6%	21.7%	8.3%	12.8%
	21 - 25 years	Count	13	63	21	5	102
		Row %	12.7%	61.8%	20.6%	4.9%	100.0%
		Column %	30.2%	66.3%	45.7%	41.7%	52.0%
	26 - 30 years	Count	24	17	3	0	44
		Row %	54.5%	38.6%	6.8%	.0%	100.0%
		Column %	55.8%	17.9%	6.5%	.0%	22.4%
Column Total		Count	43	95	46	12	196
		Row %	21.9%	48.5%	23.5%	6.1%	100.0%
		Column %	100.0%	100.0%	100.0%	100.0%	100.0%

Table 5.74 shows that three of the respondents who are in the 20 – 30 years age group stated that they have made repayments for more than 15 years. That would mean that when they initially took up the mortgage, they would have to be 15 years of age. This is impossible as no banks would approve housing finance to an individual of this age as they would not have obtained a

regular job by then. It is interesting to see from Table 5.75 also, that more than half of the respondents in the 20 – 30 years age group opt for a repayment period of 26 – 30 years which is a very long period indeed. However, it is acceptable for these people to choose this repayment period because, at the very latest, they would have finished paying the mortgage by the age of 60.

5.16 ISSUES WITH OTHER ISLAMIC FINANCIAL PRODUCTS

5.16.1 Usage of Other Islamic Financial Products

It is important to also find out whether those Muslim home buyers who are currently using Islamic housing finance, would be more inclined to use other Islamic financial products compared to those using conventional facilities, or not. Also, this section discusses which products are most popular amongst the respondents.

Table 5.76 Type of housing finance used and other Islamic product usage

			Other Islamic product usage		
			Yes	No	Row Total
Type	Islamic	Count	93	18	111
		Row %	83.8%	16.2%	100.0%
		Column %	68.4%	34.6%	59.0%
	Conventional	Count	38	30	68
		Row %	55.9%	44.1%	100.0%
		Column %	27.9%	57.7%	36.2%
	I do not know	Count	5	4	9
		Row %	55.6%	44.4%	100.0%
		Column %	3.7%	7.7%	4.8%
Column Total		Count	136	52	188
		Row %	72.3%	27.7%	100.0%
		Column %	100.0%	100.0%	100.0%

From Table 5.76 shows that almost three quarter of the respondents use other Islamic products apart from Islamic housing finance. Interestingly, there are those who do not use Islamic housing finance, but instead use the conventional facilities, and yet are users of other Islamic financial products. In fact the number of people of this type is more than those who do not use Islamic financial products at all.

A high proportion or around four-fifths of those who use Islamic housing finance actually use other Islamic financial products. This is very much expected because, if they were inclined to use the Islamic housing finance in the first place, then it seems logical that they would also be interested in using other Islamic financial products as well.

Therefore, it can be suggested that the market for Islamic financial products is very encouraging. This is especially true given the fact that even the non-Islamic housing finance users are also interested in using the Islamic financial products.

Table 5.77 Types of Islamic financial products used by respondents

		Islamic saving account	Islamic current account	Islamic car insurance	Islamic car finance	Islamic house insurance	Islamic credit card	Islamic personal finance	Islamic medical and life insurance	Islamic education insurance	Unit trusts
N	Valid	91	49	52	39	47	8	1	6	5	1
	Missing	106	148	145	158	150	189	196	191	192	196

Table 5.77 above contains a list of all the other Islamic financial products that respondents use. It shows that almost half of the respondents have taken up Islamic savings accounts. This also shows that many people have an awareness to not let their money lay idle, but instead seek to earn extra cash. This is because money being placed in a savings account could earn those profits at the same time.

Almost a quarter of the respondents also take up Islamic current accounts which would enable them to get their cash out at any time. Other favourite

products are for example, Islamic car insurance, Islamic car finance and Islamic house insurance. There are also people who use the Islamic credit care, Islamic medical and life insurance, Islamic education insurance, Islamic personal finance and Islamic unit trusts.

All this goes to show that members of the public are increasingly aware of the products that are currently being made available to them in the Islamic financial sector. It also shows the creativity and innovativeness of the Islamic financial sector in taking the lead in the role they can play in helping Muslims fulfill that which is required of them by their faith.

5.17 ISSUES ON FLEXIBILITY

5.17.1 Forms of Flexibility Given to Housing Finance Users

This section discusses the relationship between the type of housing finance used and the form of flexibility given. There is also a discussion as to whether there exists any relationship between the form of flexibility given and the mortgage provider with whom the respondents are dealing with. It is also important to find out which is the respondents' preferred form of flexibility in their housing finance.

Table 5.78 Type of housing finance and some form of flexibility given or not

			Offer flexibility			Row Total
			Yes	No	I do not know	
Type	Islamic	Count	60	24	27	111
		Row %	54.1%	21.6%	24.3%	100.0%
		Column %	54.1%	60.0%	61.4%	56.9%
	Conventional	Count	47	14	14	75
		Row %	62.7%	18.7%	18.7%	100.0%
		Column %	42.3%	35.0%	31.8%	38.5%
	I do not know	Count	4	2	3	9
		Row %	44.4%	22.2%	33.3%	100.0%
		Column %	3.6%	5.0%	6.8%	4.6%
Column Total		Count	111	40	44	195
		Row %	56.9%	20.5%	22.6%	100.0%
		Column %	100.0%	100.0%	100.0%	100.0%

Table 5.78 relates the type of housing finance used with whether there is some form of flexibility offered to the respondents or not. It shows that the proportion of those taking up Islamic housing finance and saying yes to the question of flexibility is slightly less compared to that of the conventional facilities. There were also slightly more people who said that Islamic housing finance is not offering flexibility in its product compared to those who were using conventional housing finance. Nevertheless, overall, there were more people who said yes than no which is fair to suggest that they felt that some form of flexibility was made available to them.

It is also interesting to point out that almost a quarter of the respondents who answered the question of flexibility seem to not have any idea at all regarding the flexibility of their housing finance. It could be the case that these people do not know what flexibility actually means in housing finance terms. Nevertheless, more than half of all the respondents seemed to agree that some form of flexibility was being offered to them, reflected by them answering yes to the question of flexibility.

Table 5.79 Mortgage provider and whether flexibility is given or not

			Offer flexibility			Row Total
			Yes	No	I do not know	
Mortgage provider	Bank	Count	56	21	21	98
		Row %	57.1%	21.4%	21.4%	100.0%
		Column %	50.5%	52.5%	47.7%	50.3%
	Government	Count	28	12	20	60
		Row %	46.7%	20.0%	33.3%	100.0%
		Column %	25.2%	30.0%	45.5%	30.8%
	Company	Count	27	7	3	37
		Row %	73.0%	18.9%	8.1%	100.0%
		Column %	24.3%	17.5%	6.8%	19.0%
Column Total		Count	111	40	44	195
		Row %	56.9%	20.5%	22.6%	100.0%
		Column %	100.0%	100.0%	100.0%	100.0%

Table 5.79 relates to mortgage providers and to flexibility being offered or not. The highest proportion of those who said yes to this question were those who were taking up housing finance with their employers, namely, Company

housing finance. This is followed by a mortgage provider Bank and lastly the Government which also seems to have the highest proportion of respondents who do not have any idea of what this flexibility means.

Table 5.80 Forms of flexibility preferred

		Take out payment holidays	Pay less initially and increasingly more	Re-mortgage facility to raise cash	Refinance without penalty	Redemption without penalty	Payment in case of emergency	Weekly/ bi-weekly payment	Extra payment used for investment
N	Valid	94	119	130	122	146	1	1	1
	Missing	103	78	67	75	51	196	196	196

Table 5.81 Make early redemption without penalty

Preference ranking		Frequency	Percent	Valid Percent
Valid	1	76	38.6	52.1
	2	27	13.7	18.5
	3	17	8.6	11.6
	4	14	7.1	9.6
	5	12	6.1	8.2
Total		146	74.1	100.0

Table 5.82 Pay less initially and increasingly more

Preference ranking		Frequency	Percent	Valid Percent
Valid	1	47	23.9	39.5
	2	26	13.2	21.8
	3	18	9.1	15.1
	4	16	8.1	13.4
	5	12	6.1	10.1
Total		119	60.4	100.0

Table 5.83 Has re-mortgage facility to raise cash

Preference ranking	Frequency	Percent	Valid Percent

Valid	1	34	17.3	26.2
	2	27	13.7	20.8
	3	38	19.3	29.2
	4	19	9.6	14.6
	5	12	6.1	9.2
Total		130	66.0	100.0

The tables above are a list of the most highly preferred forms of flexibility by respondents. The first in the list as seen in Table 5.81 is that the respondents would like to be given the flexibility to 'make early redemption without penalty' being charged by their mortgage providers. Having this facility would enable their clients to cut down on penalty costs. Secondly, as seen from Table 5.82, it is for them to be able to *'pay less initially and increasingly more'* in later years. This flexibility would enable a client to manage his/her financial aspect better. Thirdly, as seen from Table 5.83, the mortgage provider *'has remortgage facility to raise cash'* especially if the respondents are in need of money for purposes such as house renovation.

Other forms of flexibility that respondents preferred were the ability for them to *'refinance without penalty'* in other words to be able to move from one mortgage provider to another without being penalised. The least preferred form of flexibility out of the possible forms of flexibility given in the question, is that respondents can *'take out payment holidays'* for example if they want to take one month off from having to make monthly repayments as this money is needed for something else.

There were also respondents who have given answers in the 'Others (please specify)' category. For example, the flexibility of being able to make *'three months fixed deposit payment incase of emergency'*, *'to allow for weekly or bi-weekly payment so that payment will be reduced'* and that they want their mortgage provider to *'use my extra payment for investment'* and it follows from this that the returns from the investment would be given to them.

5.18 FACTOR ANALYSIS

Factor analysis is a data reduction technique used to reduce a large number of variables to a smaller set of underlying factors that summarise the essential information contained in the variables.[5] In conducting factor analysis there are three important steps to go through. The first step is to assess the suitability of the data for factor analysis. The second step involves factor extraction which involves determining the smallest number of factors that can be used to best represent the interrelations among the set of variables.[6] The third step is factor rotation and interpretation.

For the first step, this is done by looking at the sample size and the strength of the relationship among the variables. As a general rule, the larger the sample, the better it would be for the analysis. A sample size of 100 is acceptable, but sample sizes of 200 and above are preferable.[7] For the purpose of this research, the size of sample that was used was 198, which is very close to the preferable size of 200. As for the strength of the inter-correlations among the items, Tabachnick and Fidell recommend an inspection of the correlation matrix for evidence of coefficients greater than 0.3. If few correlations above this level are found, then factor analysis may not be appropriate.[8]

As for the second step, it can be said that there are various methods of factor extraction. For the purpose of this study, factor analysis is conducted using principal component analysis (PCA). The PCA is concerned with specifying a number of factors to account for the maximum amount of variance in the data. Amongst the techniques that were also used to help in deciding on the number of factors to retain is the Kaiser's criterion and scree test. Kaiser recommended retaining all factors with eigenvalues of 1.0 or greater than 1.0. This criterion is based on the idea that the eigenvalues represent the amount of total variation explained by the factor and that an eigenvalue of 1.0

---

[5] Coakes, S. J. and L. G. Steed (31 Jan 2003). *SPSS Analysis Without Anguish (Version 11)*, John Wiley & Sons Inc.
[6] Pallant, J. (2004). *SPSS Survival Manual : A Step by Step Guide to Data Analysis Using SPSS version 12*, New York. Open University Press.
[7] Coakes, S. J. and L. G. Steed (31 Jan 2003). *SPSS Analysis Without Anguish (Version 11)*, John Wiley & Sons Inc.
[8] ibid

represents a substantial amount of variation.[9] Using Catell's (1996) scree test, each of the eigenvalues of the factors are plotted and inspected. All factors above the break in the plot or elbow are retained. This is so because these factors contribute the most to the explanation of the variance in the data set.[10]

The third step involves trying to interpret the factors that have been extracted. In order to help the interpretation process, the factors are rotated and the way the pattern of loadings (correlation) are presented makes it easier to interpret, namely by showing the variables which clump together. Variables which most highly correlate with the first factor are clustered together and arranged in descending order according to the size of their correlations. Likewise, variables which load strongly with the second factor will form the second factor, and so on. A factor loading is a correlation coefficient showing how much weight is assigned to that factor. The higher the loading, the more that variable belongs to that factor.

5.18.1 Reasons for Taking Up Islamic housing finance

Factor analysis was carried out on four items in question three from the questionnaire by subjecting them to principal components analysis (PCA) using SPSS Version 12. Prior to performing PCA the suitability of data for factor analysis was assessed. Inspection of the correlation matrix revealed the presence of many coefficients of 0.3 and above.

Table 5.84: Total Variance Explained on the reasons for taking up Islamic housing finance

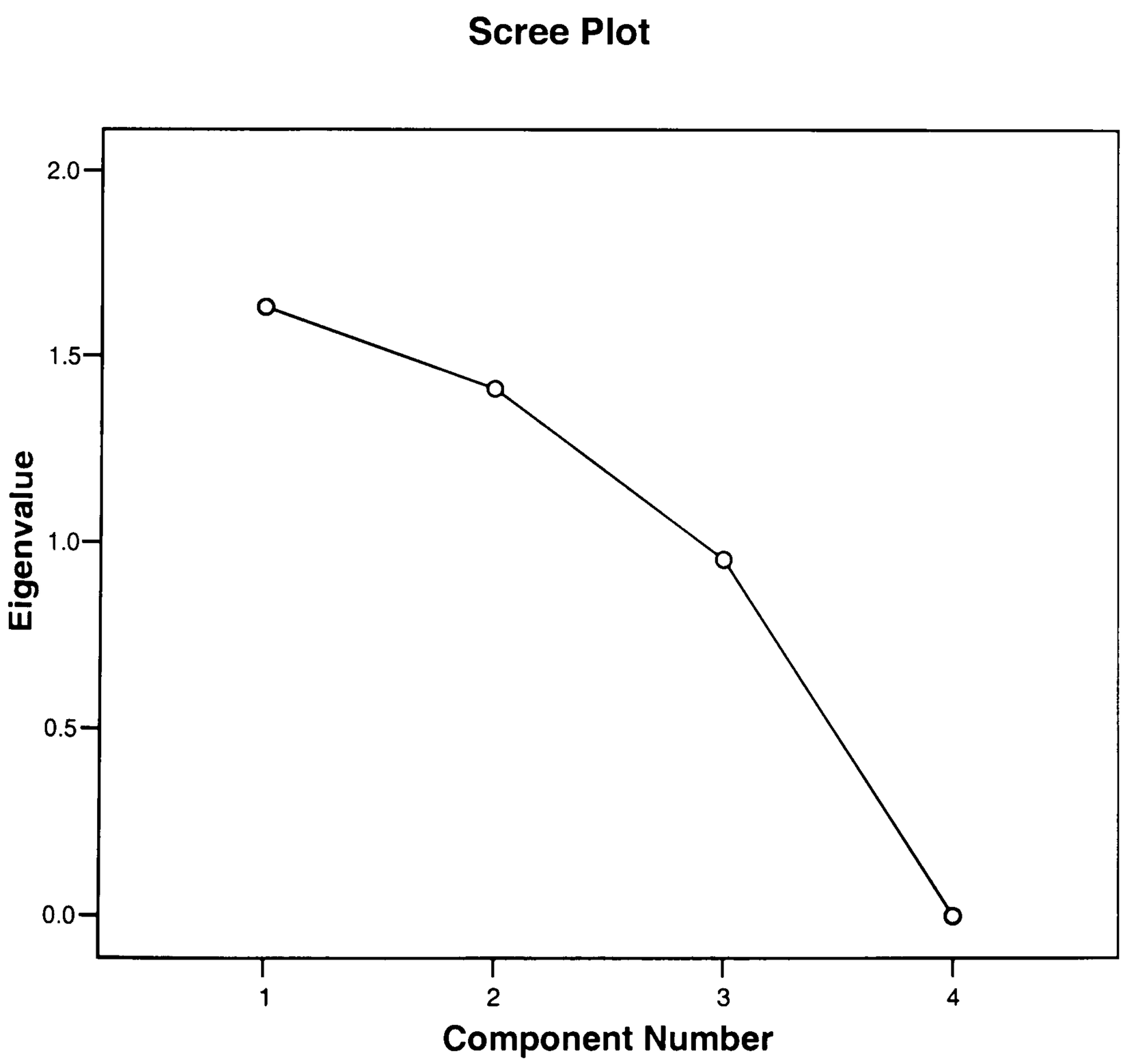
Component	Initial Eigenvalues			Extraction Sums of Squared Loadings			Rotation Sums of Squared Loadings		
	Total	% of Variance	Cumulative %	Total	% of Variance	Cumulative %	Total	% of Variance	Cumulative %
1	1.632	40.808	40.808	1.632	40.808	40.808	1.546	38.654	38.654
2	1.412	35.310	76.118	1.412	35.310	76.118	1.499	37.464	76.118
3	.955	23.882	100.000						
4	.000	.000	100.000						

Extraction Method: Principal Component Analysis.

[9] Field, A. (2005). *Discovering Statistics Using SPSS (Introducing Statistical Methods Series)*. London, Sage Publications.
[10] Pallant, J. (2004). *SPSS Survival Manual : A Step by Step Guide to Data Analysis Using SPSS version 12,* New York. Open University Press.

In Table 5.84, there are two factors with eigenvalues greater than 1 (1.632 and 1.412). This initial analysis, therefore, resulted in a two-factor solution. That is, these 4 items can be simply reduced to two factors. Each factor explains a particular amount of variance in the items. In this case, Factor 1 explains 40.8% and Factor 2 explains 35.31% of the variance. Together these two factors explain a total of 76.12% of the variance. The more variance that is explained by the factors, the better the factor solution is in reducing the initial four items to two factors. The scree plot in figure 5.1 below depicts that the plot slopes downwards and from this it was decided to retain two factors for further investigation. To aid interpretation of these two factors, Varimax orthogonal rotation was used.

Figure 5.1: Scree Plot for reasons for taking up Islamic housing finance



The rotated solution in Table 5.85 revealed the presence of two factors with a number of strong loadings. Variables with factor loading of at least +/- 0.3

would be considered significant and can be said to belong to the component. The two factor solutions explain a total of 76.12% of the variance, with Factor 1 contributing 38.65% and Factor 2 contributing 37.46%. Table 5.85 also depicts the communality of each variable. Communalities measure correlations among the four variables to be analysed. The higher correlations among the variables, the more they have in common or the higher would be their communalities. For example, a communality of .805 for the variable 'enables me to manage cash flow better' indicates that the variable has 80.5% of its variation in common with the other variables in forming a factor. On the other hand, a variable having a very low communality is not likely to be associated with any other variables in defining a factor.

Table 5.85: Rotated Component Matrix(a) on the reasons for taking up Islamic housing finance

	Component		Communalities of each variable
	1	2	
Enables me to manage cash flow better	-.897		.805
Conforms with faith	.858		.737
Recommended by friends and family		-.873	.740
Good rates being charged		.857	.762
Eigenvalue	1.632	1.412	
% of variance	38.654	37.464	
Cumulative %	38.654	76.118	

Extraction Method: Principal Component Analysis. Rotation Method: Varimax with Kaiser Normalization.
a Rotation converged in 3 iterations.

From table 5.85 above, it can be seen that since factor 1 (enables me to manage cash flow better and conforms with faith) has the higher eigenvalue and variance (eigenvalue = 1.63, variance = 38.65%) it necessarily represents more important reasons perceived by the users of Islamic housing finance as compared to factor 2 (recommended by friends and family and good rates being charged) with a lower eigenvalue and variance (eigenvalue = 1.41, variance = 37.46%). This result implies that users of Islamic housing finance generally find the reason that it allows them to manage cash flow

better and that it conforms to their Islamic faith as the two more important reasons for them choosing Islamic housing finance. This finding is very much in resonance with the earlier findings from the cross tabulations of the survey results that the reason of '*faith*' and that it can '*help to manage cash flow better*' are the two main reasons for customers who were using Islamic housing finance.

5.18.2 Reasons for Not Taking Up Islamic Housing Finance

Factor analysis was also conducted on three items in question four from the questionnaire by subjecting them to principal components analysis (PCA) using SPSS Version 12.

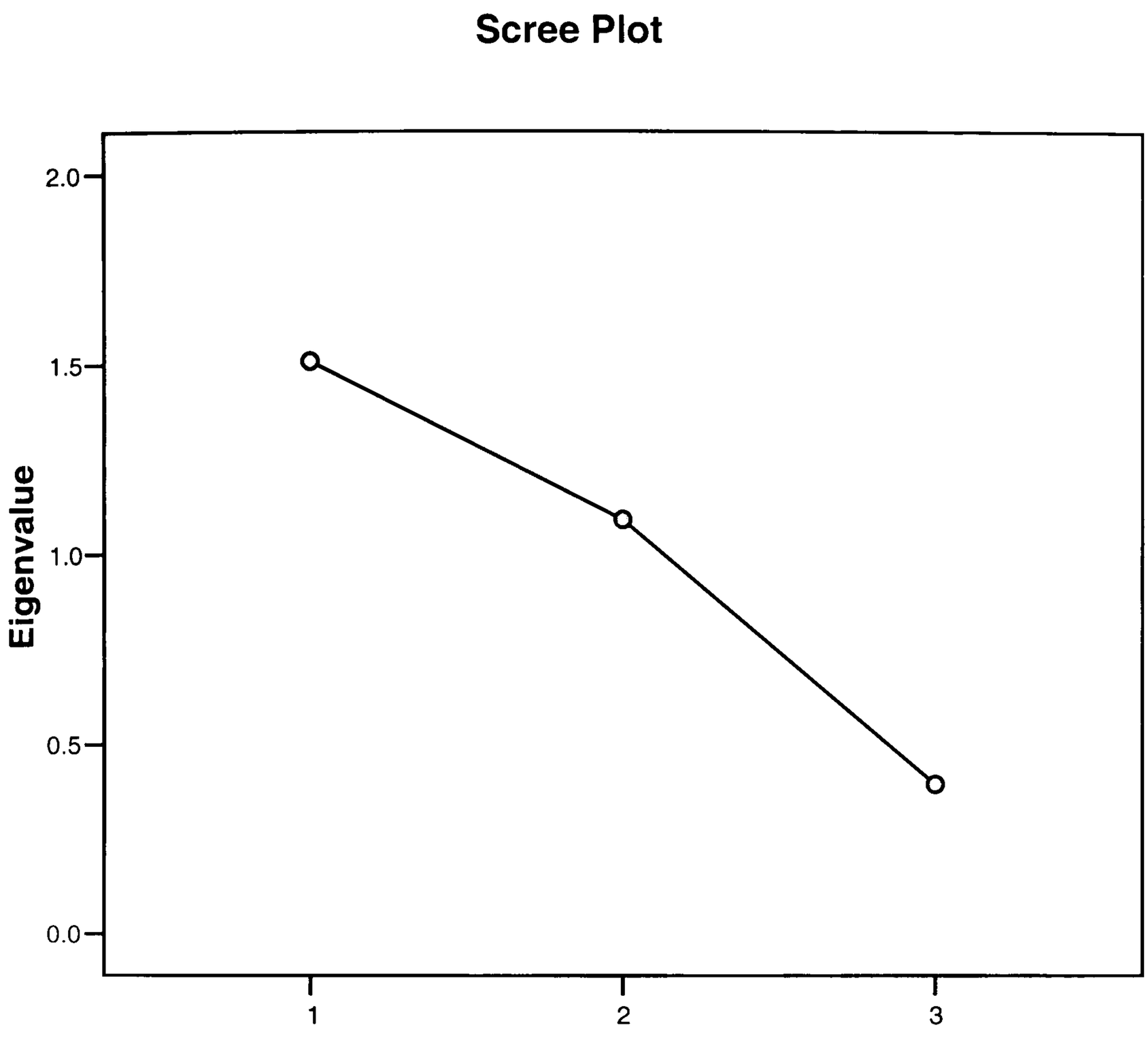
Table 5.86: Total Variance Explained on the reasons for not taking up Islamic housing finance

Component	Initial Eigenvalues			Extraction Sums of Squared Loadings			Rotation Sums of Squared Loadings		
	Total	% of Variance	Cumulative %	Total	% of Variance	Cumulative %	Total	% of Variance	Cumulative %
1	1.510	50.330	50.330	1.510	50.330	50.330	1.395	46.488	46.488
2	1.094	36.457	86.787	1.094	36.457	86.787	1.209	40.299	86.787
3	.396	13.213	100.000						

Extraction Method: Principal Component Analysis.

In Table 5.86, there are two factors with an eigenvalue greater than 1 (1.51 and 1.094). This initial analysis resulted in a two-factor solution, which implies that these three items can be simply reduced to two factors. Each factor explains a particular amount of variance in the items. In this case, Factor 1 explains 50.33% and Factor 2 explains 36.46% of the variance. Together these two factors explain a total of 86.79% of the variance. The more variance that is explained by the factors, the better the factor solution is in reducing the initial three items to two factors. The scree plot in figure 5.2 depicts that the plot slopes downwards and from this it was decided to retain two factors for further investigation. To aid interpretation of these two factors, Varimax orthogonal rotation was used.

Figure 5.2: Scree Plot for reasons for not taking up Islamic housing finance



The rotated solution in Table 5.87 revealed the presence of two factors with a number of strong loadings. The two factor solution explained a total of 86.79% of the variance, with Factor 1 contributing 46.49% and Factor 2 contributing 40.3%. Table 5.87 also depicts the communality of each variable and it seems that variable 'not much flexibility' has the highest value of .911 which indicates that the variable has 91.1% of its variation in common and is most likely to be associated with the other variables in forming a factor.

Table 5.87: Rotated Component Matrix(a) on reasons for not taking up Islamic housing finance

	Component		Communalities of each variable
	1	2	
Lack of product variety	.917		.873
Expensive monthly repayments	-.744	-.516	.819
Not much flexibility		.954	.911
Eigenvalue	1.510	1.094	
% of variance	46.488	40.299	
Cumulative %	46.488	86.787	

Extraction Method: Principal Component Analysis. Rotation Method: Varimax with Kaiser Normalization.
a Rotation converged in 3 iterations.

From table 5.87 above, it can be said that since factor 1 has the higher eigenvalue and variance (eigenvalue = 1.51, variance = 46.49%), it necessarily represents a more important reason perceived by the customers as to why they decide not to take up Islamic housing finance as compared to factor 2 with a lower eigenvalue and variance (eigenvalue = 1.1, variance = 40.30%). From this, it can be stated that the Islamic housing finance lacks product variety and that it has expensive monthly repayments and these are the most likely factors that deter some respondents from using Islamic housing finance.

5.18.3 Important Criteria for Decision Making

Further factor analysis was conducted out on six items in question six from the questionnaire by subjecting them to principal components analysis (PCA) using SPSS Version 12.

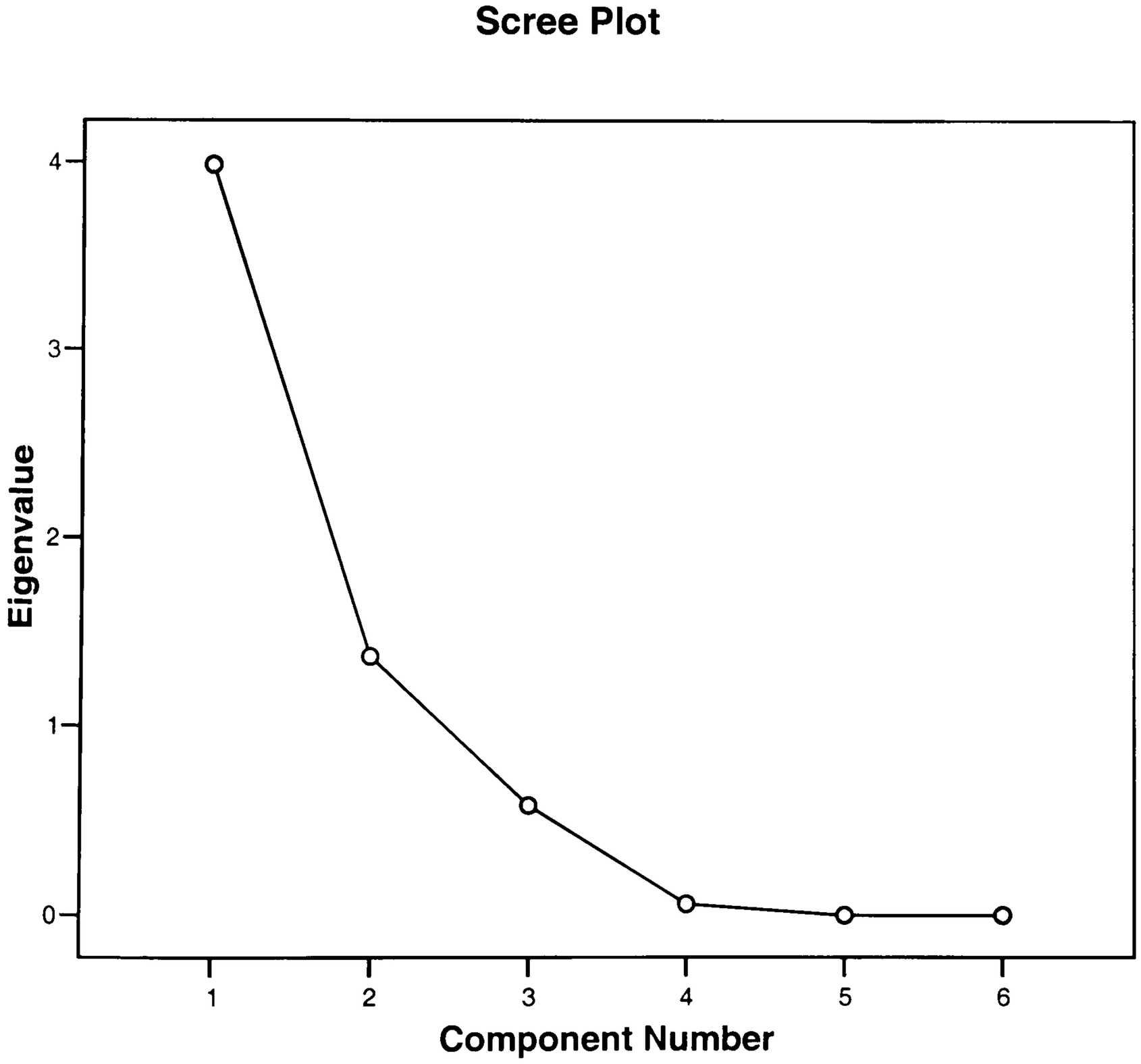
Table 5.88: Total Variance Explained on important criteria for decision making

Component	Initial Eigenvalues			Extraction Sums of Squared Loadings			Rotation Sums of Squared Loadings		
	Total	% of Variance	Cumulative %	Total	% of Variance	Cumulative %	Total	% of Variance	Cumulative %
1	3.985	66.410	66.410	3.985	66.410	66.410	3.985	66.410	66.410
2	1.374	22.892	89.303	1.374	22.892	89.303	1.374	22.893	89.303
3	.581	9.689	98.992						
4	.060	1.008	100.000						
5	.000	.000	100.000						
6	.000	.000	100.000						

Extraction Method: Principal Component Analysis.

As can be seen in Table 5.88, there are two factors with an eigenvalues greater than 1 (3.985 and 1.374), which indicates two-factor solution. This implies that these six items can be simply reduced to two factors. In this case, Factor 1 explains 66.41% and Factor 2 explains 22.90% of the variance with a total variance of 89.30%. The more variance that is explained by the factors, the better the factor solution is in reducing the initial six items to two factors. The scree plot in figure 5.3 depicts that the plot slopes downwards and from this it was decided to retain two factors for further investigation. Varimax orthogonal rotation was used in order to aid interpretation of these two factors.

Figure 5.3: Scree Plot for important criteria for decision making



The rotated solution in Table 5.89 revealed the presence of two factors solution with total explained variance 89.30%, in which Factor 1 contributing 66.41% and Factor 1 contributing 22.90%.

Table 5.89: Rotated Component Matrix(a) on the important criteria for decision making

	Component		Communalities of each variable
	1	2	
Requirements set by mortgage provider	.999		.999
Quality of customer services provided	.985		.974
Speed in processing the application	.971		.948
Repayment period	.743		.553
Monthly repayments amount		.927	.955
Term of monthly repayment	.653	-.710	.930
Eigenvalue	3.985	1.374	
% of variance	66.410	22.893	
Cumulative %	66.410	89.303	

Extraction Method: Principal Component Analysis. Rotation Method: Varimax with Kaiser Normalization.
a Rotation converged in 2 iterations.

As can be seen in Table 5.89, it can be said that since factor 1 has the higher eigenvalue and variance (eigenvalue = 3.99, variance = 66.41%) it necessarily represents more important criteria perceived by the customers when deciding which housing finance to take up as compared to factor 2 with a lower eigenvalue and variance (eigenvalue = 1.37, variance = 22.89%). Table 5.89 also depicts the communality of each variable which shows that variable 'requirements set by mortgage provider' has a value of .999 which indicates that the variable has 99.9% of its variation in common and is highly likely to be associated with the other variables in defining a factor.

5.18.4 Reasons for Satisfaction with Housing Finance

The earlier analysis investigated the satisfaction of the participants with housing finance, for which in this section factor analysis was also conducted.

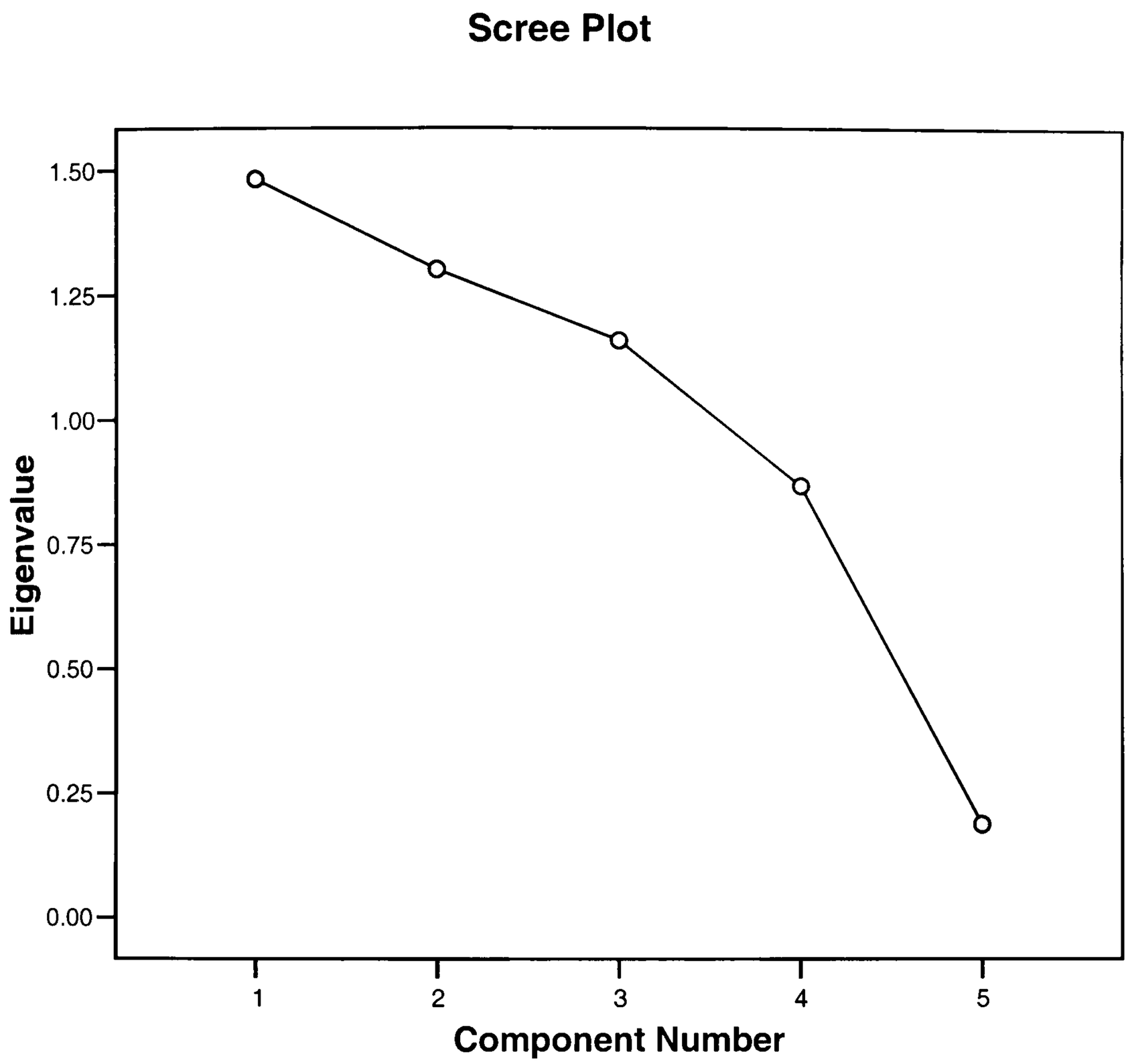
Table 5.90: Total Variance Explained on the reasons for satisfaction with housing finance

Component	Initial Eigenvalues			Extraction Sums of Squared Loadings			Rotation Sums of Squared Loadings		
	Total	% of Variance	Cumulative %	Total	% of Variance	Cumulative %	Total	% of Variance	Cumulative %
1	1.482	29.633	29.633	1.482	29.633	29.633	1.340	26.802	26.802
2	1.301	26.024	55.657	1.301	26.024	55.657	1.323	26.460	53.262
3	1.160	23.193	78.849	1.160	23.193	78.849	1.279	25.587	78.849
4	.869	17.371	96.220						
5	.189	3.780	100.000						

Extraction Method: Principal Component Analysis.

In Table 5.90, there are three factors with eigenvalues greater than 1 (1.482, 1.301 and 1.160). These five items can be simply reduced to three factors. Accordingly, Factor 1 explains 29.63%; Factor 2 explains 26.02% and Factor 3 explains 23.2% of the variance with a total of 78.85% of the variance. This indicates the robustness of the analysis. The scree plot in figure 5.4 depicts that the plot slopes downwards. From this it was decided to retain three factors for further investigation. To aid interpretation of these three factors, Varimax orthogonal rotation was used.

Figure 5.4: Scree Plot for reasons for satisfaction with housing finance



The rotated solution in Table 5.91 revealed the presence of three factors with a number of strong loadings, which explains a total of 78.85% of the variance, with Factor 1 contributing 26.80% and Factor 2 contributing 26.46% and Factor 3 contributing 25.59%. Table 5.91 also depicts the communality of each variable. It is also seen from table 5.91 that 'good value for money has the higher value of communality of .951 for the variable which indicates that the variable has 95.1% of its variation in common with the other variables in forming a factor.

Table 5.91: Rotated Component Matrix(a) on the reasons for satisfaction with housing finance

	Component			Communalities of each variable
	1	2	3	
Product offers great flexibility	-.843			.802
Ease of payment	.771			.654
Excellent terms of payment		-.839		.825
Simple and clearly understood		.772		.711
Good value for money			-.975	.951
Eigenvalue	1.482	1.301	1.160	
% of variance	26.802	26.460	25.587	
Cumulative %	26.802	53.262	78.849	

Extraction Method: Principal Component Analysis. Rotation Method: Varimax with Kaiser Normalization.
a Rotation converged in 4 iterations.

From Table 5.91 above, it can be said that since factor 1 has the higher eigenvalue and variance (eigenvalue = 1.48, variance = 26.8%) it represents more important reasons perceived by the users of housing finance as to why they are satisfied with the housing finance that they are currently using, compared to factor 2 with a lower eigenvalue and variance (eigenvalue = 1.30, variance = 26.46%). Likewise, factor 3 with variable 'good value for money' seems to be the least important reason for the users to be satisfied with the housing finance as it has the smallest eigenvalue and variance (eigenvalue = 1.16, variance = 25.59%). This would especially be the case with the users of the product, who felt the product was expensive.

5.18.5 Reasons for Non-satisfaction with Housing Finance

Factor analysis was extended into locating the reasons of non-satisfaction with housing finance that the participants have. These reasons include five alternative answers.

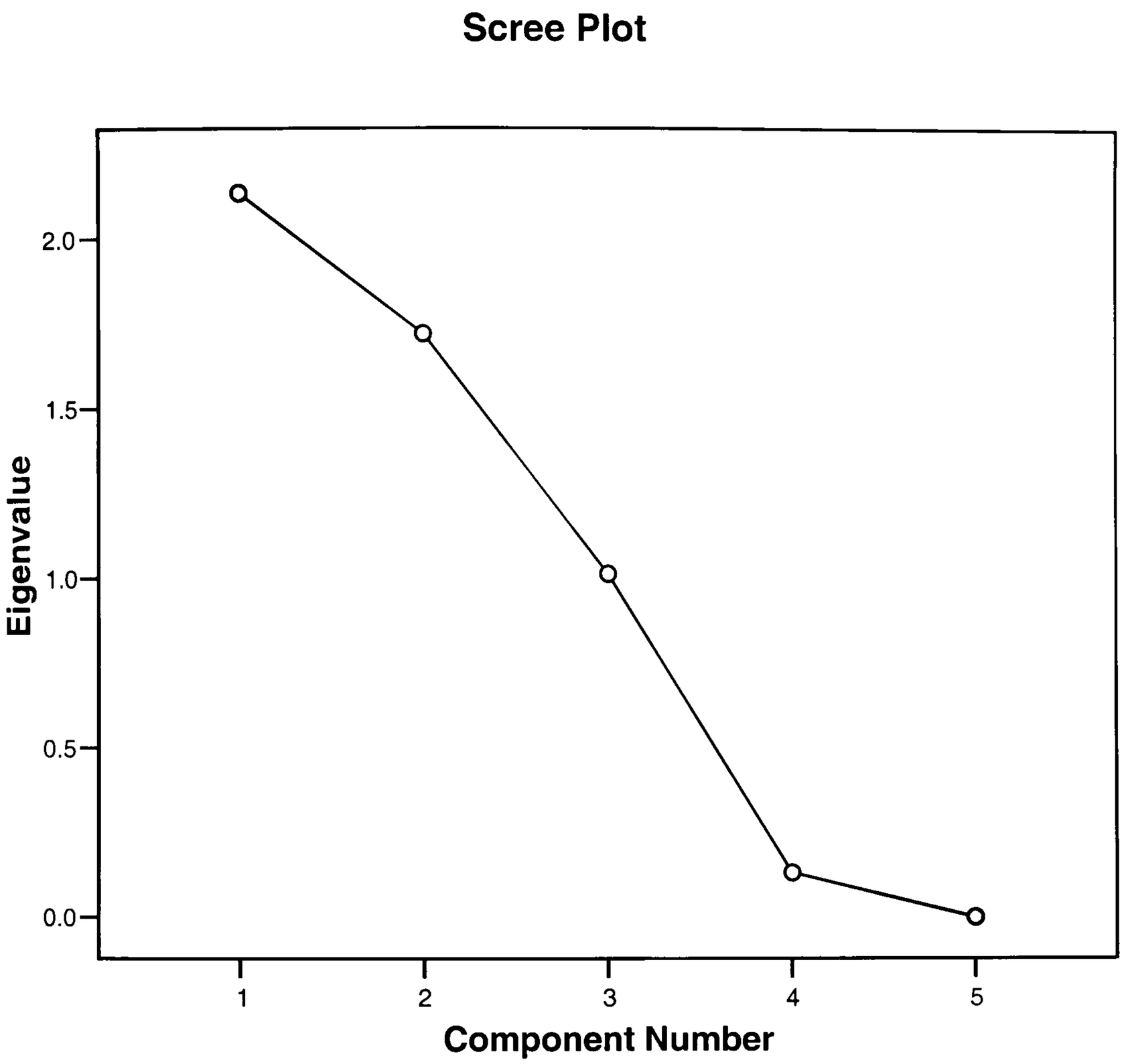
Table 5.92: Total Variance Explained on the reasons for non-satisfaction with housing finance

Component	Initial Eigenvalues			Extraction Sums of Squared Loadings			Rotation Sums of Squared Loadings		
	Total	% of Variance	Cumulative %	Total	% of Variance	Cumulative %	Total	% of Variance	Cumulative %
1	2.133	42.655	42.655	2.133	42.655	42.655	1.807	36.141	36.141
2	1.721	34.415	77.069	1.721	34.415	77.069	1.782	35.642	71.782
3	1.015	20.296	97.366	1.015	20.296	97.366	1.279	25.583	97.366
4	.132	2.634	100.000						
5	.000	.000	100.000						

Extraction Method: Principal Component Analysis.

In Table 5.92, there are three factors with eigenvalues greater than 1 (2.133, 1.721 and 1.015). That is, these five items can be simply reduced to three factors with Factor 1 explains 42.65%, factor 2 explains 34.42% and factor 3 explains 20.30% of the variance. Together these two factors explain a total of 97.37% of the variance, which indicates a better factor solution in reducing the initial five items to three factors. The scree plot in figure 5.5 depicts that the plot slopes downwards and from this it was decided to retain three factors for further investigation. To aid interpretation of these three factors, Varimax orthogonal rotation was used.

Figure 5.5: Scree Plot for reasons for non-satisfaction with housing finance



The rotated solution in Table 5.93 revealed the presence of three factors, which explains a total of 97.37% of the variance, with Factor 1 contributing 36.14%, Factor 2 contributing 35.64%, and Factor 3 contributing 25.58%. Table 5.93 also depicts the communality of each variable. It seems that the reason of 'not much flexibility given' has the highest value of communality namely 1.0 which means that it has 100% of its variance in common with the other variance in forming a factor.

Table 5.93: Rotated Component Matrix(a) on the reasons for non-satisfaction with housing finance

	Component			Communalities of each variable
	1	2	3	
Not good value for money	-.932			.979
Complicated and difficult to understand	.915			.947
Do not like the terms of payment		-.985		.990
High penalty charges		.843		.952
Not much flexibility given			.995	1.000
Eigenvalue	2.133	1.721	1.015	
% of variance	36.141	35.642	25.583	
Cumulative %	36.141	71.782	97.366	

Extraction Method: Principal Component Analysis. Rotation Method: Varimax with Kaiser Normalization.
a Rotation converged in 4 iterations.

It can be seen from Table 5.93, since Factor 1 has the highest eigenvalue and variance (eigenvalue = 2.13, variance = 36.14%) it necessarily represents more important reasons perceived by the users of housing finance as to why they are unsatisfied with the product that they were using, as compared to factor 2 with a lower eigenvalue and variance (eigenvalue = 1.72, variance = 35.64%) or compared to factor 3 with a much lower eigenvalue and variance (eigenvalue = 1.015, variance = 25.58%). This result implies that users of housing finance generally find that if a product is lacking in value for money and that if it is complicated and difficult to understand, then the product is deemed as unsatisfactory for them.

5.18.6 Suggestions for Improvements

In order to see the significance and robustness of the items included under suggestions for improvements for housing finance, factor analysis was conducted.

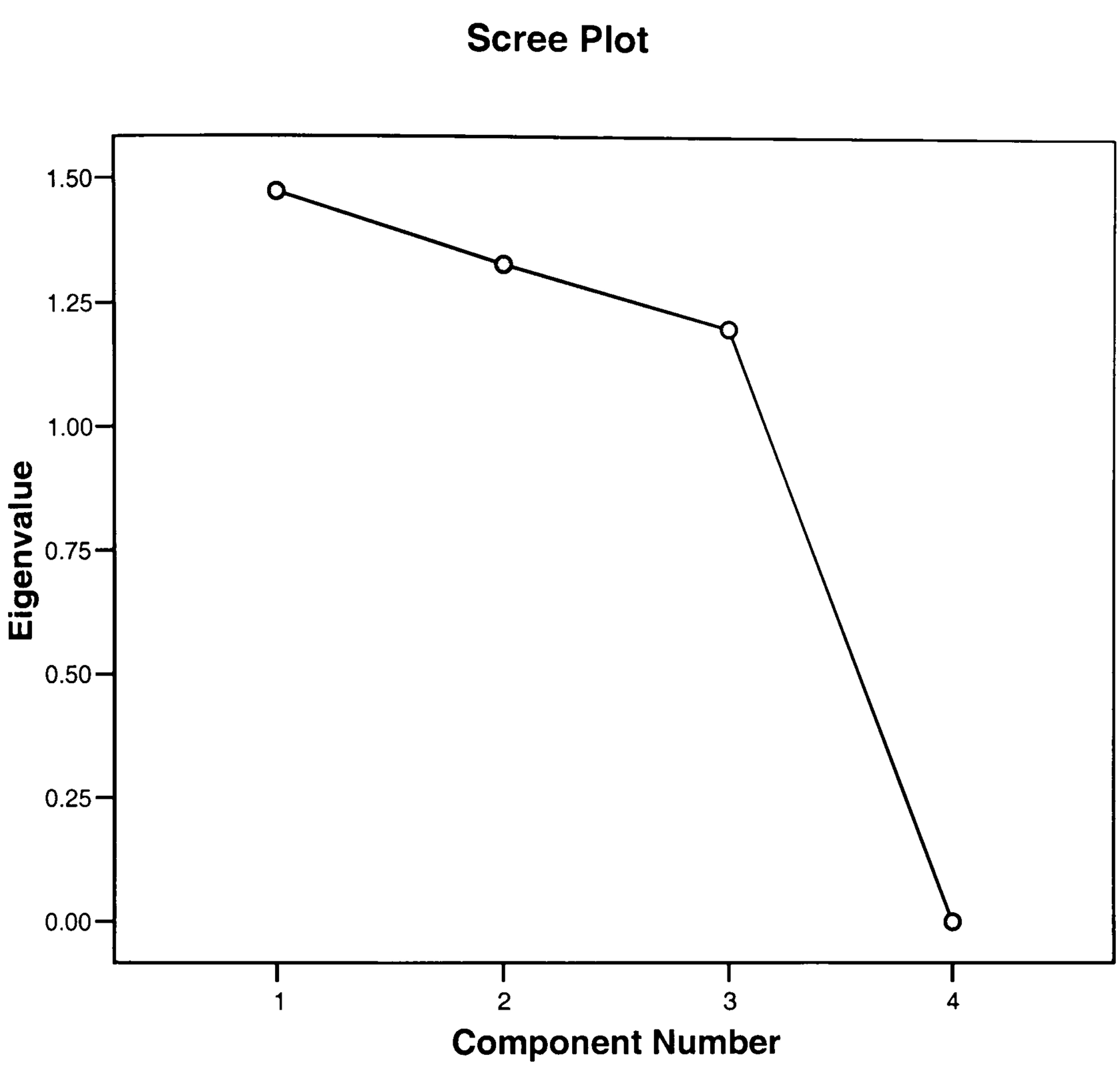
Table 5.94: Total Variance Explained on suggestions for improvements

Component	Initial Eigenvalues			Extraction Sums of Squared Loadings			Rotation Sums of Squared Loadings		
	Total	% of Variance	Cumulative %	Total	% of Variance	Cumulative %	Total	% of Variance	Cumulative %
1	1.472	36.809	36.809	1.472	36.809	36.809	1.409	35.236	35.236
2	1.328	33.198	70.007	1.328	33.198	70.007	1.381	34.518	69.754
3	1.200	29.993	100.000	1.200	29.993	100.000	1.210	30.246	100.000
4	.000	.000	100.000						

Extraction Method: Principal Component Analysis.

In Table 5.94, there are three factors with an eigenvalues greater than 1 (1.472, 1.328 and 1.20) implying that these 4 items can be simply reduced to three factors. Factor 1 explains 36.8%, factor 2 explains 33.2% and factor 3 explains 29.99% of the variance. Together these three factors explain a total of 100.0% of the variance. The scree plot in figure 5.6 shows that the plot slopes downwards and from this it was decided that three factors should be retained for further investigation. Here, Varimax orthogonal rotation was used to aid the interpretation of these three factors.

Figure 5.6: Scree Plot for suggestions for improvements



The rotated solution in Table 5.95 revealed three factor solution, which explains a total of 100.00% of the variance, with Factor 1 contributing 35.23%, Factor 2 contributing 34.52% and factor 3 contributing 30.25% of the variance. Table 5.95 also depicts the communality of each variable, from which it is fairly obvious from the table that all four of the variables have a value of 1.0 which means that they all have perfect correlation with all the other variables.

Table 5.95: Rotated Component Matrix(a) on suggestions for improvements

	Component			Communalities of each variable
	1	2	3	
Good value for money	-.935			1.000
No collateral required	.711	-.599		1.000
Offer great flexibility		.973	.988	1.000
Less percentage of down payment				1.000
Eigenvalue	1.472	1.328	1.200	
% of variance	35.236	34.518	30.246	
Cumulative %	35.236	69.754	100.000	

Extraction Method: Principal Component Analysis. Rotation Method: Varimax with Kaiser Normalization.
a Rotation converged in 9 iterations.

As table depicts 5.95, since factor 1 has the highest eigenvalue and variance (eigenvalue = 1.47, variance = 35.24%) it necessarily represents what are most important to the users of housing finance as to how the housing financial product can be improved, compared to factor 2 with a lower eigenvalue and variance (eigenvalue = 1.33, variance = 34.52%) or even factor 3 with an even lower eigenvalue and variance (eigenvalue = 1.2, variance = 30.25%). Again, this result implies that users of housing finance generally find that 'good value for money' is an important aspect for them in any product of housing finance. In this case, when asked as to how Islamic housing finance can be improved, 'good value for money' seems to be on top of the list.

5.19 CONCLUSION

This chapter deals with the analysis of the survey outcomes. There are many findings from it. The mains ones are: that the primary reason for respondents to use Islamic housing finance is their religious belief; the reason for respondents not using Islamic housing finance is the expensive monthly repayments; that the monthly repayment amount is the most important factor

for respondents when making comparisons between Islamic and conventional housing finance; there is also a general perception that Islamic housing finance is more expensive than the conventional housing finance.

In terms of information about Islamic housing finance, it seems that mass media have played and can continue to play an important role in information dissemination. Three quarter of respondents also use other Islamic financial products other than Islamic housing finance, thus this would provide a great opportunity for mortgage providers to promote their products by means of cross-selling to their customers via entry product of Islamic housing finance or vice versa.

It is interesting to highlight the findings of the analysis that even though the maximum repayment period is 30 years, most of the respondents preferred 21-25 years of repayment; also that the age group of 31-40 years is the prime time for people to buy properties and it also seems that this age group has the highest awareness of all people surveyed to use Islamic housing finance. Another interesting point to highlight is that more conventional housing finance users have problems of non-payment compared to those using Islamic housing finance. However, generally most mortgage providers make it compulsory for house buyers to take up housing finance insurance, regardless of whether it is Islamic or conventional housing finance.

It is also interesting that there are more Islamic housing finance users who are satisfied with the product compared with those who are not satisfied; in contrast, more conventional housing finance users are not satisfied with the product compared with those who are satisfied. Customers of banks were also not satisfied with their mortgage providers compared with the government and companies as their mortgage providers. Most respondents chose the option that Islamic housing finance should provide good value for money in order to make improvements to the product.

In summary, from the main points highlighted above, it can be said that there are certainly many findings from the survey that can be used by policy

makers as well as mortgage providers in promoting and improving on the Islamic housing financial product.

Chapter 6: INTERVIEW ANALYSIS AND FINDINGS

6.1 INTRODUCTION

This chapter discusses the results of the data analysis on the semi structured interviews that have been carried out. The semi structured interviews are qualitative data, consisting of words and observations, which need to be analysed and interpreted in order to give meaning to and an understanding of the data at hand. As with the quantitative analysis, the process of analysing qualitative data depends on the questions that need to be answered as well as the goals and objectives of the research.

In total there were four sets of interviews done with those who would be able to answer questions regarding Islamic housing finance namely with: bankers, company officials, government officers and *Shari'ah* scholars. The names of the banks are: Overseas Chinese Bank of Commerce (OCBC), Hong Kong and Shanghai Bank of Commerce (HSBC), Bank Rakyat, Affin Bank and Bank Islam Malaysia Berhad (BIMB). The names of the companies are: Shell, Tabung Haji (Pilgrimage Fund), Bank Pembangunan dan Industri Malaysia Berhad (BPIMB), Pos Malaysia, and Tenaga Nasional Berhad (TNB). *Shari'ah* scholars working for Bank Islam Malaysia Berhad (BIMB), Standard Chartered Bank, Bank Rakyat, Bank Muamalat and Rashid Hussain Bank (RHB) were interviewed. Their names are Dr Mohamad Sabri Haron, Dr Engku Rabiah Adawiah Engku Ali, Dr Shamsiah Mohamad, Ustaz Abdul Ghani Endut and Ustaz Mohamad Zaki Ibrahim.

6.2 ANALYSIS OF THEMES IDENTIFIED FROM INTERVIEWS WITH BANK MANAGERS, COMPANY AND GOVERNMENT HOUSING OFFICERS

6.2.1 Launch of Islamic Housing Finance

From the interviews conducted, it was found out that all of the banks, companies and the government sector have offered Islamic housing finance since the 1990s with the exception of Bank Islam Malaysia Berhad (BIMB)

which started doing so since 1983 and Hong Kong and Shanghai Bank of Commerce (HSBC) which only launched the Islamic housing finance product in the year 2002. As for the government institution, it began in 1994 after it was agreed in the Ministers' cabinet. Formerly, only the conventional housing loan was being offered to government officers. As for the companies, all of the interviewees said their companies also started offering the Islamic financial product in the 1990s.

The above information shows that there is an increase in awareness to offer Islamic housing finance to the public. This happened only rather recently in the 1990s.

6.2.2 Reason for Offering Islamic Housing Finance Product to the Public

The outcome of the interviews seem to suggest that there are various reasons for banks, companies and the government to offer Islamic housing finance to their customers and employees. There seem to be differences in the purposes between banks and companies/government. Interviews with the bank managers suggest that banks see the offering of Islamic housing finance as a business opportunity, a product variation and because they want to compete in the market when they see that demand exists for the product when it is already being offered by other banks. They also want to be a one-stop-service provider to their customers. There is also a bank which sees the offering of Islamic housing finance to the public as a natural process once sufficient deposits are collected. One bank is doing this as a response to the government's encouragement to offer Islamic financial products to members of the public.

Interviews conducted with officials from various companies and the government sector suggest that the offering or subsidizing of their employees wanting to take up Islamic housing finance is seen as more of a benefit or perk for them. That is because, for some of these companies and the government sector, there is an almost 100% Muslim workforce. There are also institutions which are either Islamic institutions or they have to Islamise

themselves, therefore they felt that it is only right that they should start offering Islamic financial products to their employees as well. One institution has done this because it is seen as a market trend as well as being beneficial to all its employees.

From this it can be seen that there is a main theme with regard to the reasons for offering the product. For banks, it is normally for the purpose of capturing a business opportunity from the market, whilst for the company and government sector, they offer the product mainly for the purpose of encouraging people to work and continue working with these institutions.

6.2.3 Profit Rate Setting

Results from the interviews suggest that all of the banks do not only use the conventional Base Lending Rate (BLR) in order to determine their profit rates. Among the factors that banks look at are the current costs of funds, administration costs, profit margin, and the market situation as well as the market offering, that is, the rates being offered by other banks. Some banks do look at the conventional rates and cost of funds and try to make the Islamic rates be seen to be as competitive as the conventional.

Also from the interviews, it was found out that whereby each bank very often offers different rates to their customers, all the companies and the government sector, except for Shell (Malaysia), offer the same rate, which is 4%. Shell offers a rate of 3.5%. The reason why companies offer 4% is because they follow the government sector which also offers this rate and/or this rate is set after comparing with other companies' rates. For those offering both Islamic and conventional products, the rate is the same for both these types of housing finance.

It is also found from the interviews that generally there are two types of company housing finance. One type is whereby a company uses the funds it has to help finance its employee to buy a house. In other words, the company or government sector is the one who buys and sells the house to the employees. The other type is whereby a company uses the funds it has

in order to subsidize its employees when they deal with any banks during the buying process. For example, if an employee goes to a bank which charges a profit rate of 7%, and if the company in question offers a rate of 4%, then it would have to subsidize the rest of the 3% profit rate and the employee ultimately only has to pay 4%.

What can be gathered from this is that as a profit making institution, banks have to be seen to be competitive when offering the Islamic house financing product. That is why the banks have to take into account various other factors when determining the profit rate, apart from the current BLR. Sometimes there are also differences in the rates on offer for Islamic and that of the conventional housing finance product. In contrast, for all companies and government institutions which are offering housing finance, there are no differences in the rates being offered either for Islamic or for the conventional facilities; it is fixed at a certain percentage throughout the period of financing.

6.2.4 Financial Sources

From the interviews, it can be said that there are various similarities as well as differences between banks as to where they derive their funds in order to help their customers buy houses of their choice. These funds come mainly from depositors' funds consisting of depositors' savings and current accounts. There are banks which use funds in the form of investments, for example one bank uses shareholders' funds consisting of in-house shares. There are also banks which use the money market and CAGAMAS[1] in order to get funding. With regard to the financial sources, all the interviewees said that they are from Islamic financial sources.

---

[1] '***Cagamas Berhad***, *the* ***National Mortgage Corporation***, *was established in 1986 to promote the secondary mortgage market in Malaysia. Its corporate mission is to provide financial products that would make housing loans more accessible and affordable to Malaysians, particularly the lower income group. It borrows money by issuing debt securities and uses the funds to finance the purchase of housing loans from financial institutions, selected corporations and the Government. The provision of liquidity at a reasonable cost to the primary lenders of housing loans encourages further financing of houses at an affordable cost.*' http://www.cagamas.com.my/ (8 April 2006)

Interviews with company officials mentioned that all of their companies have funds coming from the companies themselves without seeking any help from any other institutions. The finance department of each company normally allocates a certain amount of money for the purpose of giving the housing finance facility to its employees in order to buy houses of their choice. Pos Malaysia, for example sets aside RM100 million for the purpose of offering housing finance to employees. For those offering Islamic and conventional housing finance to its employees, the amount of money set aside is for both the Islamic and conventional. This money revolves, and there would always be inflow as well as outflow of money, for example, there are employees who had been taken up long ago who would have paid most if not all of the mortgage, and that money can now be used to finance the new applicants (employees) who wish to take up housing finance.

According to the interviews with government officials, in order to give housing finance to government employees, the government uses funding from the Employees Provident Fund (EPF), commercial banks for example Bank Rakyat and Pensions Fund Trust. At the same time the government also deal with securitization in order to get more funding to finance more house buyers.

From the above information, it was found out that there are differences in the way institutions gather money to fund the financing of houses for their customers. For banks, it is mainly gathered from customers who are currently banking with them; or through other sophisticated means, for example securitization. Whilst for the government, it is gathered from banks and other government financing institutions and rather recently using securitization methods. Companies by contrast, obtain funds from allocation granted to them by the companies themselves.

6.2.5 Terms of Repayment

From the conducted interviews, it appears that all the banks, with the exception of HSBC, offer different packages of tiered rates Islamic housing finance. The rate here means the term for monthly repayment of Islamic housing finance and it normally differs between the tiers. For example, at OCBC, for the first five years, the profit rate is 5.5%, for the next five years it is 7.25% and 7.35% for the remainder years. As for HSBC, its financing period is fixed and there is only one rate of instalment fixed until the end of the repayment period. Unlike banks, companies offer a flat rate, for example, 4% throughout the repayment period which means that the repayment amount should be the same until the end of that period. The interviewees from the government institution said that it actually charges employees the buying and selling price of 7% out of the market price if they are taking up housing finance of less than RM100,000 or 9% if it is more than RM100,000. However, the employees are given rebates from the very beginning of the repayment so that in effect, they only have to pay 4% of the profit rate throughout the repayment period.

From the interviews, it can be said that the period of repayment offered, also differs between banks. For OCBC the maximum number of years allowed is normally the preferred repayment period, which is 20 years. It wants to make sure that its funds are covered and secure as well as having enough reserve funding. It also does not want to be a high risk taker as some other banks offering Islamic products are, such as Affin Bank which offers a duration as high as 35 years and/or until the age of 65 years. HSBC is offering a repayment period of 10 years or up to the age of 60 years, whichever is earlier. With HSBC, this would mean a higher amount of monthly repayment compared with those with a repayment period of 25 years, for example.

The outcome of the interviews that were conducted suggests that the repayment period for companies also differs. Some companies allow a maximum period of 20 years. There is one company which gives a duration of 30 years and another two with a maximum of 25 years. It is normally the case that the employees take up to the maximum number of years or up to

their retirement age, whichever is earlier. Only Tabung Haji allows its employees to take up to the maximum of 25 years even if this exceeds his retirement age. This means that if he/she has not finished paying for the house when he/she retires, he/she can continue until after the age of retirement.

As for the government employees, they can choose how long they want the housing tenure to be but no more than 25 years if the housing finance is taken up for the first time but a maximum of 20 years if it is for the second time. Oddly enough, the employees can actually hand in the application form for housing finance even six months before he/she retires which in effect means that they would have to continue making the repayment even after the retirement age.

From the above information, it can be said that most banks are innovative in the sense that they offer different tiered rates and different periods of repayment. They take into consideration that the earlier years of buying a house are the most difficult years for a customer as there would be a lot of outgoings rather than incomings. Therefore a lower rate is charged to them in those years. However, it should be mentioned that this is mainly because banks charge a much higher rate to their customers compared to those taking up housing finance from companies or government institutions, which is very low indeed.

As for the period of repayment, generally it is very long for most banks and all companies and government institutions. It is interesting to note that from the interviews, it seems that there is one bank which offers too long a period namely 35 years and in contrast one bank which offers a very short period namely 10 years. Of course the longer the repayment period is, the less the customer has to pay on a monthly basis. In contrast if it was as short as 10 years then the customer would have to pay a large monthly repayment amount. However, on average, the period of repayment is between 20 to 25 years which comes up with an average monthly repayment.

6.2.6 Flexibility

6.2.6.1 Re-mortgage Facility

When asked whether banks have the facility to enable their customers to re-mortgage their housing finance in order to get extra cash for other purposes for example, house renovation, three out of five of the banks said they have this facility whilst the other two do not. For OCBC customers, they can do this by signing up another contract. Topping up their mortgage without increasing the number of years to pay back would result in a much larger monthly repayment amount. Bank Rakyat and Bank Islam have this facility as well. Bank Islam has introduced a very innovative product/concept called Baiti Wahda which allows customers to re-mortgage at no extra cost. It is a 2 in 1 product consisting of housing as well as personal finance.

It is also found out from the interviews that the government sector and three out of the five companies have facilities which enable their employees to get extra cash for any purpose. The government allows their employees to use the house that they have bought using the government's housing finance, as collateral for them to get extra cash from the bank. All three of the companies have different methods for their employees to obtain this extra cash. For Shell, employees can get cash from the bank that he/she is with, but if after re-mortgaging the house the profit rate goes up to 15% from say, 10%, then the employees would have to bear this increase of 5% himself, on top of the 3.5% profit rate that they have to pay to Shell.

According to officials from Tabung Haji, if an employee still has a balance from the amount of financing that he/she is entitled to, then he/she can apply for this amount to be used for house renovation purposes. For example if the employee is eligible for a house worth RM110,000 but he/she bought a house worth RM90,000 then the employee is allowed to use the extra RM20,000 for this. If the employee wants to use this facility then a new amount would be added to the monthly mortgage repayment and both amounts would be deducted from his/her monthly salary.

As for BPIMB, the interviewee said that it only gives extra cash for house renovation purposes whereby an employee can combine the Islamic housing finance with that of the house renovation finance and only pay one single amount which is deducted from his/her monthly salary. The government sector is also very flexible as it allows the employees to use their property which has been collateralized to the government, in order to get extra cash and finance from a bank, for business and medical purposes for example.

From the data above, it can be said that generally almost all of the banking, companies and government institutions are flexible in their offering of Islamic housing finance products. All of them allow re-mortgaging as they acknowledge that customers need extra cash for various personal purposes, such as house renovation, business and medical purposes.

6.2.6.2 Refinance Facility

From the interviews, it was found out that all the banks allow their customers to refinance, which means to change to another bank as their mortgage provider. It is normally the case that they can only refinance without any penalty charges after five years of being with that particular bank. For banks like Affin Bank, there is a minimum of five years before customers can go to another bank because this is the minimum number of years in order for the bank to break even because the rates offered during the first tier for example is 1.8% which is far below the bank's cost of funds. It is only at the third tier of 6.25% when the customers are being charged the actual rate. Therefore, during the first two tiers, the bank is actually subsidising their customers and in a state of loss. It is only right that any customers, who wish to make a full redemption or go to another bank within this penalty period of 5 years, should have to pay a penalty charge in order for Affin Bank to recoup the losses.

As with the banks, all companies allow their employees to refinance. It is normally the case that employees would want to refinance from a different mortgage provider to that of the companies' housing finance because these companies give far better rates than any banks in the long term. Interviews with government officials suggests that government employees can also

refinance the house that they bought using the government's housing finance, to another institution, for example a bank. This is especially the case for government employees who want to leave their job working with the government.

Therefore, generally it can be said that all mortgage providers do offer some form of flexibility to their customers or employees. This can be seen for example, from the aspect of refinancing which all institutions whether it is banks, companies and government, allow their customers or employees to do.

6.2.6.3 Lump Sum Payment

Interviews conducted seem to suggest that all the banks allow their customers to pay lump sums freely without any penalty charges and, with the exception of Affin Bank, no notice is required in order for them to do so. In fact, from the interviews, it was found out that banks like OCBC and Bank Islam give rebates to their customers who pay up early and this amount would be deducted from the total amount due from the customers. Normally customers who wish to make an early settlement are those who have made a withdrawal on their EPF (Employees Provident Fund). With HSBC, they can make early settlement anytime but if they want to make an early and full redemption, then their customers are required to give three months' notice. Otherwise, they would have to give the bank three months' profit.

The outcome of the interviews also suggests that the government institution and all companies allow their employees to pay lump sums without any penalty charges. In fact, they can settle his/her mortgage anytime sooner than the tenure he/she initially applied for. With companies like Pos Malaysia who do not finance the total cost of the house but instead only subsidize the amount their employees have to pay to a bank, its customers would need to refer to the bank him/herself regarding whether the bank charges penalty for paying lump sums to reduce the monthly repayments. This is because it is the bank which decides this and not Pos Malaysia.

It is interesting to note from the above that generally most banks and companies are very flexible in the sense that they allow customers to make early repayments and pay lump sums towards the value of the house without notice. In some cases the customer even gets rebates from their mortgage provider.

6.2.7 Product Awareness

6.2.7.1 Staff

It is interesting to note the results from the interviews show that all the banks with the exception of Affin bank have staff at every branch to deal with any queries from customers concerning Islamic housing finance. Affin bank only have staff to deal with any queries concerning Islamic housing finance in some of its mortgage departments throughout the nation, but not all of its branches has such specialist staff. However, from the interview, it seems that none of the banks have anybody who is specifically assigned to sell or promote the Islamic housing finance product. For banks like OCBC, the staff receive one training session each month, telling them of OCBC's benefits, product features, and basically making sure that the staff sell the right product. Bank Rakyat gives training to their staff three times a year.

Likewise, from the interviews with various company officials, it was found that all the companies also have staff to deal with any queries from their staff members. Shell has only one staff member, whilst BPIMB and Pos Malaysia have only two staff to deal with any queries concerning housing finance as well as to check all the documentations, whereas at TNB there are currently eight staff who handle all forms of financing offered by the company namely house, car and computer financing. Like the banks, they too have been given training in order to answer any queries from company staff members. It is interesting to note from the interview that TNB has developed an online system which enables its staff to find out more about the financing that they have taken up with TNB, for example, the amount of total repayment left to be paid towards the housing finance. This efficiency also has an effect in reducing the number of staff needed.

The outcome of the interview with government officials show that the government has various staff assigned to different sections of housing. The government also seems to be very innovative as it recently fully activated an online facility which enables any government employees to download application forms, find out the procedures and conditions for application, find out the remaining balance that needs to be paid, and check whether their application has been approved or otherwise.

It is also found out that generally, all banks, companies and government institutions have staff that are held in charge to answer general queries from customers or employees concerning all forms of financing that the institutions are offering. However, banks and companies do not have any person who is specifically assigned to deal with queries concerning Islamic housing finance. The problem with this is that the staff in charge would not actually be promoting Islamic housing finance. Instead he/she would only be answering any general queries which customers might have and these could even include queries with regard to conventional housing finance. It is also interesting to note how the government and certain companies have been innovative in their way of dealing with queries from their customers, for example TNB.

6.2.7.2 Marketing

When asked what they have done in order to promote awareness of the Islamic housing finance product amongst the public, all the banks except for Affin Bank, mentioned that they do advertise in the mass media. They advertise in the Malay and English newspaper and OCBC even advertise in the Chinese newspapers. HSBC produce brochures, put up posters as well as go on road shows in order to promote their product. Both HSBC and OCBC participate in the Islamic Banking and *Takaful* week held yearly at the Putra World Trade Centre (PWTC). Bank Rakyat advertises as well as provides public education on the television as well as on the radio.

It is very interesting to find out how different banks have different ways of capturing the market. For example, the Affin bank is currently tying up with

particular developers so that Affin bank would be these developers' panel bank. This means that whenever there is financing required, the developer will call Affin Bank. Therefore, Affin Bank finds it very important to be there during the launching of any development projects. House buyers would get a good offer when there is a tie-up between the bank and a particular developer. If any buyer were to use Affin Banks as their mortgage provider, that is if it acts as one of the panel banks, then he/she would get a lower rate. This rate is lower when contrasted with the rate offered to anyone turning up at the counter asking for housing finance.

Another method of promotion done by Bank Islam as mentioned by its bank manager is to focus on a captive market and offer package financing. It builds a cooperation with various companies so that the monthly housing instalments due would be deducted from the customer's monthly pay. An advantage to the bank is that by doing this, Bank Islam has managed to reduce the risk factor by having a more secure and constant monthly payment. This package financing also has an advantage to their customers as it offers a rate which is lower than the rate given to walk-in customers because of the reduction in the risk factor incurred by the bank.

The outcome of the interviews shows a very different picture with companies and government housing finance. The interviewee from Tabung Haji for example, felt that their employees are very much aware of the Islamic finance product. Every TH branch and office should have received a guide book as a reference on the terms and conditions for a staff member to apply for housing finance. As for BPIMB, its interviewee mentioned that all the employees agree to use Islamic housing finance. When BPIMB used to offer only conventional housing finance, the Muslim staff themselves proposed the idea of an Islamic housing finance. The interview conducted with Pos Malaysia said that no promotion is undertaken by any of the staff in the finance section. Where as, Shell's officer in charge of housing finance said that he promoted both the Islamic and conventional housing finance. Since the introduction of Islamic housing finance at TNB, there have been circulars sent out to every department as well as advertisements in TNB's intranet which can be

accessed by every staff member except for those working on-site (as it is a National Electricity company). These people would have to call the main office to find out more about the product.

From the information gathered above, it can be said that there is an overall high awareness and innovativeness by all the banks to capture a bigger market for Islamic housing financial products because generally banks are profit-oriented institutions. In contrast, all the companies do not have any need to promote the Islamic housing finance product. This is because it does not make any difference to the company in terms of profit it earns, the paper work it needs to do and the rate it charges if an employee decides to take up Islamic or a conventional facility. It is a form of benefit offered to company employees and they can choose to utilise it or otherwise.

6.2.8 Competitiveness

When asked whether the banks have made the alternative Islamic housing finance products as competitive as the conventional ones, because of the suggestion that Islamic housing finance is more expensive than the conventional one, all the banks with the exception of OCBC said that this is so. It is interesting to note the reaction of the OCBC bank manager who believes that it is wrong to say they are like the conventional but in actual fact they are different and even better than the conventional. The perception of Muslims will always be that Islamic housing finance is more expensive than the conventional ones. The interviewee added that this is different from the Chinese who have taken up Islamic housing finance because they do a lot more analysis and look at things over a longer time frame. Therefore, the bank manager of OCBC felt that the product would appeal to people with a different mind set who want to lock in their liability and do not like to gamble as to what will happen in the future in terms of the rates.

Bank Islam's bank manager also felt that the public needs to be given education as they still question why the Islamic housing finance is more expensive. He felt that they need to be reminded that with Islamic housing finance, the fixed rate can actually help them to budget, and unlike the

Islamic housing finance, the conventional housing finance can actually increase the rates charged to its customers when the economy is bad. The HSBC bank manager said that its bank has made its product as competitive as the conventional although they acknowledge that the Islamic pricing does seem higher. They cannot charge the profit rate at the current market rate and need a bit of a buffer as a form of hedging mechanism. The Islamic housing finance product is then fixed at a certain rate for the whole repayment period.

It is very interesting to find out from the bank managers concerning how they felt about the competitiveness of the Islamic housing finance product compared to the conventional facility. Most of the bankers interviewed felt that they have made the product competitive. However, there are those who felt that there is a need for customers to correct their perception of Islamic housing finance first. They have to be made to see that Islamic housing finance is different to conventional housing finance in many ways, for example in terms of its main product feature namely the fixed rate it charges and what this entails to the customers.

6.2.9 Demand for Products

When asked about the demand for Islamic housing finance, all the banks except for OCBC and Affin Bank's manager, felt that the demand from Muslim customers is high or reasonably high. OCBC's bank manager mentioned that 70% of the demand for their Islamic housing finance actually comes from their Chinese customers. Affin bank manager felt that the demand is on the low side when compared to previous years. HSBC and Bank Rakyat also mentioned that there are demands from their non-Muslim customers as well. Like OCBC, the demand from HSBC's non-Muslim customers for the Islamic housing finance is even higher than the demand from the Muslims themselves. HSBC's bank manager also mentioned that they are trying to reach the target set by Bank Negara Malaysia (BNM) of gaining 11% from the conventional market share by the year 2010. As for BIMB, the demand for Islamic housing finance is said to be increasing year on year.

As for the companies and the government sector, the demand for Islamic housing finance is also high or reasonably high as all staff take up Islamic housing finance. An interview with the Pos Malaysia housing officer seemed to suggest that it is normally the clerks (versus executive who are higher skilled workers) who take up the housing finance facility. The executive officers do not take up the facility because Pos Malaysia grants a maximum amount of finance of RM180,000. It is normally the case that these officers buy houses worth more than that. Shell and the government sector also mentioned that there are non-Muslims who take up Islamic housing finance. With Shell, there are 20% of non-Muslims who do this.

Generally, there seems to be an encouraging demand for Islamic housing finance coming from customers in the banking sector and those made by company employees. What is interesting to point out here is that most of these institutions also obtain demand for the product from their non-Muslim customers. An extreme example of this is a banking institution with a majority of its customers consisting of non-Muslims which at the same time has a very high demand for Islamic housing finance products.

6.2.10 Take-up Reasons

There were many reasons that the managers came up with in regards to their customers choosing Islamic housing finance. All the banks' and companies' managers suggested their religious beliefs to be one of the reasons, if not the main reason. Although OCBC and HSBC's bank managers added that, very few people are believed to have taken up the product because of this reason. Another reason mentioned by HSBC's bank manager is that with the Islamic housing finance product, the monthly repayment is fixed throughout the mortgage tenure. Thus, taking up the Islamic housing finance product makes the customers feel that they can manage their cash flow better, for example RM1000 throughout the 10 years tenure. The fixed monthly payment would also give the Islamic mortgage customers peace of mind. The Bank Rakyat bank manager also gave other reasons for choosing Islamic housing finance which is the competitive profit rate being offered and excellent service which includes minimum requirement required from customers as well as

applications being processed quickly. The Affin bank manager mentioned that those taking up the product due to faith do not argue much on pricing. If they find that the rate is quite competitive then they simply take it up. Bank Islam bank manager said other than the reason of faith, their customers took up the product with Bank Islam because it offers many competitive, as well as, innovative Islamic housing finance products.

It is interesting to note from the interviews that there are Muslim government employees who take up conventional housing finance and non-Muslim government employees who are interested in taking up Islamic housing finance. There is actually no difference in the rates between an Islamic and conventional housing finance. The difference only lies in the *aqad* (pledge) which signifies to them that they are taking up an Islamic housing finance as oppose to the conventional facility. Previously, before the introduction of Islamic housing finance, all government employees had to take up the conventional housing finance. But since the advent of Islamic housing finance, they now have a choice of take up between the two. According to the interviewees, those Muslims who took up Islamic housing finance due to their awareness that it is impermissible to be involved in *riba.*

As for the companies, Shell seems to suggest that the Muslim employees have the awareness not to involve themselves with *riba*. As for the non-Muslims, the reason for their take up of Islamic housing finance is possibly because with the Islamic housing finance, the monthly repayment is fixed throughout the tenure, thus they do not have to worry at all that the monthly repayment would change.

As for Tabung Haji, apart from the primary reason of faith, employees take it up also because it is the only housing finance product that is being offered by Tabung Haji. BPIMB's bank manager also felt that faith is the main reason and another reason is that Islamic housing benefit is one of the benefits given by the company to all its staff, thus they might feel that it would be a waste if they do not take it up. Pos Malaysia bank manager mentioned only the reason of faith for choosing Islamic housing finance. Another possible

reason added by TNB's bank manager other than the main reason which is faith, is that with Islamic housing finance, the stamp duty is cheaper than the conventional. With the conventional, the applicant would be charged RM5 for every RM1000 of finance. Whereas for the Islamic housing finance, the applicant would only have to pay a one-off amount regardless of how much the sum of finance is.

From the information gathered, it is fair to say that in general, all bank managers, government and company officials in charge of housing finance felt that religious belief is the top most reason for their customers wanting to use Islamic housing finance product. Other main reason for using it is because of the fixed rate feature of Islamic housing finance products and the many advantages this brings to the user. Added to this is the institution's administrative issue for example, the efficiency in the application process and the quality of service offered to them.

6.2.11 Cross-selling of Products

There was a question on whether there was any cross-selling of Islamic products offered to existing customers. It was found out from the interviews that all the banks except for Affin bank do cross-sell their products. For OCBC, the entry products for Muslims are the credit card and personal or cash financing which it claims is 'cheaper' than Bank Rakyat. It seems to be very innovative as it offers a package like housing finance which allows customers to pay lump sums without notice, no guarantor and no security deposits needed. Entry product means that once customers come to OCBC for these products, OCBC staff would then try to sell other Islamic products to their customers. From the interviews, it was also found out that HSBC and Bank Rakyat cross-sell and an example of this is that they make it compulsory for their customers to open up a savings account in order to make the monthly repayments standing order of the Islamic housing finance. Another example given by HSBC's bank manager is the cross-selling of Islamic MRTA (Mortgage Repayment Term Assurance) for those using Islamic housing finance. If its customers decide to take it up with HSBC, then the MRTA is amortised throughout the 10 years of repayment period. As for

Affin Bank, it does not cross-sell even though it does offer Islamic products at the bank. The manager said that this is because it is very much compartmentalized.

From the information gathered, it seems that most banking institutions carry out cross-selling of products to their customers and this includes the Islamic financial products. There are many means of cross-selling mentioned above: examples are by selling other products to a customer once that customer started using a particular product; packaging a product in such a way that the customer is obliged to take up another financial product; and offering a financial product which is a complementary product to another.

6.2.12 Survey of Satisfaction

From the interviews conducted, it seems that all the banks except for Affin Bank, undertake a survey of its customers. OCBC does this every year in order to find out the level of satisfaction/dissatisfaction amongst those who use the bank's products. So far there has not been any complaint received from its customers. HSBC uses a third party to carry out the survey. Not only does Bank Rakyat survey its customers' level of satisfaction, it also issues an ISO (standard) report.

From the interviews with government officers in charge of housing finance, it seems that they do not undertake any survey of its customers although any complaints can be brought to their attention directly. However, it must be mentioned that the institution has a customer constitution which promises to process and reply to all housing applications within 14 days. If there is any delay in the application process then this is possibly due to the fault of the employee who might not have submitted the application form together with the correct documents.

From the interviews, it seems that all the companies, except TNB have not done a survey to find out their customers' level of satisfaction. Nevertheless, Tabung Haji has received complaints regarding the speed of process. However, the company's officer in charge of the housing finance said that it

depends on the applicant. If he/she is late in handing in the application form with the proper documents then this would obviously delay the process. BPIMB also has not carried out any survey. However, it has received complaints from staff saying that the speed of processing is very slow. The company argued that this could be due to the applicant's own fault that it did not provide enough of the documents that are required from them. Another reason is possibly due to the delay in getting the required signature of final approval from the head of department who is always busy with meetings, etc. This problem has been remedied and affected in an improvement in the speed of processing. Pos Malaysia also does not carry out any survey, although their customers are free to come up to the finance unit in order to file a complaint. TNB is the only company which had conducted a survey to find out the customers' satisfaction level. There have been a lot of improvements over the last few years, for example from more than 3 months for the housing finance to be approved which has caused dissatisfaction amongst the staff taking out the housing finance, the processing time has been greatly reduced to only 14 days for an application approval.

Generally most banking institutions do a survey on their customers in order to find out their satisfaction level. In contrast, companies do not undertake any survey on their customers. However, the employees can make a complaint to the people in authority over Islamic housing finance if they have any problems with the product. So far any complaints received have been dealt with by the perspective companies and normally it is related to administrative issues.

6.2.13 Non-payment Problems

Results from the interviews seem to suggest that all the banks have non-payment problems amongst their customers. According to BIMB's bank manager, he felt that it is important to have a focus captive market and have a package of financing in order to eradicate the problem of non-payment.

The interview with the government officials does show that they also face problems of non payment amongst its employees; some amongst existing

workers and others amongst retirees. The Shell housing officer said that it does not have any non-payment problems because it makes sure that the employee has enough salary to make the monthly repayments to the bank. Another reason is that the employee is allowed to take up the housing finance only up to the age of retirement. Like Shell, BPIMB also do not have this problem because the housing finance section calculates the monthly repayments in such a way that by the time employees retire, the mortgage would have been paid up completely. Tabung Haji do not have a major problem of non-payment amongst its housing finance users because the finance section always check before granting the finance, that the employee is capable of paying. Nevertheless, from the interviews, it was evident that there is a problem of non-payment amongst the pensioners because they would have to make the monthly repayments even after retiring. The problem of non-payment amongst retirees also exists at TNB because before it was made a corporative, the employees were allowed to take up housing finance past the age of retirement. As for Pos Malaysia there was a similar problem before it became a corporative, but this problem has since been resolved.

As an outcome from the interviews, it can be said that generally the government and all banking institutions face the problem of non-payment amongst their customers. However, it can be seen that this very much depends on the policy of these institutions when offering the product to their customers. What can be learnt from the companies who do not have such problems is that because these institutions are the ones which give salaries to the house buyers, they make sure that the salaries are sufficient to cover the monthly repayments and that the maximum age of buying a house is only up to the age of retirement.

6.2.13.1 Proportion of Islamic vs. Conventional Non-payment

When asked during the interviews, whether the proportion of non-payment customers using Islamic products is more than those using conventional facility, OCBC's bank manager said that it is difficult to compare because the number of those taking up Islamic products is not as big as the conventional

facility. The HSBC bank manager also felt the same as OCBC that is, that the percentage under the Islamic housing finance is lower than the conventional housing finance customers. As for Affin Bank, at the time the interview was conducted, the level of non-payment amongst its Islamic and conventional housing finance users was high. This question is not applicable to both Bank Rakyat and Bank Islam because both these banks do not offer conventional housing finance products therefore there is no means of comparing between the two opposing products.

This question is not applicable to Shell as it did not seem to have any problem of non-payment amongst its staff. This question is not applicable to Tabung Haji and BPIMB as both these companies do not offer conventional housing finance. As for Pos Malaysia and TNB, this question is not applicable to them because, the problem of non-payment no longer exists since they have become corporatives. Now, any housing finance taken up must be completed by the age of retirement. This is also because the monthly repayments are deducted from the staff's salary.

From the data above there is inconclusive evidence with regard to the proportion of non-payment of those taking Islamic and that of conventional housing finance. This is because it is difficult to make comparisons when there were banks which have a low proportion of customers taking up Islamic housing finance, banks and companies which do not offer conventional housing finance and companies which do not have any problem of non payment at all.

6.2.14 Default

6.2.14.1 Length

When asked about the maximum number of months that the clients are allowed to default on their monthly repayments, all the banks except for Affin Bank, allow their customers to default for 3 months. After 3 months, banks like HSBC carry out legal procedures, for example by sending out a letter of demand to these non-paying customers. The bank manager from Bank Islam

said that they adopt an SMS banking approach which reminds their customers through text message immediately after any customer missed their monthly repayments. As for Affin Bank, its bank manager said that it follows a guideline set up by Bank Negara Malaysia (BNM) which is the Central Bank of Malaysia, whereby after 6 months the product needs to be recalled.

Information gathered from the interviews with the government institutions, reveal that when they are faced with non-payment, a notice is sent out to non payers and they are given up to a month to continue with the repayments, before further actions are taken. For Shell and Pos Malaysia, this question is not applicable because they do not seem to have any problem of default.

From the above, due to the ruling set up by BNM, banks allow their customers to default between three to six months after which certain procedures are followed, for example by sending out text messages and reminders in order to encourage their customers to continue paying or risk losing their property. As for companies, there were rarely problems of non-payment and if this happened this was normally because there were employees who had to continue paying their monthly repayment even after the age of retirement.

6.2.14.2 Procedure

A question on the procedure carried out by the bank if its customers fail to make payments was posed to the interviewees. Also, whether the procedure for Islamic finance is the same as for conventional housing finance users. Affin Bank and BIMB bank managers mentioned a guideline called National Land Code, produced by the government, making it a government law. It states the procedure for banks to follow in the case of non-payment. This code governs both Islamic and conventional housing finance and it is the same for all banks to follow. Both OCBC and HSBC also mentioned the guideline set by BNM. Defaulters at HSBC are being made to pay a late payment charge after one month of non-payment from the due date. The charge is only 1% out of the instalment amount due. As for Bank Rakyat

defaulters, a letter would be sent out to them although there are no penalty charges in the case of a default. If after 3 months, the defaulters still do not pay, there would be legal actions taken, for example through court orders.

From the interviews, it was found out that if a problem of non-payment arises at Tabung Haji, then it sends out reminders to those who fail to pay and the tenure is also prolonged. As for BPIMB, there is no problem of non-payment for those planning to stay until the retirement age. However, if any staff member decides to leave the company before the retirement age, then BPIMB gives 3 months for him/her to find another financier. During these 3 months the employee only pays a profit rate of 4%. After 3 months, it goes up to 12%, up to a maximum of 6 months after which BPIMB will take legal action on the staff if he/she does not settle the total repayments. BPIMB officials said that they have to do this because the funds are revolving and the money will be used for other employees who wish to take up Islamic housing finance. From the interview, it is found out that at TNB, the problem of default is common amongst the retirees. At the time of interview, there were as many as 2000 retirees and about less than 1000 of them have a problem in paying their monthly instalments. Those failing to make payments at TNB could end up having their houses repossessed.

Interviewees for the government sector said that the non-paying mortgagees would be sent out a notice and given only a month to pay. After this, the Legal Section at the Housing Finance Office would deal with the matter. Investigations would be carried out and considerations would be given to non-payers if for example he/she faces unexpected medical expenses. They also mentioned that in an extreme case, the property is auctioned off in order to get the government's money back.

From the data above, it can be said that all banks follow a guideline set by Bank Negara when faced with default cases from house buyers using either conventional or Islamic housing finance. There were banks who do not charge at all and there were banks who charge a small administration fee to their customers who default. Generally, all banks would take legal action on

customers who fail to continue with their monthly repayments after three to six months. As for companies, not many of them face the problem of non payment and those which do face it would send out reminders to their employees. The Government sector also sends out reminders to non-payment employees and like banks, legal action is taken against those who persist in non-payment without any good reason for doing so.

6.2.14.3 Reasons

When the bank managers were asked as to their opinion on why some of their customers were unable to make monthly repayments, all the banks except for HSBC, felt that the reason for customers not being able to make their monthly repayments was because they have overcommitted themselves. HSBC's bank manager said that their customers have attitude problems. Affin Bank's manager gave more elaborate reasons, namely that the default is due to high gearing and over commitment which would cause these sorts of customers to over-expose themselves. Another reason could be due to economic recession which leads to a lay-off of workers. There are also cases of housing projects being abandoned therefore customers would have less motivation to continue making their monthly repayments.

Shell, BPIMB and Pos Malaysia's housing officers said that this question is not applicable to them as they do not have default problems. TNB's housing officer said the retirees are the ones who normally default. That is because these retirees most probably do not have enough money to pay for their monthly instalments because they depend solely on their pensions. As for the government institutions, there are various reasons given by the interviewees, for example, if the employee has been fired, or because he himself leaves the job. Another reason is that employees are also allowed to take up housing finance even after the age of retirement. In all of these cases, they would have to find sources of making the monthly repayments which would be difficult given the situation that they are in.

From the information gathered, it can be suggested that for bank customers who have problems of non-payment, the most common reason for this was

over commitment on the part of the customers. In the unlikely event of non-payment faced by companies, this is mostly due to the lack of money that employees face when they retire.

6.2.15 Quota

The companies' housing officers were asked whether there are any quotas on the number of people who can get the housing finance each month/year. All of them said that there is no quota. Tabung Haji, Pos Malaysia, TNB said that every member of staff can get the housing finance as long as he/she is eligible. Shell housing officer said that every member of staff can get the housing finance as long as he/she has been confirmed as a Shell staff member (employee).

BPIMB housing officer added that priority is given to those who have not bought a house yet. BPIMB staff are even allowed to apply as many as three times for housing finance. A possible reason for wanting another housing finance could be because he/she wants to move to a bigger house. However, there must be a gap of at least five years between taking up housing finance facility to buy a second house.

The interviewee from TNB said that their staff can also apply for a second housing finance but he/she can only do so after he/she has completed the first housing finance. Unlike BPIMB, the second housing finance cannot be taken up with the employer in this case, TNB, but instead with an outside bank. The staff has to pay the profit rate of only 4% and the difference between the rate offered by the bank and the 4% would be subsidised by TNB, up to a maximum of 6%.

With the government sector, there is also no quota. Every government officer who has fulfilled the basic requirements is eligible to get a housing finance. The interviewee from the government sector said that the application is processed on a first come first serve basis. The government sector also allows their staff to buy two houses provided that they have finished paying

for the first house, or at the most, only one third of the housing finance is left to be paid.

From the interviews it seems that both the company and the government institution do not set up any quota whatsoever for those wanting to get housing finance from their mortgage providers. If the employees have fulfilled the minimum requirements set by their employer then each one of them would be entitled to buy a house using funds reserved for employees. In some cases, they can even buy up to two houses or use the funds to fund house renovations.

6.2.16 Bureaucracy

6.2.16.1 Requirements

The companies' housing finance officers were asked about the requirements that each company set in order for a company staff to be eligible to apply for company housing finance and whether these requirements are the same for the conventional facilities. For Shell, the requirement is for the staff to be confirmed in service/employment meaning that he/she has undergone 6 months of probation. The requirement is the same for Islamic and conventional housing finance. Tabung Haji's requirements are that its staff must be in office for more than three years. Like Shell, Tabung Haji's staff has to be confirmed in office as well, normally between 6 months and a year of probation. There is an additional requirement, whereby the balance after deducting all the financing he/she has taken up including the monthly instalment, must not be less than 40% of the staff's net pay.

The interviewee from BPIMB mentioned that the requirements are almost the same as that of Tabung Haji's, whereby the employees would have to be in service for at least 3 years and that the staff has to be confirmed in service. There are two categories of staff, executives and non-executives. For non-executives, they would only be confirmed after 3 months, whereas for executives, the period is 6 months. Both, Tabung Haji and BPIMB do not offer conventional housing finance, therefore the second question of whether

the requirements are the same for Islamic finance do not apply to these two companies.

The interview outcome suggests that Pos Malaysia's requirements are that the staff must be confirmed in office or considered as holding a permanent post, and that the staff must have worked for at least 5 years before he/she can apply for the housing finance. As for TNB, its interviewee said that every staff member who is confirmed as holding a permanent post and is able to make the monthly repayments, would be eligible to apply for the housing finance. As for the government sector, the requirements are that the employee has worked with the government for more than a year and that he/she has been confirmed in office meaning that his/her post is permanent.

Generally, the requirements for companies are similar, namely that those employees would have worked with the companies between three to five years. This is applicable for both conventional and Islamic housing finance and if the companies were to offer any or both of these facilities. There are odd cases where Shell employees only have to be under probation for six months before being entitled for the housing finance facility. In contrast to most companies, the government sector seems to be more lenient as it allows employees to apply for a housing finance facility only after one year in employment.

6.2.16.2 Eligible Amount

Outcome from the interviews with the government officers in charge of housing finance seem to suggest that the amount that government employees can apply for housing finance depends on their basic salary and their level of grade of employment. The higher the basic salary and grade means that they are entitled to a higher amount of housing finance. The maximum amount of finance that can be taken up is RM300,000.

From the interviews conducted, it seems that different companies grant different amounts of housing finance to their employees. Interviewee from Shell said that it allows its employees to buy a house up to the price of

RM350,000. As for Tabung Haji, it gives its employees housing finance depending on the employee's grade of employment. The higher grade it is, the higher the amount he/she is eligible for. The minimum amount is RM70,000 and the maximum amount is RM120,000. As for BPIMB, the executives can apply up to 75 times their basic monthly salary or a maximum of RM350,000. For non-executives, it is up to 72 times their basic salary.

Like Tabung Haji, Pos Malaysia also grants housing finance to its employees depending on the employee's grade of employment starting with at least 70 times his/her basic pay. From the interview, it was found out that Pos Malaysia also has a policy which states that the monthly instalment must not exceed 40% of the employee's net wages. Pos Malaysia also offers other financing facilities, for example car and computer. Therefore, the employee's total deduction would also be taken into account. If the employee is using more than one finance facility, then the total deduction is the sum of all the monthly instalments that the employee needs to pay out of his/her monthly salary. This total deduction must not exceed 70% of his monthly salary. This rule applies for both Islamic and conventional facilities.

Looking at the information given by government institution and companies, it seems that the amount of housing finance granted to employees varies from as little as RM70,000 to as high as RM350,000. It also very much depends on the basic salary of the employees therefore the higher their salaries, the higher the value of the house that they are eligible for finance. Another factor that companies and government institutions take into consideration is the amount of salary that is left if the employees have taken up other forms of financing using funds granted by their employers.

6.2.17 Securitization

The outcomes of the interviews with all the banks seem to suggest that they have already started engaging themselves in securitization activities. OCBC and HSBC bank managers mentioned that they are getting involved with CAGAMAS Berhad.

OCBC's bank manager also mentioned that there are not many companies which are willing to take the risk by purchasing these securitized mortgages. HSBC's bank manager also said that CAGAMAS provides an Islamic hedging mechanism as a form of security in order to protect the value and spread out its profit margin. Bank Rakyat's bank manager also mentioned that it has started engaging itself in securitization activities. Its assets have grown and more investments are coming into Malaysia and therefore more finances are given out. Thus there is a need for Bank Rakyat to involve itself with securitization. The bank manager of Affin Bank said that it also participates in securitization of the bank's financial sources apart from deposits.

All banks seem to be getting more involved in securitization for various reasons: because it can act as a hedging mechanism; and because more financing is required as there is an increase in demand for finance.

6.2.18 *Shari'ah* Advisory Council

6.2.18.1 Availability

According to OCBC's bank manager, each bank which offers Islamic products must have a *Shari'ah* Advisory Council (SAC). At OCBC, there is an internal and permanent advisor, and 3 more external advisors who come in every month to discuss certain Islamic matters. These advisors are normally university lecturers. During the interview, it was mentioned that there was only one *Shari'ah* advisor at the HSBC, advising the bank on product development, legal issues and anything to do with *Shari'ah* matters. The interviewee from Affin Bank also said that it has a SAC which comes to the bank for a monthly meeting. Bank Rakyat and BIMB also have SAC.

According to Shell's housing finance officer, there is no SAC to advise Shell on this because the bank has its own *Shari'ah* scholars. In the interview with Tabung Haji, officials said that it has a SAC. Before anything is approved, it must go through a meeting for approval. During any meeting concerning Islamic matters including Islamic products, the SAC would be present together with the management. The interviewee from BPIMB also mentioned

that it has a *Shari'ah* advisor in the Islamic financing department to advise BPIMB. Whenever there is a need to make changes in the company's policies, a meeting is held. Those involved consist of the *Shari'ah* advisor, staff from the Human Resource Section, the Head of Department, staff from the accounts department dealing with the repayment schedule, as well as staff from the legal department.

Like Shell, Pos Malaysia does not have any SAC to advise the company on the product because the bank which provides the housing finance has its own SAC. As for TNB, according to the housing finance officer, TNB does not have a SAC and it follows the government's guideline, for example the requirement of documents for Islamic financing. As for the Government sector, the housing finance officer said that there is no SAC because everything in terms of *Shari'ah* is already clear and so far there has been no problem at all. He said that the government referred to the appropriate people in terms of *fatwa* as well as received the cabinet's approval before it was launched. It was also mentioned that the government followed BIMB at the initial stage.

From the interviews, it seems that all banking institutions have a *Shari'ah* Advisory Council (SAC) to advise the bankers on issues pertaining to the Islamic products which include Islamic housing finance. This is actually a requirement set by the Bank Negara in making sure that all banks only offer products that comply with the *Shari'ah*. In contrast, the government and company institutions do not have any SAC with the exception of Tabung Haji and BPIMB. Generally, the reason for this is that companies follow the government guidelines in offering the Islamic housing finance product. Whilst the government institution which offers this facility, do not have a SAC because it initially followed Bank Islam Malaysia Berhad and also base it on the fact that everything in terms of *Shari'ah* is already clear.

6.2.18.2 Agreement

There was a question as to what happens if the bank managers do not agree 100% with certain issues that the *Shari'ah* Board has advised them on.

OCBC's bank manager said that if there is something that the *Shari'ah* advisor disagrees with, then it will explain why this is so to OCBC's management. The HSBC's bank manager said that sometimes the *Shari'ah* advisor's opinion may be in conflict with what the bank wants to do. But HSBC would eventually find ways to solve the conflict and find solutions to fit both parties. Therefore, whilst the bank sees the need to make the product attractive to their customers, it nevertheless ensures that the product is also legal and *Shari'ah*-compliant. Whatever the case, before any product is launched, it needs to go through HSBC's own SAC and then the BNM's SAC.

As for Bank Rakyat, its bank manager said that there is no problem with the SAC. Before any product is launched, it needs the BNM's approval. BNM also wants to see whether the bank's own SAC approves it or not. If its SAC does not approve the product then BNM will not allow it either.

From information gathered, it seems that generally, any conflicts between the bankers and *Shari'ah* scholars would eventually be resolved and solutions to any problems would be found. Before any banks begin offering any products on the market, approval from Bank Negara Malaysia is essential and acts as a precondition.

6.2.19 Government's Role

The bank managers have their own opinions on the role of the government and BNM in promoting Islamic banking and Islamic mortgage products. According to OCBC, BNM has been 100% supportive and BNM is also very open to any of OCBC's discussions. The interviewee at OCBC point out that The Jabatan Pembankan Islam dan Takaful (Islamic Banking and Insurance Department) at BNM only handles the banking side. The Government's roles lie with the land authority and tax authority. There is not a single authority that controls all these aspects. There are still issues of taxation and regulation on the government side which is very slow to be resolved and thus impedes the implementation of certain Islamic mortgage products, for example *ijara*. There are also many legal issues that need to be resolved. A lack of *Shari'ah* scholars who are conversant with banking matters as well as

legal matters only aggravates this problem. Therefore, he felt that all these issues should be carefully looked into.

HSBC's bank manager's opinion is that the government's role is crucial in the development of Islamic banking in Malaysia. They have proven their commitment and support throughout the years. BNM has set out an Islamic Banking Financial Master plan. For example there are 3 or 4 foreign banks wanting to open up Islamic banks in Malaysia and these banks have been given tax exemptions by BNM. There is also a stamp duty waiver on anyone wanting to refinance their mortgages from conventional to Islamic ones.

The opinion of Bank Rakyat's bank manager is that the government has done a lot so far. Firstly, it has established Islamic banking; secondly it has urged Malaysian banks to go global and thirdly, it has made it seemingly important and a requirement for banks' staff to attend courses to learn more about Islamic products.

Affin Bank's bank manager said that the government have done many things in order to help promote Islamic mortgage products. The history of the first Islamic bank in 1983 proves this. The government have let it grow profitably. Only 10 years later, in 1993, the Bank Negara Malaysia allowed and even encouraged all conventional banks to open a window in Islamic banking called Skim Pembankan Islam (Islamic Banking Scheme) currently called SPi. As of last year, BNM had given a directive to all SPi banks to move all their assets of SPi to an Islamic subsidiary company. He believes that this is definitely a big step made by BNM and a true reflection of the government's effort to promote Islamic banking. There is a big difference between having an Islamic window and that of a subsidiary. Within the Islamic window, the *riba* based business is under the same balance sheet and account as that of the Islamic and non-*riba* one. Whilst under the new Islamic subsidiary, it would have its own board of directors, its own assets and calculations, etc. The BNM has made it a requirement that by 2005 every bank would have its own Islamic subsidiary.

According to BIMB's bank manager, the BNM has set up a 2010 Master Plan for the development of Islamic Banking. BNM also encourages more banks to participate in the Islamic window as it acknowledges the advantages in creating a competitive environment. BNM has also recently encouraged conventional banks to convert to full-fledged Islamic banking.

As for Shell, its housing officer felt that the government can promote and make people more aware of Islamic mortgage products, although he also felt that everyone knows about the product already. Tabung Haji's housing officer said that the government's role is to make the Islamic mortgage product as competitive in terms of its profit rate as the conventional lending rate. Whilst TNB's housing officer said that the government needs to educate the public as to what the difference is between the Islamic and the conventional mortgage products.

From the above information it is interesting to note that the bankers seem to be unanimous in suggesting that Bank Negara Malaysia and the government have given their fullest support in helping Islamic housing finance flourish, starting with the introduction of Islamic banking. They have also shown their seriousness in their commitment by setting up an Islamic Banking Financial Master Plan; waiver of stamp duty for those wanting to refinance to an Islamic housing finance; making a requirement for bankers to attend courses to attain more knowledge on Islamic products; encouraging banks themselves to go global; encouraging more conventional banks to convert to a full-fledged Islamic bank by transferring all the assets and liabilities from an Islamic window to a totally Islamic subsidiary company.

There are however some suggestions for improvement in that there should be a single entity to control all matters with regard to Islamic finance so that there would be congruency in the running of the system compared to the current situation; and there should be *Shari'ah* scholars who are conversant in both *Shari'ah* matters and of banking and legal matters.

The interviewees from companies and government institutions do not have much opinion on this compared with the bankers apart from the fact that most of them felt that the government can help by promoting and educating the public on the difference between Islamic and conventional housing finance and by making the former product more competitive than the latter.

6.3 ANALYSIS OF THEMES IDENTIFIED FROM INTERVIEWS WITH *SHARI'AH* SCHOLARS

6.3.1 *Shari'ah* Advisory Council (SAC)

6.3.1.1 Members of SAC

From the information gathered from the *Shari'ah* scholars, it is said that there are currently seven people at Bank Muamalat, two at Standard Chartered, five at BIMB and five at Bank Rakyat. However, at the time of interview, there was a new regulation by BNM which would come into effect on the 1 April 2005, stating that there cannot be more than five people in the SAC and any banks which have more than five would need to transfer the difference to a bank which is lacking of *Shari'ah* scholars.

Two out of the five *Shari'ah* scholars who were interviewed are also advisors to another bank. Another two are secretaries for the SAC of a bank and thus are not allowed to be in another bank's SAC, whereas one of them is an advisor to only one bank. But when the interview was conducted, there was a ruling to be implemented which only allows *Shari'ah* scholars to advise no more than one bank.

From the information stated above, it can be said that BNM is very futuristic in its thinking and planning and very much conscious of the fact that there could be a possibility of having less supply of *Shari'ah* scholars than the demand. This is especially true if BNM have encouraged more Islamic windows or SPi to convert to a totally Islamic subsidiary company and would possibly need more *Shari'ah* scholars to advise them.

6.3.1.2 *Aspects Advised*

Dr Sabri said that the SAC which he is with advises the bank on every aspect of Islamic mortgage products. On any single issue that has been brought forward by the bank, there are many views that need to be looked at. The SAC also looks into different *mazhabs*' views on a certain issue to see whether these views can be used or otherwise. The bank's SAC also depends on what the BNM's SAC has decided upon. According to Dr Rabiah the SAC advises the bank on all aspects. Whilst Dr Shamsiah said that the SAC advises the bank on all aspects of the Islamic mortgages, she mentioned that if the bank wishes to offer any products, it has to first provide documentations to the *Shari'ah* scholars. They are then given a few days to study them and come back to the bank to have a discussion on it. As for Ustaz Ghani, the SAC at his bank advises on the minimum legal documents requirement, reviews the terms and conditions, on every aspect of Islamic products as well as on the manual which includes for example, guidelines for staff and the process of *aqad*. For Ustaz Zaki, his bank's SAC advises the bank on every aspect of Islamic mortgages together with the mortgage financing of other fixed assets.

From the information gathered on this issue, it seems that generally all banks' SAC advise the banks' management on all aspects of Islamic banking in general and Islamic housing finance in particular; and this include legal and administrative issues. They seem to be very careful and meticulous in their process of finalizing a decision with regard to a product. Amongst the procedures that they carried out within that process include: looking into various opinions of various *mazhabs';* looking carefully at all the documentations that the banks have provided for them with regard to the issue under discussion; and also finding out whether the BNM's SAC has already come up with a decision pertaining to the same issue.

6.3.1.3 *Certification*

The *Shari'ah* scholars were asked whether they have to get certification from the BNM before being appointed as a *Shari'ah* scholar for any bank. All of those interviewed except for Ustaz Ghani said that no certification is needed.

According to Dr Sabri, each scholar only needs to give his/her *curriculum vitae* (CV) to the bank and the bank would then compare between the scholars and see who is most eligible for the job as an advisor at the bank. Dr Shamsiah reiterated what Dr Sabri said when she mentioned that it all depends on each advisor's CV. Ustaz Zaki added that what is needed is only certification from the bank's chairman who will then direct the secretary to send out a letter of appointment to each of the appointed advisors. In contrast to everyone else, Ustaz Ghani said that since 2002, certification is needed from BNM. He also mentioned that formerly, certification was needed from the Finance Minister which sometimes took up to six months.

Generally, it can be said that certification is only needed from the banks who want to employ them as *Shari'ah* scholars of that particular bank and not formally from Bank Negara Malaysia themselves. It can be suggested that there does not seem to be any form of standardization amongst all banks in the issue of what attributes and qualities make an applicant worthy of being considered and thus employed as a *Shari'ah* scholar.

6.3.2 Islamic Basis of Islamic Mortgage

Each scholar had his/her own way of explaining the Islamic basis in terms of Al-Quran and Sunnah for offering the Islamic mortgages. According to Dr Sabri, there is no specific mention in the Quran and Sunnah with regard to the offering of the product. There are only general statements in both these texts. For example, Allah mentions in the Quran that Muslims should enter Islam fully. Allah also enjoins on us the concept of justice and forbids us the practice of *riba*. Muadz ibn Jabal when asked by the Prophet (s.a.w.) before he departed from Yemen, with what will he abide by and his reply was with the Quran, Sunnah and *ijtihad* with his own judgement and views. The views of classical scholars are also taken into account. Basically, the Islamic mortgage product is offered in order to provide people with an alternative to *riba*.

Dr Rabiah said that with the conventional housing finance, it is called loan. In contrast, the Islamic housing finance uses the concept of buy and sell. There

is a reference in Surah Al-Baqarah which indicates that deferred payment sales and having a mark-up on the price are allowed. As for Dr Shamsiah, she explained that each conventional product is looked at to see how it can be Islamised by checking with the Quran and Sunnah, *Ijma'* and *Qiyas* which are all *Shari'ah* sources. With the Islamic mortgage product, it is considered as sales and purchase which allows prices to be given. It is an instrument which allows profits to be earned. As for loans, it is not allowed to give out a loan and ask for more than what they have loaned out. Doing so would incur *riba*.

Ustaz Ghani also said that with the conventional, there is an increase in price due to the time element. In Islam, time element in a loan contract is prohibited as there is no risk borne and no asset transferred. In Islam, the loan contract is called *Qardhul Hassan*, whereby the borrower cannot promise to pay extra, whilst the lender cannot ask the borrower to pay extra. What is allowed in Islam is a sales contract whereby:

Selling Price – Buying Price = Profit

The bank firstly buys the house from the original house buyer at the buying price and then sells it a higher amount, thus the difference being the profit to the bank. This is allowed by *Shari'ah.*

Ustaz Zaki mentioned a verse in the Quran concerning *riba* in Surah Al-Baqarah verse 275 which allows trade but forbids *riba.* Like Ustaz Ghani, he too said that the Islamic mortgage is based on the concept of profits earned from transaction involving buying and selling of a good. In contrast, under the conventional mortgage there are no goods involved and instead, money is used as an instrument in order to gain profit. It is based on gaining interest on loans given out by banks in order to buy a property. He said that Islam does not acknowledge profits without effort. According to Ustaz Zaki, in Islam, the selling price is also fixed whereas there is uncertainty with the conventional as it fluctuates according to the changes in the BLR. He added that in the same surah, there is another verse, verse 282 which Allah

mentions that anyone carrying out non-cash transactions that are deferred payments should do it in writing. This verse thus means that deferred payment is allowed in Islam. There is also a *hadith* by Prophet Muhammad (s.a.w.) which mentions that a blessed trade is whereby the lender gives the borrower time to pay especially if he is in hardship.

It is very interesting to note that each of the *Shari'ah* scholars has different views on the Islamic basis for offering Islamic housing finance. When combined, there seems to be an array of reasons for offering this product which is completely acceptable as all *Shari'ah* scholars have different opinions and ideas on a certain issue. However, there do not seem to be any obvious contradictions between any of these opinions and that itself would make all of these scholars' opinions seem acceptable.

6.3.3 Muslims Using Conventional Mortgages

6.3.3.1 Reasons

The *Shari'ah* scholars' opinions were asked on why some Muslims insist on using non-Islamic mortgage products which involve *riba*. According to Dr Sabri, Muslims still use conventional mortgages due to a number of reasons. Amongst the reasons why this is so is because the conventional mortgage is being widely promoted; the conventional sector is seen to be well established, thus more attractive to some; the conventional mortgage seems to be easily approved; also due to ignorance on the part of the customers who seem to think that the Islamic system is akin to the conventional system; and sometimes, the bank's staff does not fully know about the difference between Islamic and non-Islamic products. They feel that the difference is only by stating it on the application form.

As for Dr Rabiah, the reason is mainly due to lack of Islamic understanding as to what is acceptable in Islam and what is not. There is also an incorrect perception that the conventional housing finance is cheaper than Islamic financing. This is probably due to lack of explanation on the bank's part. The staff in the conventional banks which do offer Islamic mortgage products

sometimes seem lacking in their understanding of the Islamic product themselves and they sometimes do not make the effort to explain both the conventional and the Islamic alternative. The conventional banks also have many branches and their services are sometimes even better than those of Islamic banks. The bank also seems to be slow to process and the processing time of the Islamic mortgage product sometimes seems longer probably because the bank is being more careful. Dr Rabiah said that this is in contrast with the conventional mortgage product which only takes about three to four days to be approved. Nevertheless, this has improved with the SAC reminding the management to improve on the customer services and to be friendlier.

Ustaz Ghani felt that there are still some Muslims who use non-Islamic products as they do not have the correct understanding of Islam and of the difference between Islamic and conventional products. He added that these people seem to think that everything under the banner of Islam should not have a profit element. Whereas, there are three different sectors, namely the public sector, private sector and the commerce sector. Banks which offer Islamic mortgages are under the commercial sector thus, they must have profits in order to survive. This is because these banks depend on depositors' money in order to offer Islamic mortgages to the public. Thus, the depositors should be given their share of profit. He emphasised that the teachings of Islam are not against profit.

Ustaz Zaki's opinion as to why Muslims still use the conventional mortgage product is because of the short term attraction that is they only see the current interest rate which is seen to be lower than the profit rate charged by the Islamic mortgages. He also has the opinion that sometimes, Muslims do not know that in times of economic downturn, the interest rate for conventional finance would go up. In contrast, this does not happen for the Islamic one, and the profit rate would remain the same regardless of the current state of the economy. He also added that sometimes, they do this because they do not know what is *halal* and what is *haram*.

It is obvious from the discussion with the *Shari'ah* scholars that most of them felt that knowledge is generally lacking amongst members of the public. This includes knowledge on what the differences are between Islamic and conventional products and the seemingly short-sightedness of the public in seeing the long term benefit of taking up Islamic housing finance. There is a general perception that the conventional banks are superior in terms of efficiency, administration, availability and the provision of better customer services.

6.3.4 Islamic Mortgages More Expensive

6.3.4.1 Perception

The *Shari'ah* scholars were asked as to why they think the public finds the Islamic mortgage more expensive than the conventional housing finance. Dr Sabri seems to refute the public's opinion when he said that the conventional housing finance is almost equally priced as the Islamic housing finance. In fact, for the Islamic housing finance, if a customer follows his/her schedule of payment very well, then he/she might even get a rebate from the bank. He also explained that Islamic banks have to pay *zakah* as well as income tax whereas the conventional banks do not have to worry about paying *zakah*.

Dr Rabiah explained that with the Islamic housing finance, the bank has to be transparent as to what the customer will be paying at the end of the finance tenure. This means that the buying and selling price must be stated in the contract. The difference between the two would be the bank's profit margin. She said that this might seem expensive to the customer but this is better than the conventional housing finance which only gives the current rates and conventional customers do not know how much they would be paying at the end of the day. It could well cost more if not be similar to the Islamic housing finance. She also added that Islamic housing finance has something called *ibra'* or rebate.

According to Dr Shamsiah, Muslims should together support the Islamic *muamalah* (transactions). The process is almost the same with only a slight

difference in the *aqad* on the sales and purchase process. Islamic mortgage is also not so expensive to the extent that customers who take up the Islamic mortgage 'end up not eating for days'. The bank needs to do this in order to survive and compete with the conventional banks which have years of experience and are an established system with well-trained staff, efficient and fast services.

As for Ustaz Ghani, he also seemed to disagree with the public's opinion that Islamic housing finance is more expensive than the conventional, when he said that the conventional mortgage product depends on the BLR. Therefore the monthly repayment can either go up or down. But with the Islamic housing finance, it is fixed. He also mentioned that in practice the bank gives rebates or *ibra*' to its customers. For example, in the contract, the profit rate is stated as 8% and in the first year, the bank gives a rebate of 6% and in the second year a rebate of 7% is given. This is not stated in the contract as this will appear to be two different selling prices which is not allowed in Islam. However, only recently has this been stated generally in the contract.

Ustaz Zaki explained that the risks borne by a bank which gives out Islamic housing finance is higher because of the fact that it will receive what is pledged (*aqad*) now for the rest of the financing tenure. Those who want to take up conventional housing finance cannot say they are doing this because of *darurah* and because the Islamic housing finance is very expensive. He said that this is because the difference between the Islamic and conventional monthly repayment is not that much. He had the opinion that they should also wait until they can afford to buy a house using the Islamic housing finance. Ustaz Zaki reminded that in Islam, there are three sectors, the *tijari* (business), *ijtima'i* (welfare) and politics. Islamic banking and finance falls in the *tijari* sector and banks need the capital in order to earn profits. He also mentioned the sayings of the Prophet Muhammad (s.a.w.) that 99% of wealth comes from business. Like Ustaz Ghani, Ustaz Zaki also said that Muslims should not think that anything to do with Islam is welfare. There is *Baitul Maal* in the welfare sector to help Muslims who are in need.

From the above information, it is clear that all the *Shari'ah* scholars are in opposition to the view that Islamic housing finance is more expensive than the conventional housing finance. They felt that the cost of buying a house using Islamic housing finance is not much different from the conventional and that it could well work out to be cheaper. This is because customers are entitled to rebate or *ibra'* if they follow their payment schedule well.

It is also very interesting to highlight from the above information that with Islamic housing finance, the bank is very transparent in regard to the buying and selling price which must be stated in the contract. Although the selling price might seem to be more expensive, it is actually fixed and so is the monthly repayment. This would give the customer a peace of mind and not worry that there would be a fluctuation in the selling price or the monthly repayment. By contrast, with a conventional housing finance, customers would not know the exact amount that they would eventually end up paying.

6.3.5 Differences of Opinion

6.3.5.1 Discussion

The *Shari'ah* scholars were asked whether their views are always fully accepted by the bank. Dr Sabri explained that every month there is a meeting but if there is a specific issue that the bank wants to discuss with the SAC then they would be called for this purpose. If there are any issues that arise, for example a change is needed on the product, then any modification is done according to *Shari'ah*. The bank normally agrees with whatever the *Shari'ah* scholars have to say. However, they can always express their views on the matter, but there is never a problem of disagreement.

Dr Rabiah explained the way things are done at her bank. She said that the Islamic *Shari'ah* scholars would meet up and discuss (*syura*) amongst themselves on any issues raised by the management. Apart from them, in the discussion there would also be about three or four other people consisting of top managers and other related parties for example from the accounts department. As for Dr Shamsiah, she said that her bank accepts

any views and decisions made by the *Shari'ah* scholars in the meetings and discussions. Whilst Ustaz Ghani said that there is room for discussion and the bank can put their opinions across which could be different from that given by the SAC. Ustaz Zaki said that the bank accepts fully whatever the *Shari'ah* scholars' views are. If the product development department proposes a new product through paperwork which seems to contain *gharar* (uncertainty), then this will be brought up at the SAC's meeting in order to get a decision.

From the information gathered, it can be said that generally, all the banks would accept the *Shari'ah* scholars' opinions and views fully. The management can put their opinions across to the *Shari'ah* scholars and discuss further any issues related to that under discussion. However, ultimately all the decisions that need the *Shari'ah* scholars' opinion would lie upon them.

6.3.5.2 Disagreement

According to Dr Sabri and Dr Shamsiah, so far there has never been a case whereby after discussion, the bank still does not totally agree with what the *Shari'ah* scholars say. Dr Rabiah explained that the bank would discuss any issues that they do not comprehend or agree on and would understand and accept the outcome of that discussion.

As for Ustaz Ghani, he said that the bank can postpone the product launch if the *Shari'ah* scholars do not agree totally with the product. The SAC would review and find *fatwas* which would justify the launching of the product. An example that he gave was, the issue of preference share. The Security Commission's SAC found the way to make it Islamic after 10 years (from 1992 up to 2002) by making the ordinary share holder waive their rights over the dividend.

Ustaz Zaki reiterated what Dr Sabri and Dr Shamsiah said, which is, that disagreement does not happen. He said that this does not happen because

the SAC decides whether the product concept proposed by the product development is acceptable or otherwise.

Again, what can be suggested from the above information is that, in the very unlikely event of a disagreement, the *Shari'ah* scholars would make sure that the bankers clearly understood the *Shari'ah* scholars' point of view.

6.3.5.3 Final say

According to Dr Sabri, if the decision of the bank's SAC does not tally with that of BNM's guideline, then this would be brought to the attention of the BNM's SAC. BNM's SAC would have the final say. Ustaz Zaki also mentioned this, when he said that if his bank's SAC receives a decision for example on a certain product from BNM's SAC, then there is no need to discuss any further on the matter. BNM's SAC has a higher authority over each bank's own SAC. In fact the BNM's SAC has produced a booklet for each ruling that has been decided on. As for Dr Rabiah, she said that whatever it is, the SAC has the final say on matters related to *Shari'ah.* Dr Shamsiah said almost the same thing, that the majority decision of the SAC would have the final say on any Islamic issues. Like everyone else, Ustaz Ghani said that it is the SAC who has the final say.

From the above, it can be learnt that clearly, all the *Shari'ah* scholars are unanimous in saying that the *Shari'ah* scholars have the final say on any issues related to the acceptability of a product. In addition to this is the fact that any decision made by a bank's SAC, must tally with that of the Bank Negara Malaysia's SAC simply because the BNM's SAC has higher authority over the banks' own SAC.

6.3.6 Product Awareness

The *Shari'ah* scholars were asked as to their contribution in raising the awareness amongst the public in getting them to use Islamic as oppose to conventional housing finance. Dr Sabri said that his bank does this in various ways, for example getting involved in forums, participating in exhibitions and putting out pamphlets on Islamic products for people to read. His bank also

has many ATMs (Automated Teller Machine) and branches for members of the public to realize the existence of the bank and possibly the products it has on offer. As for Dr Rabiah, she said that her bank also makes an initiative to give explanations to various institutions through talks and seminars. Dr Shamsiah mentioned that there are forums being organized where *Shari'ah* scholars can contribute. There are also individuals who approach the scholars individually if they have any questions pertaining to the Islamic housing finance. Also information is being disseminated through mass media, for example the newspapers, in contrast to journals which would be too academic for members of the public to understand.

Ustaz Ghani said that members of the public sometimes invite scholars to give lectures. Principally it is not the scholars' responsibility (not in their job description) to accept these invitations but they do this as Muslims. As for Ustaz Zaki, he added that *Shari'ah* scholars at his bank together with JAKIM (Jabatan Kemajuan Islam Malaysia - Department of Islamic Progress, Malaysia) and other Islamic authorities and mosques work together in creating awareness on the Islamic products amongst members of the public. They participate in forums and give awareness through khutbah (Friday sermons) as well as to the mosques' imam (leaders) themselves. They even help other banks to convert their assets so as to fully Islamise these banks, as has been done formerly by Ustaz Zaki's bank.

The information given above shows that there are various means that can and have been used by the *Shari'ah* scholars in order to give awareness to the public. It can be seen from this that that each one of them shares the responsibility of spreading the correct understanding of Islamic products by exerting their efforts and sharing their knowledge on this aspect.

6.3.7 Islamically Aware

The majority of *Shari'ah* scholars interviewed, when asked whether they think that people are becoming Islamically aware and increasingly wanting to use the Islamic housing finance, believed that the awareness has increased compared to before. Dr Sabri added that he felt that it is important for the

bank to offer the Islamic housing finance and it is up to the public to accept it or otherwise. Dr Shamsiah pointed out that the individuals themselves need to make an effort to understand, whilst the bank also needs to give explanations to its customers on the basics of the Islamic housing finance when making a transaction.

As for Ustaz Ghani, he felt that the Islamic Banking Institute of Malaysia (IBIM) plays a role in this as well as organizing awareness programmes and an Islamic Banking week every year. BNM also plays a part by making it compulsory that every bank outlet puts out BNM's information. This increase in awareness can be seen from the significant growth of Islamic banking by 30% in contrast to the conventional which is only 10%. BIMB's growth in financing itself is much higher than the average industry and the total financing is also much higher. For example in 1999, the total financing is RM5 billion, whilst in 2004, the amount increased to RM9 billion.

Ustaz Zaki also echoed the thoughts of other *Shari'ah* scholars that people are becoming more Islamically aware. In fact, he said that there are many non-Muslims who are also using the Islamic housing finance as they find that in the long run, the product works out to be cheaper.

The above information points out that the Malaysians, Muslims and non-Muslims alike, are becoming more aware of using Islamic housing finance as opposed to the conventional facility. Here, it is also important to note the *Shari'ah* scholars' opinions that the banks should play a role in giving awareness to the public; and that BNM and IBIM have very much contributed in the efforts to attain this awareness.

6.3.8 Riba

6.3.8.1 Dealing with Riba

The *Shari'ah* scholars were asked their opinion if a conventional bank were to involve itself with *riba* and offer Islamic housing finance at the same time. Dr Sabri said that his bank is fully Islamic and does not involve itself with *riba* at

all. He added that it is also under BNM's *Shari'ah* law and under the supervision of BNM's SAC, therefore anything that the bank does which goes beyond what the law says, would be considered as void. Dr Rabiah said that in Malaysia, BNM has set up a guideline which makes it a requirement for conventional banks to have a separate entity for the Islamic section. This means that the conventional bank needs to have a separate account for the Islamic and conventional activities.

Dr Shamsiah believes that it is acceptable for banks to engage in Islamic windows because if these banks are doing well then it only reinforces Islamic banking even more. She said that there is no problem if these banks are abiding by the *Shari'ah*. Ustaz Ghani also said that there is no problem if the account is separated. Nevertheless, he said that the image would not be good as there is a mixing of Islamic as well as conventional products. At the time of interview, Ustaz Ghani said that the BNM is pushing forward for banks with an Islamic window to create a special subsidiary for Islamic banking. As for Ustaz Zaki, he said that the question is not applicable to his bank. Formerly his bank also offered conventional products to its customers but by the year 2000, it had fully converted its assets from conventional to an Islamic one making it a fully fledged Islamic bank.

Interesting points that arise from the above information is that some *Shari'ah* scholars felt that Islamic windows are acceptable and could even reinforce Islamic banking, as long as the conventional banks comply with the guidelines set by the *Shari'ah*. However, it is better if these conventional banks can actually be set up as totally separate Islamic subsidiaries to replace the Islamic windows.

6.3.8.2 Ribawi Sources

There was also a question on what the *Shari'ah* scholar's opinion is if the bank were to borrow from *ribawi* sources to finance the Islamic housing finance. Dr Sabri's view is that if the bank borrows from *ribawi* sources then it is the bank which will be held responsible by Allah. There is no sin on the customer who does not know if the bank does this. Also, there is a difference

between assets and transactions. Even if the bank is said to have used *ribawi* sources (liabilities) to finance the Islamic housing finance (transactions), the transaction is considered as *halal* (permissible) and the customer is not obliged to delve further as to the bank's sources of finance. This has been done before during the time of the Prophet (s.a.w.) whereby Muslims traded with the Jews. When making transactions, the Muslims did not ask the Jews beforehand where the money they were using for the transaction came from and whether it is from *halal* sources or otherwise.

Dr Rabiah's said that this does not and should not happen as the funds should be raised from Islamic sources, mainly from deposits deposited at the bank. Whilst Dr Shamsiah said that if there is no alternative of Islamic sources, in other words, it is in the state of *darurah*, then borrowing from *ribawi* sources is allowable. However, the bank should not take advantage of this fact and can only take what is sufficient and should not go beyond it. The view of Ustaz Ghani is that his bank's funding comes from the depositors' money, Kuala Lumpur Stock Exchange's (KLSE) investment of bonds and Islamic interbank money market through *mudharaba* of Islamic counters. The borrowing from *ribawi* sources does not happen at his bank. As for Ustaz Zaki, he said that the question is not applicable to his bank, possibly because his bank is a fully fledged Islamic bank. All of the *Shari'ah* scholars' opinions with regard to the financial sources to finance Islamic housing finance signify one thing, that it is not Islamically acceptable for banks to use *riba* based sources except at times of *darurah* (dire need). However, if the banks were to use it, then the transaction between customers and the banks would still be deemed valid. Added to this is the view of a *Shari'ah* scholar that there are many ways that banks can use to attain funding from Islamic sources other than customers' deposits, for example the Islamic interbank money market through *mudharaba*.

6.3.9. Collateral Seizure

Each *Shari'ah* scholar was also asked whether it is Islamically justifiable to seize the collateral of any of the mortgagees who fail to make monthly mortgage repayments for a number of months. Dr Sabri said that there is a

law which governs the matter of collateral. According to the agreement contract between the customer and the bank, he/she must make sure he/she knows what he/she is signing. The customer must understand the document so that if any problems were to arise, then he/she can refer back to the agreement contract. All this is Islamically justified as the Quran also states that everyone must fulfil his/her promise. Otherwise, it would be breaching the contract. There is also a clause in the agreement contract which mentions about risks of losing the house if the customer does not keep up with the payment. Some banks also mention in the agreement contract about penalties being charged if he/she breaches the contract.

As for Dr Rabiah and Ustaz Zaki both believed that it is Islamically justifiiable as the bank would only take what is due to them. Dr Shamsiah reiterated this by saying that the bank has the right to get back what is due to them through selling back the house, for example through auctioning. The amount taken by the bank should consist of the amount owed by the customer as well as the costs incurred in the process of getting back that money, for example lawyers' fees.

Ustaz Ghani mentioned about the pawn contract called *Rahnu*, whereby the house is pledged to the bank under this contract. Through this *Rahnu*, customers will pledge back the house to the bank. The bank is not the owner of the house and cannot take back the house. Only the court can do this. The customer would auction the house through the auction agent. Under BNM's ruling, the customer is allowed up to three months NPL (Non Performing Loan). After six months, the bank can take action and bring the matter to the court. Between three to six months, a penalty is imposed on non-paying customers. *Shari'ah* scholars allow a maximum of 1% per annum on the instalment due because of the real loss borne by the bank, for example costs to send out reminders. This amount is not compounded but would be a different amount calculated in the coming month. His bank even gives a rebate at the end of the tenure if it is certified that there is a genuine case of non-affordability on the part of the customer.

From the above, it can be concluded that all the *Shari'ah* scholars agree that it is Islamically acceptable for the banks to take back the customers' house in the extreme case of non payment of six months. However, they mentioned that certain procedures must be abided by the banks before taking this action.

6.3.10 Securitization

6.3.10.1 Importance and Acceptability

Dr Sabri said that securitization is where the mortgage is divided up into bonds. He felt that Malaysia is in need of financial sources from a third party because of the lack of funding. Securitization is an issue involving *Bai Dayn*. It has been decided by the Securities Commission's (SC) SAC that Malaysia can use the concept of *Bai Dayn*. However, the Middle East's *Shari'ah* scholars have different views from the Malaysian scholars on the issue of *bai dayn*. Dr Sabri believed that the Middle Eastern countries have enough funding to finance any banking activities there thus do not need to borrow any money from the third party.

Dr Rabiah said that the Malaysian *Shari'ah* scholars do allow *bai dayn* (selling of debts) by following the Malikis on this aspect. Although there are a few conditions that need to be followed in order to do this. She said that the asset-backed Bai Bithaman Ajil (BBA) mortgages are receivables which are securitized and sold to CAGAMAS. Like Dr Sabri, she realizes that *Bai Dayn* is not acceptable in the Middle East and therefore needs to be more Islamic if Malaysia wants the people of Middle East to accept and get involved.

Dr Shamsiah was not confident on answering the questions on securitization. Nevertheless, she did mention that this is related to *Bai Dayn* and any issues on bond would be under the care of the Securities Commission. As for Ustaz Zaki, he said that any issues pertaining to Islamic securitization are referred to the Securities Commission's SAC. He added that securitized Islamic mortgages are sold to CAGAMAS.

As for Ustaz Ghani, he said that his bank does securitize its mortgages. Usually his bank would securitize some of its assets if it is short of cash. It sells its mortgages through Asset Backed Securities (ABS) by securitizing the Islamic mortgages and issuing bonds in the secondary market. Normally the EPF (Employees Provident Fund), Tabung Haji and Tabung Angkatan Tentera (Soldier Battalion Fund) would buy these bonds. However, bonds for housing are not very popular as it is a retail account involving many small accounts in contrast to a corporate account which is much easier to sell as it does not involve many people. Ustaz Ghani also added that securitization started since the end of the 1990s with CAGAMAS as the main body to buy the mortgages from Islamic banking. After BNM decided that securitization is permissible, other banks followed suit. However, he said that the Middle Eastern *Shari'ah* scholars are stricter possibly because liquidity is not tight over there. His view is that Malaysia needs to be more lenient because of the problem of liquidity. For example, if the tenure is between 30 to 35 years then the cash would be tied up and thus banks might need other sources of funding in order to finance others who want to take up Islamic financing as well. Therefore, he felt that although they are amongst the minority, the SAC has the opinion of giving this a go-ahead. He said that this is because the market needs these types of product and in *muamalah* (business transactions). This is also because currently, there are no other alternatives. He added that if Malaysian bankers are ready for *mudharaba* and *musharaka* bonds then they would be willing to switch to the two mentioned above. However, currently, the bankers are not ready as the risk is just too high.

All the *Shari'ah* scholars interviewed who know about securitization said that it is permissible. They also said that it is important to banks as it helps them to get extra funding to finance their Islamic banking activities. There is an agency in Malaysia which buys quality mortgages from banks and supplies the banks with the much needed funding. However, the issue of securitization is a not without controversy as the Middle Eastern *Shari'ah* scholars are totally against applying securitization to get more cash to fund Islamic banking activities. Alternatives such as *mudharaba* and *musharaka*

bonds which can be used to avoid securitization have not been applied by banks as the risks are too high.

6.3.11 Concensus

6.3.11.1 Nationally

A question was asked on whether all the *Shari'ah* councils of other banks share the same opinion on issues relating to the acceptability of Islamic mortgages being offered, for example Bai Bithaman Ajil (BBA). Dr Sabri said that it is BNM which decides for the whole of Malaysia on whether a certain product is to be offered or otherwise. With the Islamic mortgages, the concept of *Bai al-Inah* is being used and BNM's SAC had given a green light for all Malaysian banks to apply it. Since all banks are under BNM, therefore all banks in Malaysia use BBA which uses *Bai al-Inah* as its concept. When making a decision, the BNM and Security Commission's SACs refer also to the different *mazhabs* and not just one *mazhab's* views and see which views can be used. According to Dr Sabri, BNM always gives a wide opportunity for the improvement of Islamic Banking in Malaysia by having frequent meetings in order to have discussions and exchange views.

Dr Rabiah said that all *Shari'ah* scholars in Malaysia have almost the same view on this. BBA is a *Bai al-Inah* which Imam Shafei says is valid. Nevertheless, there are some scholars who feel that it is sinful to do so as this is done with the intention of gaining more money. From stories of the *sahabah* (companions), it is found that Zaid ibn Harithah had done *Bai al-Inah* before but even the *sahabah* had differences of opinion on this. According to scholars, if people wish to be more pious then it is not advisable to take up matters which have *khilaf* (differences of opinion) in it. But Malaysia scholars believe that BBA can be implemented because of *darurah*. Otherwise, people will end up dealing with *riba* which is totally impermissible.

Dr Shamsiah's opinion on BBA is almost similar to that of Dr Rabiah. She said that the concept of *Bai al-Inah* is a concept of buy back, but this transaction of buy and sell happens in a short time period. She added that

buy and sell seems to be the cosmetic of it, but the bottom line is loaning money. She said that she is not comfortable with *Bai-al-Inah* but felt that we cannot be too rigid as to close the doors of Islamic banking. Like other *Shari'ah* scholars interviewed, she too said that the SACs of other banks share very much the same views.

Generally, the concept used by Malaysian banks is based on *Bai al-Inah* which again is not acceptable in the Middle East. It is interesting to note that all the banks are under the supervision of Bank Negara Malaysia, thus because BNM's SAC allows the usage of *Bai al-Inah*, therefore all banks apply this concept. However, if there is another better option then it is best to avoid *Bai al-Inah* as it contains many differences of opinions on its impermissibility of usage. For the time being, the scholars felt that it is better to implement this rather than letting the god-conscious public indulge in *riba*.

6.3.11.2 Internationally

Dr Sabri said that there are always international conferences held to discuss various issues on Islamic banking. There are some of Malaysia's *Shari'ah* scholars who participate in conferences too, for example Dr Daud Bakar (currently an advisor to the BNM's SAC) who sometimes presents papers in international conferences. Dr Sabri added that no doubt there are always differences of opinions on the way a certain concept is implemented in various different countries. In his opinion this is sometimes due to the differences in the situation or surrounding as well as differences in the law of each country.

Dr Rabiah said that there are always a lot of discussions going on nationally as well as internationally which involve everything with regard to Islamic Finance. For example the Islamic Financial Service Board (IFSB) has representatives to discuss various issues related to Islamic Finance. Dr Shamsiah too said that there are always conferences nationally and internationally if there are any new issues arising which need to be resolved.

As for Ustaz Ghani, he mentioned that there had been informal invitations made to his bank from other foreign banks which hold annual conferences for *Shari'ah* scholars on Islamic banking issues. There are also some of the Malaysian *Shari'ah* scholars who are involved in the Shari'ah council of AOIFI, IDB and Dow Jones and other international bodies.

It is interesting that there have been a lot of discussions and interactions between *Shari'ah* scholars of different banks; and between *Shari'ah* scholars of different countries including that from Malaysia. This is important as it would definitely bring about richness in ideas and knowledge to these *Shari'ah* scholars. This can happen as they interact with other scholars elsewhere and learn the way in which other countries offer Islamic housing finance to members of the public and how they come up with its rulings.

6.4 CONCLUSION

This chapter discusses the many issues that have been raised during the interviews with bank managers, company and government officers in charge of housing finance, as well as *Shari'ah* scholars working for various banks. It is very interesting to see the many similarities as well as diversity of responses to the questions asked, especially when there are questions which ask for their opinions on a certain matter as oppose to administrative issues. The results from the analysis of the interviews and survey that had been carried out are used to make recommendations and suggest lessons that can be learnt. This will be dealt with in the final chapter.

Chapter 7: CONCLUSION

7.1 INTRODUCTION

This chapter is a summary of the thesis, which also presents outcomes of this research. It presents a synthesis of the results from the analysis of survey and interviews conducted. This chapter summarizes the thesis, discusses the benefits of the research, and the findings of it, the difficulties encountered and what improvements that can be done to the research. The limitations to the research are also discussed in this chapter as well as suggestions for future work.

7.2 RESEARCH SUMMARY

The earlier chapters of this thesis look into the mechanism of conventional and Islamic housing finance in the United Kingdom as well as in the United States in order to see the running of housing finance in the developed financial market. Then a study and an assessment into the conventional as well as the Islamic housing market and housing finance in Malaysia were made. A chapter is devoted to discussing the methods and methodology that were used in conducting the research. Basically, a mixed-method strategy was used in the form of triangulation which included questionnaire and semi-structured interview.

The results of the survey were then analysed using SPSS and the interviews were transcribed and textually analysed. The survey was analysed based on a list of questions that had been set out beforehand according to the aim and objectives of this research. The semi structured interviews were analysed according to the questions; and themes that seem to be highly significant and important were mentioned in the interview analysis and findings chapter. Comparisons of the perception were made to a certain extent between Islamic and conventional housing finance. There are many aspects concerning the customers' behaviour and perception that can be learnt from the results of the analysis of the survey and semi structured interviews; also

from the opinions of those in charge of housing finance as well as the *Shari'ah* scholars. This chapter aims to bring forward a discussion about these ideas and suggestions to discuss further in this chapter.

7.3 FINDINGS AND POLICY SUGGESTIONS

7.3.1 Take-up Reasons

From the survey, the majority of those who are currently using Islamic housing finance stated that they are using it because it conforms to their religious belief and around 92% of the respondents who are using Islamic housing finance are also aware that Islam prohibits *riba*. Thus, the influence of religious belief could well be the factor behind the usage of the Islamic housing finance. Another important reason chosen by respondents is that the Islamic housing finance gives them the ability to manage cash flow better.

Results from the interview also seems to suggest this, although there were two banks whose Islamic mortgage users are mostly Chinese or non-Muslims, which indicates that in such cases religious belief cannot be the main reason. Their customers take the product up because the fixed monthly payment gives them peace of mind.

Thus both the survey and interview results seem to suggest the same thing that Islamic housing finance which has a fixed repayment scheme does help their users to manage the cash flow better and respondents seem to give this a good enough reason for them to use Islamic housing finance other than the reason of religious belief. Therefore, from this we can say that education here is paramount. There is a need to educate people concerning the impermissibility of being involved with *riba* and the goodness of using Islamic housing finance.

7.3.2 Non Take-up Reasons

The survey analysis indicated that the reasons given as to why Muslims are not using Islamic housing finance because the monthly repayments are expensive, there is lack of product variety and there is not much flexibility in Islamic housing finance. They are using conventional mortgages despite the

fact that they are aware of the *riba* prohibition, as can be seen from the survey. About 92% of those using conventional housing finance are aware of the *riba* prohibition. This means that religious belief does not deter them from using the conventional housing finance.

From the interviews, there are opinions that Muslims are using the conventional mortgage, because it is being widely promoted and seems to be easily approved in contrast to Islamic housing finance which seems to take longer to be approved, possibly because the banks endeavour to be more careful in terms of the risk involved, for instance. Also, there seem to be an incorrect perception that the conventional housing finance is cheaper than Islamic financing. Therefore the Islamic banks needs to have a balance between being tactful and fast in processing the Islamic housing finance, in order to attract more potential customers in using the product. With regard to the incorrect perception, the staff of the Islamic banks themselves need to be given a good understanding of Islamic housing finance and of its many benefits of taking it up so that they can then relay this information to potential customers and correct any misconceptions regarding the Islamic housing finance.

The public also needs to be educated as to why Islamic housing finance seems more expensive and that Islamic banks are in the *tijari* or business sector and that they need to earn profits in order to survive and Islam is not against profit taking. This can and should be done not only by the mortgage providers but also by the *Shari'ah* scholars and the government who has a very important role to play in this as well.

7.3.3 Information

From the survey, we can find that a high percentage of the respondents prefer to find information about Islamic housing finance from the mass media and materials produced by mortgage providers, visiting the mortgage provider as well as through recommendation from family and friends. Thus, the mortgage providers should take note of this, as these are the means of information attainment preferred by the customers. The mortgage providers

should fully optimise these means in order to attract more customers to use their products, in particular the Islamic housing finance.

Looking at the results of the interview, we can find that most banks do advertise in the mass media, some even produce brochures, put up posters and go on road shows to promote their products. They even participate in the Islamic Banking and Takaful week held yearly. From the interviews, it is also interesting to note that the banks can learn a lot from each other's experiences in their different and yet interesting ways of capturing the market, for example through building up ties with developers and with various companies.

From the survey, we can find that about a quarter of the respondents do not think that their mortgage provider's staff has given them sufficient information regarding the mortgage product and if we look at the perspective of the type of product, more than a fifth and almost a quarter of the users of Islamic housing finance and conventional housing finance respectively, felt that the information given was insufficient.

If we look at the interview results, it seems that in all of the banks there is nobody who is specially assigned to sell or promote the Islamic housing finance product; instead they only have staff to deal with general queries regarding the entire product made available by the banks. It is also good practice that some of the banks give training sessions to their staff to make sure that they sell the right product. This should be a common practice amongst all the mortgage providers and it should be stressed that during this training, they should be made aware of the differences between Islamic and conventional housing finance and the advantages of taking up the Islamic facility versus the conventional, and the need for them to pass this information to the potential customers. Again, dissemination of information is very crucial in promoting the Islamic housing finance.

7.3.4 Default and Repayment Issues

The survey results indicate that slightly more than a fifth of the respondents prefer a 26 – 30 years repayment period. Longer repayment periods normally mean lower monthly repayments. But interestingly enough it is those with a longer repayment period that make up a higher percentage of defaulters, namely, about a quarter of those with the repayment period of 26 – 30 years face a problem of default. Those taking up a repayment period of ten years which is a very short period and certainly a high repayment amount do not have any defaulters at all. This could possibly be explained by the emergence of the middle class who have a higher affording power.

From the interviews conducted, we can also discover that it is these banks which seem to prosper when compared to banks which offer a very long repayment period. This is not only healthy for the banks, because it makes sure that its funds are covered and secure, but also because it attracts only those who can really afford to pay these high amounts. From the interviews too, it was found that if the mortgage providers were to allow mortgagees to pay over the age of retirement then they are most likely to face a non-payment problem amongst their mortgagees.

All these indicate that the mortgage providers need to balance between allowing longer repayment periods and making the housing finance package seem affordable. This is because a longer repayment period and thus lower monthly repayments may do well in attracting lots more people to take up housing finance, but it could also attract many more defaulters as there is a possibility that these people could not sustain it for a long period of time. The reason for saying this is because slightly more than half of the defaulters gave the reasons of 'Out of work' and 'Monthly repayment beyond means' both added together as their non-payment reasons.

7.3.5 Satisfaction Level and Reasons

From the survey we can find that the respondents are generally satisfied with the type of housing finance that they are taking up, and this includes the Islamic housing finance. It is also interesting to note that amongst the

reasons for their satisfaction are because the product that they use offers great flexibility, has excellent terms of payment and there is ease of payment.

From the interview with the mortgage provider representatives, it is clear that some of them felt there were other reasons why their customers chose Islamic housing finance other than religious belief, namely because of the competitive rates being offered to them, excellent service which includes applications being processed quickly, and innovative Islamic housing finance products offered to them. The reasons mentioned by the interviewees tally with the criteria that are important to respondents when choosing between different products, as seen from the factor analysis results. The top criteria are, requirements set by mortgage provider, quality of customer services provided and the speed in processing the application.

From these two sources, we can see that the mortgage providers do try to make the Islamic housing finance products very appealing to the public and the public acknowledges that by stating that they are satisfied with some of the product features being offered to them. The mortgage providers should enhance on these product features which make the Islamic housing finance product more attractive compared to the conventional rather than just 'cashing in on faith', meaning that they do not rely only on the faith factor, that it is not allowable for Muslims to be engaged with *riba*, in order to sell off their product.

7.3.6 Age and Usage Relationship

The survey results seem to suggest that people in the age group of 31 – 40 years have the ability and awareness to buy their own property as well as having a high awareness to take up the Islamic housing finance. From this, it can be inferred that the middle age group are usually the ones with stable income and mostly when they have their own family and want to have a property to settle down in, thus, most buyers are in this age group. There are also the ones who seem to have more exposure to the information concerning the Islamic housing finance. Therefore, it can be stated that this particular age group does have the dynamism and mortgage providers

should realise this and utilise information. They should maximise their promotion and have deals to attract people particularly in this age group.

7.3.7 Demand from Non-Muslims

The results of the interview seems to suggest that there is very good demand for Islamic housing finance from the non-Muslims, particularly true of banks with a high percentage of Chinese customers. One of the mortgage providers has a staggering 70% of their demand for Islamic housing finance coming from their Chinese customers. The Chinese people are said to have a mind set which analyses more and looks at things for a longer time frame. They do not like to gamble as to what will happen in the future in terms of rates, thus locking in their liability. This implies that other mortgage providers should also realise the potential of the high demand coming from non-Muslims, and that they should tap into this niche market more widely.

7.3.8 Usage of Other Islamic Financial Products

The survey results demonstrate that a majority of people who are using Islamic housing finance are also using other Islamic financial products. It is also interesting to note that more than half of those who are using conventional housing finance have an interest in using other Islamic financial products even though they do not take up Islamic housing finance. Among the favourite products used are Islamic savings and current accounts, Islamic car finance and car insurance as well as Islamic house insurance. As for the interview results, it can be said that most of the mortgage providers do cross-sell their products. Some of them make it compulsory to open up accounts and some make use of the entry products to sell other products to their customers. Both these results are very interesting in that they suggest that there is a vast market potential for Islamic financial products in the Malaysian community.

Currently, there is already a high awareness amongst the Malaysian Muslims to use Islamic financial products and the mortgage providers have realized this by doing lots of cross-selling and offering a wide range of Islamic financial products to their customers. Mortgage providers can learn from

each other on how to gain a bigger slice of that market for Islamic financial products versus conventional financial products thus gaining more profits.

7.3.9 Flexibility Issues

The survey results suggest that respondents seem to acknowledge the existence of flexibility granted to them by their mortgage providers but those using conventional housing finance users seem to acknowledge this more than the Islamic housing finance users. Nevertheless, there were people who do not seem to be aware of the flexibility offered by their mortgage providers. Amongst the preferred form of flexibility is the ability to make redemption without penalty, to be able to pay less initially and increasingly more as years go by and having a re-mortgage facility to raise cash to use, for example for renovation purposes. As for the interview results, most, if not all of the mortgage providers do offer some forms of flexibility, for example allowing lump sum payments to be made without penalty, the ability for customers to switch to other mortgage providers and re-mortgaging facilities.

From both these results, it is important to note that mortgage providers should realize that there are people who are not aware of the forms of flexibility made available to them. It is important for mortgage providers to disseminate this information so as to make customers more aware and more literate in that sense. Not only that, it could actually help to attract more customers once they realize the forms of flexibility made available to them. Especially since the third highest number of respondents using conventional housing finance has chosen 'not much flexibility' as to why they did not use Islamic housing finance. Thus it can be suggested that mortgage providers should be made to realize the importance of being innovative and having flexibility in offering the Islamic housing finance in order to make it more appealing to their customers.

7.3.10 Suggestions for Improvements

The analysis of the survey results renders information about the perceptions of the respondents regarding improvement in housing finance. The most popular responses are: 'the product should be good value for money', 'less

percentage of down payment required' and that 'great flexibility is being offered to them'.

This result implies that the issue of pricing competitiveness is important and from the analysis of the survey, this issue has come up time and time again. For example, the survey seems to suggest that the most important criterion to a respondent when making comparisons between Islamic and conventional housing finance is the repayment amount which is the amount he/she has to pay each month. Therefore the monthly repayment amount has to be at a competitive rate in order for the respondent to be interested to take the product up. 'Good rates being charged' is also one of the most important reasons that the respondents chose as to why they use Islamic housing finance, which comes up after religious belief and the ability to manage cash flow better.

As for the interview results, the mortgage providers do think that they have made the Islamic housing finance competitive enough, although they do acknowledge that the Islamic pricing does seem higher simply, because they need a bit of a buffer as a form of hedging mechanism for having a fixed monthly repayment throughout.

Therefore, it can be suggested that mortgage providers need to make sure that they make the Islamic housing finance very competitive in terms of pricing if this has not already been done so. The Islamic housing finance providers should be innovative enough to do this even though it can be difficult to have the Islamic housing finance pricing lower compared to the rate offered by their conventional counterpart because of the buffer required.

7.4 POTENTIAL IMPROVEMENT AREAS

a. Do it in Malay Language

The questionnaire used for the research could possibly be written in dual language so that those who did not understand English very well could choose to read the text in Malay Language version and vice versa. The English version should be maintained because there are Malaysians who are

more familiar with the financial terms in English and therefore prefer to read the English text.

b. Do scale questions

It would be useful to also have scale questions in the survey carried out for the purpose of this research. Currently in the research, there are many questions dealing with ranking and ticking only one answer which best describes the respondents' answers. The reason for saying this is that there seems to be some statistical analysis which can be used to analyse the scale questions compared with other methods of answering questions. Thus, with more ways of analysing the data, the more sophisticated the research outcome would be.

c. Ask less questions

One of the advantages of having many questions in a questionnaire is that more data can be retrieved from the respondents. Nevertheless, it would also be advantageous if the number of questions used for the research is less, as there is a possibility that the more questions there are, the less interested the respondents become in answering them especially towards the end. The disadvantage of this of course is that there is less data that would be obtained from the respondents.

d. Interview officials from the Central Bank of Malaysia

It would be beneficial if the interviews for the purpose of this research were conducted with officials in charge of the Islamic finance section of the Central Bank to find what the Bank has done so far to boost the current market for Islamic housing finance. This is because the Central Bank would have an overview of the current situation and policies of Islamic banking system generally and Islamic housing finance in particular. The Central Bank also has a board of *Shari'ah* scholars who have more power than the *Shari'ah* scholars at individual bank that offer Islamic financial products. It should also be noted that further interviews could have been conducted with these *Shari'ah* scholars in order to discuss the structural nature of the Islamic home financing product.

7.5 SUGGESTIONS FOR FUTURE WORK

Focus on a certain topic in the study of Islamic housing finance could be a good idea, for example, by concentrating on the issue of securitization; maybe on the perception concerning the acceptability of Islamic housing finance from an Islamic perspective; to find out more on the respondent's flexibility preference offered by his/her mortgage provider; and possibly to find out more on the pros and cons of taking up with a particular mortgage provider when compared with another.

7.6 CLOSING REMARK

This research enables policy recommendations to be formulated with regard to various issues. Such issues for example concern product awareness, product variety, quality of information provided by bank's staffs, take-up procedure, terms and conditions, flexibility of repayments, property preferences, satisfaction or dissatisfaction of customers and *riba* awareness. It is perceived that this research would be beneficial not only for all the institutions in Malaysia which are offering or not offering Islamic housing finance but also to other countries in the world. This is true as it will demonstrate to them the development of Malaysia's Islamic housing finance which has a fast-developing Islamic financial market as its backing. One such country which could learn from Malaysia too is the United Kingdom which has only recently (comparatively) introduced its own Islamic housing finance.

APPENDICES

I am a PhD student studying in Durham University, United Kingdom and currently doing a research in the area of Islamic housing finance. My research focuses on mortgages taken out by Malaysian Muslim Bumiputeras. The purpose of this questionnaire is, mainly to find out about the perception and behaviour of the above-mentioned group of respondents, with regard to housing finance.

Please answer the questions below which should not take much of your time. For most questions, tick the box(es) most applicable to you or for some, you would need to rank according to your preferences. There is also a note right at the end to help you with some of the jargons.

All your responses will be treated as confidential. You may contact me via email **e.m.abdul-samad@durham.ac.uk** for any queries you might have. I would like to express my utmost gratitude for volunteering to participate in this survey. Not only is this survey highly important to my research, but also, I believe that it can be of great benefit to the future of Islamic housing finance and the consumers (respondents) as well.

Questions on the housing mortgage product

1. Who is your mortgage provider?

   ☐ Bank

   ☐ Government

   ☐ Company

   ☐ Others (please state) _____

2. What type of housing mortgage do you take out?

   ☐ Islamic (Proceed to question 3)

   ☐ Conventional (Proceed to question 4)

   ☐ I do not know (Proceed to question 5)

Questions on the perception of Islamic mortgage

3. What is the reason for using Islamic mortgage? Choose whichever is applicable to you. Rank the most important reason for using Islamic mortgage as one (1), two (2) as the next most important and so on, up to the least important:

   ☐ The fixed monthly repayment enables me to manage my cash flow better

   ☐ Conforms with my faith of abstaining from riba

   ☐ I like the rates that is being charged by my mortgage provider

   ☐ Recommended by friends and family

   ☐ Other reasons (please specify) _____

4. What is the reason for not using Islamic mortgage? Choose whichever is applicable to you. Rank the most important reason for not using Islamic mortgage as one (1), two (2) as the next most important and so on, up to the least important:

   ☐ Islamic mortgage is more expensive in terms of monthly repayments than the conventional one

   ☐ Islamic mortgages do not provide as much flexibility as the conventional one

   ☐ There is lack of variety of Islamic housing mortgage product

   ☐ Other reasons (please specify) _____

Questions on product survey

5. When deciding the best deal, did you compare between the Islamic housing mortgage product with the conventional one?

   ☐ Yes, I did compare (Proceed to question 6)

   ☐ No, I did not compare (Proceed to question 8)

6. When comparing between the Islamic and the conventional mortgage products, which criterion was important to you?
Choose whichever is applicable to you.

   ☐ Repayment period, for example maximum of 25 years

   ☐ Monthly repayments amount, for example search for the cheapest

   ☐ Term of monthly repayment, for example fixed payment throughout the 25 years of mortgage term

   ☐ Quality of customer services provided, for example helpful staff members

   ☐ Speed in processing the mortgage application

   ☐ Requirements set by the mortgage provider when making the mortgage application

   ☐ Others (please state) _____

7. Did you find the Islamic housing mortgage product cheaper or more expensive than the conventional one in terms of monthly repayment?

   ☐ Islamic mortgage is cheaper than the conventional one

☐ Islamic mortgage is more expensive than the conventional one

☐ Islamic mortgage is as cheap/expensive as the conventional one

☐ I am not sure

8. On overall average, what do you think of the variety of housing mortgage products offered by your mortgage provider?

☐ Wide variety

☐ Sufficient variety

☐ Lack of variety

☐ I do not know

Questions on product awareness

9. How would you prefer to find out more about the mortgage product? Choose which ever is applicable to you. Rank the most preferable way of finding out as one (1), two (2) as the next most preferable and so on, up to the least important.

☐ Mass media, for example newspaper

☐ Materials produced by the mortgage provider

☐ Recommendation from family and friends

☐ Internet search

☐ Visit to the mortgage provider

☐ Other (please state) _____

10. Were the staffs who dealt with your mortgage, informative in answering any questions on the mortgage product that you might have had?

☐ Enough information

☐ Insufficient information

☐ Did not have any questions to ask

Questions on margin of financing

11. Did your mortgage provider finance 100% of Sales and Purchase price of the property you were buying?

☐ Yes, 100% of the price (Proceed to question 13)

☐ No, not 100% of the price (Proceed to question 12)

12. From what sources did you manage to come up with enough money to pay for the difference between the price of the property and the amount which you are entitled to? Choose whichever is applicable. From:

☐ Parents

☐ Personal loans from banks

☐ KWSP (Kumpulan wang simpanan pekerja)

☐ Own savings

☐ Other (please clarify) _____

Questions on mortgage insurance

13. Does your mortgage provider make it compulsory for you to take out a housing mortgage insurance or takaful (for an Islamic mortgage) to cover for mortgage repayment in the case of permanent disability or death?

☐ Yes, it is made compulsory (Proceed to question 16)

☐ No, it is not made compulsory (Proceed to question 14)

14. If it not made compulsory by your mortgage provider, did you still take it up?

☐ Yes, I did (Proceed to question 16)

☐ No, I did not (Proceed to question 15)

15. What is the reason for not taking up any housing mortgage insurance or takaful?

☐ I do not think the insurance or takaful is Islamic enough

☐ I cannot afford the premium or payment required

☐ I do not find the insurance or takaful beneficial

☐ Other reason (please state) _____

Questions on process and procedure

16. In your opinion, was the procedure set by your mortgage provider in obtaining a housing mortgage a straight forward one?

☐ Yes, it was a straight forward procedure

☐ No, it was not a straight forward but instead a rather complicated one

17. How long did the whole process take?

☐ Less than one month

☐ 1 – 2 months

☐ 3 – 4 months

☐ More than 4 months

Questions on terms and condition

18. How much are you paying monthly for your mortgage?

☐ Less than RM 500 per month

☐ RM 500 – RM 1000 per month

☐ RM 1001 – RM 1500 per month

☐ RM 1501 – RM 2000 per month

☐ RM 2001 – RM 2500 per month

☐ More than RM 2500 per month

19. How long is the repayment period of your mortgage?

☐ 10 years or less

☐ 11 – 15 years

☐ 16 – 20 years

☐ 21 – 25 years

☐ 26 – 30 years

☐ More than 31 years

20. How long have you been making your monthly repayments to your mortgage provider?

☐ Less than 1 year

☐ 1 – 5 years

☐ 6 – 10 years

☐ 11 – 15 years

☐ More than 15 years

21. What is the size of the mortgage repayments in relation to your monthly household income? The mortgage repayment is about:

☐ Third of my household income

☐ Fourth of my household income

☐ Fifth of my household income

☐ Sixth of my household income

☐ Other (please state) _____

22. What is the term of your monthly repayments? It is

☐ Fixed throughout the period of my housing mortgage

☐ Vary each year throughout the period of my housing mortgage

☐ Others (please specify) _____

Questions on non-payment

23. Have you ever experienced a case of non-payment of your monthly repayments?

☐ Yes, I have experienced (Proceed to question 24)

☐ No, I have never experienced (Proceed to question 27)

24. What might be the reasons for this? Choose any of the following possible reasons:

☐ Permanent disability that has caused me to be out of work thus not enabling me to earn enough income to make monthly repayments.

☐ Being put out of work for some reasons other than sickness of which have caused loss of earnings thus making it impossible to keep up with the monthly repayments.

☐ The monthly repayment set by my mortgage provider is getting increasingly high and becoming beyond my means of payment.

☐ Other reasons (please state) _____

25. How many months was the period of non-payment?

☐ One month

☐ Two months

☐ Three months

☐ More than three months

☐ Still unable to pay

26. What were the consequences of your non-payment? Choose whichever that applies:

- ☐ My mortgage provider has seized my collateral
- ☐ The staffs of my mortgage provider were understanding about my problem
- ☐ The staffs were not very understanding about my problems.
- ☐ The staffs were helpful and have discussed with me various alternatives to what I can do
- ☐ The staffs of my mortgage provider were not helpful at all
- ☐ Others (please state) _____

Questions on flexibility of housing mortgage

27. Does your mortgage provider offer more flexibility in terms of monthly repayments? For example, it allows me to pay lump sum to decrease my loan amount without any penalty charges.

- ☐ Yes, my mortgage provider does offer some form of flexibility
- ☐ No, my mortgage provider does not offer any flexibility at all
- ☐ I do not know

28. If you could have your say, what sort of flexibility would you prefer the bank to offer you? Choose which ever that is applicable to you. Rank the most preferable form of flexibility as one (1), two (2) as the next most preferable and so on, up to the least preferable:

- ☐ Enable me to take out payment holiday (allows me to not make my monthly repayment for a month or so)
- ☐ Allows me to pay less during the initial years and increasingly more in later years
- ☐ Enable me to re-mortgage my housing mortgage for various reasons, for example, in order to get extra cash for other purposes like house renovation
- ☐ Allows me to change my mortgage provider to a different one, without any penalty charges
- ☐ Allows me to pay a lump sum whenever I have extra cash in order to make an early redemption, without any penalty charges
- ☐ Others (please specify) _____

Questions on the usage of Islamic financial product

29. Apart from Islamic housing mortgage (for those already taking up the product), do you use any Islamic financial product at all?

    ☐ Yes (Proceed to question 30)

    ☐ No (Proceed to question 31)

30. Which Islamic financial product is it? Choose which ever of the following that you have:

    ☐ Islamic saving account

    ☐ Islamic current account

    ☐ Islamic car insurance

    ☐ Islamic car finance

    ☐ Islamic house insurance

    ☐ Other (please state) _____

Questions on the property

31. What was your priority when making a decision on the property of your choice? Rank according to the most important as one (1), two (2) as the next most important and so on up to the least important.

    ☐ Location of the property

    ☐ The price of the property and thus the size of the mortgage

    ☐ The number of bedrooms in the property

    ☐ The size of the rooms and thus the property

    ☐ The availability of a garden

    ☐ Others (please state) _____

32. Is the property you are paying the mortgage for:

    ☐ Bought from a developer and is still in the process of being built (Proceed to question 33)

    ☐ Bought from a developer and has finished being built (Proceed to question 33)

    ☐ Bought from a previous owner (Proceed to question 35)

☐ Others (please state) _____

33. If you have bought your house from a developer, on purchasing the property, were you given a special discount granted to bumiputeras only?

☐ Yes, I received a discount for bumiputeras (Proceed to question 34)

☐ No, I did not get any discounts (Proceed to question 35)

☐ I do not know (Proceed to question 35)

34. Has this discount influenced you in any way when deciding to buy the house that you have already bought?

☐ Yes, it has influenced me in my decision making of whether to buy the house or not

☐ No, it has not influenced me in any way when buying the house

35. In which category is the property of which you are taking the mortgage for? It is a:

☐ Semi detached house

☐ Detached house

☐ Terraced house

☐ Flat

☐ Apartment

☐ Other (please state) _____

36. In which state in Malaysia is your property situated?

☐ Kuala Lumpur

☐ Selangor

☐ Negeri Sembilan

☐ Perak

☐ Other (please state) _____

37. What is the value of the house when signing the sales and purchase agreement?

☐ Less than RM 100,000

☐ RM 100,000 – RM 150,000

☐ RM 150,001 – RM 200,000

☐ RM 200,001 – RM 300,000

☐ More than RM 300,000

38. In your view has the value of the house changed since then? I believe the value has:

☐ Gone up

☐ Gone down

☐ The same

☐ I do not know

39. Have you moved in to your new house of which you are currently paying the mortgage for?

☐ Yes, I have already moved in (Proceed to question 42)

☐ No, I have not moved in yet (Proceed to question 40)

☐ I am in the process of moving in (Proceed to question 42)

40. If you have not moved in to your new house, what is the reason for this? It is because:

☐ The house is still not fully ready

☐ The house is ready but I am not ready to move in there yet

☐ I am renting out the house to earn extra income

☐ Other reason (please state) _____

41. Also, if you have not moved in to your new house, where are you currently staying?

☐ In a private rented accommodation

☐ In a government rented accommodation

☐ In another property which I also own

☐ Living with immediate family members

☐ Living with friends

☐ Other (please clarify) _____

Questions on satisfaction

42. Do you find your housing mortgage satisfactory so far?

☐ Yes, I found it satisfactory (Proceed to question 43)

☐ No, I do not find it satisfactory (Proceed to question 44)

☐ I am indifferent about it (Proceed to question 45)

43. If you have found the housing mortgage satisfactory, why is this so? Choose which ever is applicable to you. Rank the most important reason for finding the product satisfactory as one (1), two (2) as the next most important reason and so on, up to the least important:

☐ The product offers great flexibility, for example no penalty charges for early repayments made

☐ Excellent terms of payment, for example flat rate monthly repayment throughout the 25 years

☐ The product is good value for money

☐ The product offers ease of payment, for example through standing instruction

☐ The product is simple and clearly understood, for example it gives a breakdown of how much of the monthly repayment goes towards the house as well as the mortgage provider

☐ Others (please explain) _____

44. If you have not found the housing mortgage satisfactory, why is this so? Choose which ever is applicable to you. Rank the most important reason for finding the product **not** satisfactory as one (1), two (2) as the next most important reason and so on, up to the least important:

☐ Not much flexibility given, for example I cannot re-mortgage to raise extra cash for other purposes

☐ I do not like the terms of payment, for example the monthly repayment changes each year

☐ The product does not seem to be good value for money

☐ The way the product works is difficult to understand and seems rather complicated

☐ High penalty charges is charged, for example if an early redemption is made on my mortgage

☐ Other reasons (please explain) _____

Question on suggestions to improve the Islamic mortgage product

45. If you could have your say, what do you want differently about the Islamic mortgage? Choose which ever is applicable to you. Rank the most important as one (1), two (2) as the next most important and so on up to the least important:

☐ Good value for money, for example less monthly repayment

☐ Offer great flexibility, for example allowing me to re-mortgage the housing mortgage

☐ Less percentage of down payment required in order to take up the Islamic mortgage

☐ No collateral required in order to take up the Islamic mortgage

☐ Others (please state) _____

Questions on personal information

46. How much would you say your joint household income level is?

☐ RM 40,000 or less per annum

☐ RM 40,001 – RM 45,000 per annum

☐ RM 45,001 – RM 50,000 per annum

☐ RM 50,001 – RM 55,000 per annum

☐ RM 55,001 – RM60,000 per annum

☐ More than 60,001 per annum

47. What is your age group?

☐ 20 – 30 years

☐ 31 – 40 years

☐ 41 – 50 years

☐ 51 – 60 years

☐ More than 61 years

Question on Islamic ruling of riba

48. Are you aware of the Islamic ruling against riba (interest)?

☐ Yes, I am aware of the ruling

☐ No, I am not aware of the ruling

☐ I am not sure about the ruling

Translation to some jargons:

Collateral : cagaran

Finance : membiayai

Household income : pendapatan isirumah

Mortgage provider : pembiaya pinjaman perumahan

Non-payment : ketidakbayaran

Period : tempoh

Redemption : menebus balik

Refinance : penukaran pembiaya pinjaman perumahan

Repayment : bayaran balik

Remortgage : pemberian pinjaman tambahan oleh pembiaya pinjaman perumahan

Term : syarat

Interview Guide: BANK MANAGERS

Interview guide for bank managers in charge of housing finance:

The set of questions for the bankers are as follows:

Questions on Islamic mortgage products offered to the public:

1. How long has it been since the bank launched Islamic housing finance?
2. Why have you done this i.e. offered Islamic housing finance products to the public?

Question on financial sources

3. Which financial sources does your bank use in order to get the funds to help the Islamic mortgagees to buy their houses?

Questions on terms of repayment

4. In your experience, what is the average period of repayment preferred by your clients? Is it more or less than 15 years?
5. What is the bank's term for monthly repayment of Islamic mortgages? Is it fixed through out the period of the mortgage, differ each year or any other?
6. Is the term of monthly repayments flexible, for example, can your clients pay less during the first year and more in the following year or maybe take out payment holiday whereby they do not have to pay for say, few months and continue on with their payments after that?

Questions on flexibility

7. Do you allow your clients to re-mortgage their mortgages in order to use the extra cash for other purposes for example house renovation?

8. Are your clients allowed to refinance and change to another bank as their Islamic mortgage provider without any penalty charges?
9. Do you also allow your clients to pay lump sum freely, without any penalty charges, in order to reduce their mortgage amount, if ever they have extra cash?

Questions on product awareness

10. Do you have staffs to deal with any queries from clients who are interested to know more about the Islamic mortgage product?
11. What have you done to promote awareness of Islamic mortgage product amongst the public? Do you advertise in the mass media or produce brochures on Islamic mortgages?

Questions concerning the demand for Islamic vs. conventional mortgage

12. In your opinion have you made the alternative Islamic housing finance products as competitive as the conventional ones because there is a suggestion that Islamic housing finance is more expensive than the conventional one?
13. What is the demand like for Islamic housing finance from your Muslim clients? Is it reasonably high, average or rather low?
14. Do a higher number of Muslim clients opt for Islamic or conventional housing finance?
15. In your opinion, are their reasons for choosing Islamic housing finance purely due to faith or any other reasons, for example getting a better deal compared to the conventional one or a mixture of reasons?

Questions on cross-selling and survey

16. Do you do any cross-selling of Islamic products to your existing customers?

17. Have your management ever done a survey to find out the level of satisfaction or dissatisfaction in the Islamic housing finance products that are currently being offered?

Questions on collateral and non-payment

18. Do your clients have to put down collateral in order to secure an Islamic mortgage?
19. Is non-payment a common problem amongst your clients using Islamic mortgages?
20. If so, is the proportion of non-payment for clients using Islamic products more than those using conventional ones?
21. Is there a maximum number of months that the clients are allowed to default on their monthly repayments?
22. What are the procedures carried out by your bank, if your Islamic mortgage clients fail to make payments? Is it the same procedure as that for the conventional mortgage?
23. Based on your experience why are some of the Islamic mortgage clients unable to make their monthly repayments?

Question on securitization

24. An Islamic financial institution, LARIBA has been successful in the United States whereby it has increased its capital by selling its mortgages to a mortgage investing giant, Freddie Mac. This has enabled LARIBA to increase its home loans, reduced its down payments to 20% and tripled its maximum repayment periods to 30 years.[1] Wouldn't this be desirable for Malaysian Muslims who want to buy house Islamically without having to put down a large down payment for example? Does your bank have any future plans to engage in securitization or buying and selling

[1] IslamOnline and News Agencies. (2004). Freddie *Mac to Invest in Islamic Mortgages.* Retrieved 2 July 2004, from http://www.islam-online.net/English/News/2001-04/04/article5.shtml

mortgages in the secondary mortgage market particularly with regard to Islamic mortgages?

Questions on availability of Shari'ah Board of Council

25. Is there a *Shari'ah* Board of Advisors to advice the bank's management on the Islamic products offered?
26. What happens if you do not 100% agree on certain issues that the *Shari'ah* Board has advised you on?
27. Do you make your clients aware of the fact that there is a *Shari'ah* Board of Advisors to make sure they are confident with the Islamicity of the Islamic mortgage or if ever they wish to get more information on the Islamic mortgage?

Questions on Government's role in promoting Islamic mortgage product

28. In your opinion, what can the Government do to help promote Islamic mortgage products and make it as competitive if not more than their conventional counterpart?

Questions on the profitability of Islamic mortgage products:

29. Do you earn profits from offering Islamic mortgages to your customers? Is it more or less than conventional mortgages?
30. How does your bank set the profit rates? Is it by benchmarking with conventional bank's BLR?

Interview Guide: COMPANY OFFICIALS 1

The set of questions for officials in charge of company housing finance

The set of questions are as follow:

Questions on Islamic mortgage products offered to the company staffs

1. How long has it been since this company launched Islamic housing finance?
2. Why have you done this i.e. offered Islamic housing finance products to your company staffs?
3. In banks, Islamic mortgages follow the concept of al*Bai Bithaman Ajil.* Which concept does the company's Islamic housing finance follow?

Questions on bureaucracy

4. What are the requirements set by the company in order for a company staff to be eligible to apply for a company housing finance? Are they the same as the conventional one?
5. After the application form for the housing finance has been sent off to the officer in charge, can you explain to me what happens after that i.e. what does the whole process involves?
6. How long would you say, is the average length of time taken for applications to be approved?
7. Is there a quota on the number of people who can get the housing finance each month/year.

Questions on financial sources and profit rates

8. Which financial sources does your company use in order to get the funds to help the Islamic mortgagees to buy their houses?

9. How does your company set the profit rates charged to those taking out Islamic housing mortgage? In your opinion have you made the alternative Islamic housing finance products as competitive as the conventional ones?

Questions on terms of repayment

10. Do this company finance up to 100% of the Sales and Purchase price of the property your clients have chose to buy?
11. In your experience, what is the average period of repayment preferred by those taking up the finance (clients)? Is it more or less than 15 years?
12. Is the total amount of monthly repayments, say for example ten (15) years the same for say, twenty five (25) years?
13. What is the company's term for monthly repayment of Islamic mortgages? Is it fixed through out the period of the mortgage, differ each year or any other?

Questions on flexibility

14. Do you allow your clients to re-mortgage their mortgages in order to use the extra cash for other purposes for example house renovation?
15. Are your clients allowed to refinance and change from another bank to this company's housing finance as their Islamic mortgage provider?
16. Do you also allow your clients to pay lump sum freely, without any penalty charges, in order to reduce their mortgage amount, if ever they have extra cash?

Questions on product awareness

17. Do you have anybody to deal with any queries from company staffs who are interested to know more about the Islamic mortgage product?
18. What have you done to promote awareness of Islamic mortgage product amongst your staff members? Do you produce brochures on Islamic mortgages?

Questions concerning the demand for Islamic vs. conventional mortgage

19. What is the demand like for Islamic housing finance from your Muslim clients? Is it reasonably high, average or rather low?
20. Are there any Muslim company staff who do not want to take up Islamic housing finance and instead take up the conventional one?
21. In your opinion, are their reasons for choosing Islamic housing finance purely due to faith or any other reasons, for example getting a better deal compared to the conventional one or a mixture of reasons?

Question on survey

22. Have your management ever done a survey to find out the level of satisfaction or dissatisfaction in the Islamic housing finance products that are currently being offered?

Questions on collateral and non-payment

23. Do your clients have to put down collateral in order to secure an Islamic mortgage?
24. Is non-payment a common problem amongst your clients using Islamic mortgages?
25. If so, is the proportion of non-payment for clients using Islamic products more than those using conventional ones?
26. What are the procedures carried out by your company, if any of your Islamic mortgagees fail to make payments? Is it the same procedure as that for the conventional mortgage?
27. Based on your experience why are some of the Islamic mortgage clients unable to make their monthly repayments?

Question on availability of Shari'ah Board of Council

28. Is there a *Shari'ah* Board of Advisors to advice the company's management on the Islamic housing product offered?

Questions on Government's role in promoting Islamic mortgage product

29. In your opinion, what can the Government do to help promote Islamic mortgage products and make it as competitive if not more than their conventional counterpart?

Interview Guide: COMPANY OFFICIALS 2

The set of questions for officials in charge of company housing finance

The set of questions are as follow:

Questions on Islamic mortgage products offered to the company staffs

1. How long has it been since this company granted subsidies to company staffs who wish take up Islamic housing finance?
2. Why have you done this i.e. granted subsidy on Islamic housing finance to your company staffs?
3. I understand you have a panel of banks, which ones are they?
4. Why have you chosen these banks as your panel?

Questions on bureaucracy

5. What are the requirements set by the company in order for a company staff to be eligible to apply for a company housing finance? Are they the same as the conventional one?
6. After the application form for the housing finance has been sent off to the officer in charge, can you explain to me what happens after that i.e. what does the whole process involves?
7. How long would you say, is the average length of time taken for applications to be approved?
8. Is there a quota on the number of people who can get the housing finance each month/year.

Questions on financial sources and profit rates

9. Which financial sources does your company use in order to get the funds to subsidise the Islamic mortgagees to buy their houses?

10. How does your company set the rates of subsidy given to those taking out Islamic housing mortgage? Is it the same and as competitive as the conventional ones?

Questions on terms of repayment

11. Do this company finance up to 100% of the Sales and Purchase price of the property your clients have chosen to buy?
12. In your experience, what is the average period of repayment preferred by those taking up the finance (clients)? Is it more or less than 15 years?

Questions on flexibility

13. Do you allow your clients to re-mortgage their mortgages in order to use the extra cash for other purposes for example house renovation?
14. Are your clients allowed to refinance and change from another bank to this company's housing finance?
15. Do you also allow your clients to pay lump sum freely, without any penalty charges, in order to reduce their mortgage amount, if ever they have extra cash?

Questions on product awareness

16. Do you have anybody to deal with any queries from company staffs who are interested to know more about the Islamic mortgage product?
17. What have you done to promote awareness of Islamic mortgage product amongst your staff members?

Questions concerning the demand for Islamic vs. conventional mortgage

18. What is the demand like for Islamic housing finance from your Muslim clients? Is it reasonably high, average or rather low?
19. Are there any Muslim company staff who do not want to take up Islamic housing finance and instead take up the conventional one?

20. In your opinion, are their reasons for choosing Islamic housing finance purely due to faith or any other reasons, for example getting a better deal compared to the conventional one or a mixture of reasons?

Question on survey

21. Have your management ever done a survey to find out the level of satisfaction or dissatisfaction in the housing finance in particular Islamic housing finance that are currently subsidising?

Questions on collateral and non-payment

22. Do your clients have to put down collateral in order to secure an Islamic mortgage?
23. Is there a problem of non-payment amongst your clients using Islamic mortgages?
24. If so, is the proportion of non-payment for clients using Islamic products more than those using conventional ones?
25. What are the procedures carried out by your company, if any of your Islamic mortgagees fail to make payments? Is it the same procedure as that for the conventional mortgage?
26. Based on your experience why are some of the Islamic mortgage clients unable to make their monthly repayments?

Question on availability of Shari'ah Board of Council

27. Is there a *Shari'ah* Board of Advisors to advice the company's management on the Islamic housing product offered?

Questions on Government's role in promoting Islamic mortgage product

28. In your opinion, what can the Government do to help promote Islamic mortgage products and make it as competitive if not more than their conventional counterpart?

Interview Guide: GOVERNMENT OFFICIALS

Interview guide for officials in charge of Government housing finance

The set of questions are as follow:

Questions on the mortgage product

1. When did the Government start offering Islamic Government housing loan to their employees because formerly, there was no distinction between Islamic and conventional housing loan?
2. Since the introduction of Islamic mortgages to Government officers, do you see any differences, for example a surge in the number of applicants wanting to get hold of the loan?
3. In contrast, are there any Muslim Government officers who do not want to take up Islamic Government housing loan and instead take up the conventional one?
4. In banks, Islamic mortgages follow the concept of alBai Bithaman Ajil. Which concept does the Islamic Government housing loan follow?

Questions on the profit rate

5. Previously the Government loans were charged what is called service fee. Since the introduction of Islamic mortgages, it has been called profit rate. Is it not merely a change in the name and the same concept still applies?
6. Previously, the takers of Government housing loans were charge 4%, but until recently it seems to have gone up to 7% for loan of up to RM100,000 and 9% if above this amount. Why has this happened?
7. Is the total amount of monthly repayments, say for example ten (10) years the same for say, twenty five (25) years?

Questions on terms and conditions

8. I understand there is an upper and lower age limit for applicants? What are they and why is there a lower limit as well?

Questions on finance sources

9. Where does the money to finance the Government housing loan come from i.e. its sources?
10. I understand there is a quota on the number of people who can get the loans each month/year. Does the quota depend on the sources mentioned above?
11. Is the quota the same for each state?
12. I understand also that there is also a queue in order to apply for the loan because of the quota. What is the average length of time of this queue?

Questions on bureaucracy

13. After the application form for the loan has been sent off to the officer in charge of the loan, can you explain to me what happens after that i.e. what does the whole process involves?
14. How long would you say, is the average length of time taken for applications to be approved?
15. There is a case whereby a person I have surveyed only got the loan approved after one year of waiting. The person in question said that the application somehow got lost. How could this have happened?

Questions on flexibility

16. What is your opinion on the flexibility of the Islamic Government housing loans? For example are the mortgagee allowed to refinance or re-mortgage his/her loan to get extra cash, in order to use for house renovation for example?

17. Is it possible also for a Government officer who has bought a house by getting a housing loan from a bank to re-mortgage his/her housing loan to an Islamic Government housing loan?

Questions on non-payment

18. What about in the case of non-payment by the mortgagees, what are the procedures or steps taken by the Government officials when this happens?

Questions on Shariah council

19. Who did the Government officials consult when the Government first launched the Islamic Government housing loan? Did they consult the Government *Shari'ah* council?
20. Are there any *Shari'ah* advisors for the officials' in-charge or any of the Government officers making the applications to ask if ever any fiqh questions arise?

Interview Guide: *SHARI'AH* SCHOLARS

Interview guide for *Shari'ah* Scholars

The set of questions are as follows:

Questions on the board of council

1. How many people are there on the *Shari'ah* advisory council?
2. Are you also a *Shari'ah* advisor to other banks in Malaysia?
3. What aspects of Islamic mortgages does the council advise the bank on?
4. Do you have to get certification on each *Shari'ah* advisors from the Central Bank of Malaysia?

Questions on Islamic vs. conventional mortgage products

5. Can you explain the Islamic basis in terms of Al-Quran and *Sunnah* of the Islamic mortgage product that the bank is offering in order to demonstrate what makes the Islamic mortgage Islamic and different from its conventional counterpart?
6. What is your opinion on why some Muslims insist on using non-Islamic mortgage product which involves riba?
7. In your view, why is it that some members of the public finds the Islamic mortgage more expensive than the conventional one when it is suppose to be non-exploitative?

Questions on differences of opinions

8. Does the bank accepts 100% all the views of the *Shari'ah* scholars or is there a room for discussion if there is something the bank does not agree with?
9. What happens if the bank still does not totally agree with what the *Shari'ah* scholars say after that discussion?

10. Who has the final say on any Islamic issues?

Questions on product awareness

11. What does the *Shari'ah* scholars do to promote the awareness amongst the public in getting them to use Islamic mortgage products as oppose to conventional ones?
12. Do you think more people are Islamically-aware and increasingly wanting to use the Islamic mortgage product?

Questions on collateral

13. What is your opinion on matters pertaining to seizure of collateral when any of the mortgagees fail to make monthly mortgage repayments for a number of months? Is it Islamically justified?

Questions on the conventional banks' dealings with riba

14. What is your opinion if a conventional bank also involves itself with *riba* even though it is also offering Islamic mortgages, for example by giving out interests to those taking up conventional products?
15. What is your opinion if the bank borrows from *ribawi* sources to finance the Islamic mortgages?
16. Would you advise the bank against this (unIslamic) act if and when it happens?

Questions on secondary mortgage market and securitization

17. What is the S*hari'ah* council's opinion on securitization of Islamic mortgages and buying and selling of mortgages in the secondary mortgage market since that market conducts interest-based transactions?

18. Would you agree with some scholars who do not feel that the secondary market pose a problem, as long as the transaction between the lender and the homebuyer is profit-based[1]?

Questions on concensus

19. Do you share the same opinion with the S*hari'ah* councils of other banks on issues relating to the Islamicity of Islamic mortgages being offered, for example BBA?
20. Has there ever been any discussion with other Islamic *Shari'ah* councils either nationally or internationally on issues regarding Islamic mortgages in order to have a national and international consensus?

[1] Bennett, N., N. Foster, et al. (2002). Alternative financing: issues and opportunities for lenders and interest-averse population. *Community Dividend*. Retrieved 2 July 2004, from http://minneapolisfed.org/pubs/cd/02-1/islamic.cfm

LIST OF INTERVIEWEES

Bank managers:

1. Zainal Osman, Vice President, Manager of Islamic Banking section at the Affin Bank Berhad, Kuala Lumpur, Malaysia.

2. Ismail Taib, Manager, Bancatakaful & Financial Services, Consumer Banking at the Bank Islam Malaysia Berhad, Kuala Lumpur, Malaysia.

3. Khir Annuar Md Salleh, Assistant Branch Manager at the Bank Kerjasama Rakyat Malaysia Berhad, Kuala Lumpur, Malaysia.

4. Amir Alfatakh Yusuf, Head, Consumer Financial Services Unit, Islamic Banking Division at the OCBC Bank (Malaysia) Berhad, Kuala Lumpur, Malaysia.

5. Suzaini Mukhtar, Product Development and Management Manager, Amanah Finance at HSBC Bank Malaysia Berhad, Kuala Lumpur, Malaysia.

Officials in charge of company housing finance:

1. Noor Safiza Yusoff, Senior Assistant Manager, Corporate Finance Division at the Pos Malaysia Berhad, Kuala Lumpur, Malaysia.

2. Saadah Sohor, Human Resource Executive, Human Resource Section, at the Bank Pembangunan & Infrastruktur Malaysia Berhad, Kuala Lumpur, Malaysia.

3. Suzana Ahmad, Manager, Services & Loan, Compensation Benefits & Performance Management Department, Group Human Resource Division at the Tenaga Nasional Berhad, Kuala Lumpur, Malaysia.

4. Dayang Juwita Awang Jolkipli, Head of Financing Unit at the Lembaga Tabung Haji, Kuala Lumpur, Malaysia.

5. Norddin Ayob, Housing Finance Section at the Shell Malaysia Berhad, Kuala Lumpur Malaysia.

Officials in charge of Government housing finance:

1. Ramly Mustafha, Deputy Secretary of Housing Loan Division, The Treasury, Ministry of Finance, Kuala Lumpur, Malaysia.

2. Sugiarti Sukiman, Process Section, Housing Loan Division, The Treasury, Ministry of Finance, Kuala Lumpur, Malaysia.

3. Noor Azlina Che Jian, Accounts Section, Housing Loan Division, The Treasury, Ministry of Finance, Kuala Lumpur, Malaysia.

Shari'ah scholars:

1. Ustaz Mohd Zaki Ibrahim, Manager, *Shari'ah* Consultation & Supervision Department at the Bank Kerjasama Rakyat Malaysia Berhad, Kuala Lumpur, Malaysia.

2. Dr. Mohamad Sabri Haron, Deputy Director, Centre for General Studies at the Universiti Kebangsaan Malaysia, Kuala Lumpur, Malaysia.

3. Ustaz Abdul Ghani Endut, Manager, *Shari'ah* Department at the Bank Islam Malaysia Berhad, Kuala Lumpur, Malaysia.

4. Dr. Engku Rabiah Adawiah Engku Ali, Ahmad Ibrahim Kulliyyah of Laws at the International Islamic University Malaysia, Kuala Lumpur, Malaysia.

5. Dr. Shamsiah Mohamad, Academy of Islamic Studies at the University Malaya, Kuala Lumpur, Malaysia.

BIBLIOGRAPHY

BOOKS

Abdullah Yusuf Ali (2004), The Meaning of the Holy Quran, Amana Publications.

Arksey, H. and P. Knight (1999). *Interviewing for Social Scientists*, Sage Publications Ltd.

Bryman, A. (2004). *Social Research Methods*. New York, Oxford University Press.

Coakes, S. J. and L. G. Steed (2003). *SPSS Analysis Without Anguish (Version 11)*, John Wiley & Sons Inc.

Cohen, L., L. Manion, et al. (2005). *Research Methods in Education*. London, Routledge Falmer.

Czaja, R. and J. Blair (1995) *Designing Surveys: A Guide to Decisions and Procedures*_London, Sage Publications Ltd.

Czaja, R. and J. Blair (2004). *Designing Surveys*, Pine Forge Press.

Dar, H., Ed. (2005). *Islamic Mortgages*. Islamic Perspectives on Wealth Creation

Denscombe, M. (1998). *The Good Research Guide for a Small Scale Social Research Projects.* Buckingham, Open University Press

Edinburgh University Press.

Field, A. (2005). *Discovering Statistics Using SPSS (Introducing Statistical Methods Series).* London, Sage Publications.

Kumar, R. (2005). *Research Methodology A Step by Step Guide For Beginners.* London, Sage Publication

May, T. (2001). *Social Research, Issues, Methods and Process*. Buckingham, Open University Press.

Neuman, W. L. (2005). *Social Research Methods. Qualitative and Quantitative Approaches* Boston, Allyn & Bacon.

Obaidullah, M. (2005). *Islamic Financial Services*. Islamic Economics Research Centre, King Abdul Aziz University.

O'Leary, Z. (2004). *The Essential Guide to Doing Research*. London, Sage Publications Ltd.

Oppenheim, A. N. (1992). *Questionnaire Design, Interviewing and Attitude Measurement.* Pinter Pub Ltd.

Oppenheim, A. N. (1999). *Questionnaire Design, Interviewing and Attitude Measurement,* Continuum International Publishing Group.

Pallant, J. (2004). *SPSS Survival Manual : A step by step guide to data analysis using SPSS version 12.* New York, Open University Press.

Patton, M. Q. (2002). *Qualitative Research & Evaluation Methods.* California, Sage Publications, Inc.

Renaud, B. (1987). *Another Look at Housing Finance in Developing Countries.* Cities, Butterworth & Co (Publishers) Ltd: pp. 28-34.

Robson, C. (2002). *Real World Research*, Blackwell Publishing.

Schutt, R. K. (2001). *Investigating the Social World*, Pine Forge Press.

Silverman, D. (2005). *Doing Qualitative Research.* London, Sage Publications Ltd

Wiersma, W. (1999). *Research Methods in Education: An Introduction.* Boston, Allyn and Bacon.

ARTICLES

Abbas, F. A. (2003). Social Policy in Malaysia. *Social Policy Series* New York, Economic and Social Commission for Western Asia, United Nation.

Abdallah, A. A. (1991). *Forms of Investment in Real Estates in Islamic Perspectives.* Islamic Banking Modes for House Building Financing, Khartoum, Sudan, Islamic Research and Training Institute, Islamic Development Bank, Jeddah

Abdul Rahman, Z. (2006). *Complying with Shariah.* Retrieved 27 March 2007, from http://www.rhbislamicbank.com.my/index.asp?fuseaction=general.article&aid=19.

Alliance, T. H. (2003). The Secondary Mortgage Market -- A Key To Homeownership. Retrieved 21 March 2004, from www.homeownershipalliance.com/press/backgrounders/explainer2.pdf

Badawi, J. (1996). The Islamic Banking System. *Islam Horizons*.

Basel Committee on Banking Supervision. (1999). *A new capital adequacy framework. Basel*, Bank for International Settlements.

Bestani, R. and J. Klein (2003). *Housing Finance in Asia*. Asian Development Bank.

Burrows, R. and S. Wilcox (2000). Half the Poor? The Growth of Low-Income Home-Ownership. *Housing Finance* August (No. 47): p. 50.

Cagamas. (2004). Evolution of Cagamas. Retrieved 14 April 2004, from www.cagamas.com.my/caga-docs/pictures/evolution.pdf

Chiquier, L. (1999). Secondary Mortgage Facility: A Case Study of Cagamas Berhad in Malaysia. Washington DC, Capital Markets Development Department, World Bank.

Corcoran, M. (2005). Overcoming Compliance Issues. *Islamic Banking & Finance* Autumn 2005 (Issue 7).

Dar, H. A. (2002). Islamic House Financing in the United Kingdom: Problems, Challenges and Prospects. *Review of Islamic Economics* (No. 12): pp. 47-71.

El Diwany, D. (2003). The Great Islamic Mortgage Caper. Retrieved 20 March 2004, from http://www.islamic-finance.com/item122_f.htm.

Fittipaldi, S. (2004). Moving To the Next Level. *Global Finance* Retrieved 23 September 2006, from http://www.findarticles.com/p/articles/mi_qa3715/is_200405/ai_n9384600.

George, S. E. (2003) The Governor's speech at the Islamic Home Finance seminar on 27 March 2003. *Bank of England Quarterly Bulletin*, p. 240-242

Lea, M. J. (2003). The Fixed Rate Model. *Mortgage Banking* April: p. 52.

Matthews, R. and I. Tlemsani (2003). Ethical Banking: The Islamic Mortgages in the United Kingdom. *Business Research Yearbook* Vol. X: pp 293 - 298.

Matthews, R., I. Tlemsani, et al. (2003). "Recent Developments in the Market for Islamic Mortgages: Theory and Practice." *Review of Islamic Economics* (No. 14): pp. 49-68.

Meera, A. K. M. and D. A. Razak (2005). Islamic Home Financing through Musharakah Mutanaqisah and al-Bay' Bithaman Ajil Contracts: A Comparative Analysis. *Review of Islamic Economics* Vol. 9(No. 2): pp. 5-30.

Perry, S., S. Robinson, et al. (2001). *A Study of Mortgage Prepayment Risk.* Institute of Actuaries and Faculty of Actuaries, The Council of Mortgage Lenders, London.

Phang, S. *Malaysia's Economy Expands at a Fastest Pace in a Year.* Retrieved 12 September 2006, from http://www.bloomberg.com/apps/news?pid=20601080&sid=ays75T__6NvY&refer=asia.

Pugh, C. (2001). The Theory and Practice of Housing Sector Development for Developing Countries, 1950-1999. *Housing Studies* Vol. 16 (No. 4): pp. 399-423.

Rahman, Y. K. A. and A. S. Tug (1999). Towards A Lariba (Islamic) Mortgage Financing in the United States. Providing an Alternative to Traditional Mortgages. *International Journal of Islamic Financial Services* Vol.1 (No. 2).

Rahman, Z. A. Complying with the Shari'ah. 4 September 2006, from http://www.rhbislamicbank.com.my/articles/2006/07-19.htm.

Rosly, S. A. (2005). *From Windows to Subsidiaries for Islamic Banking.* Retrieved 31 October 2005, from www.mier.org.my/mierscan/archives/pdf/drsaiful31_10_2005.pdf.

Russell, J. G. (2004). *Guide to Islamic Home Finance.* Retrieved 1 September 2006, from http://www.jgrweb.com/images/uploads/JGR_guide_to_I_H_F_new.pdf.

Sairally, S. (2002). Murabahah Financing: Some controversial Issues. *Review of Islamic Economics*(No. 12): pp. 73-86.

Shameen, A. (2005). Islamic Banks: A Novelty No Longer. *Business Week Online.*

Stephens, M. (2003). Globalisation and Housing Finance Systems in Advanced and Transition Economies. *Urban Studies* Vol. 40 (Nos 5-6): pp. 1011-1026.

The Treasury of Malaysia. (2003). *Highlight of Economic Stimulus Package on Property Sector.* Retrieved 24 February 2004, from http://www.treasury.gov.my/englishversionbaru/index.htm.

Thomas, A. Methods of Islamic Home Finance in the United States. *The American Journal of Islamic Finance.*

Wilson, R. "Standardising Islamic Financial Products." Retrieved 4 September 2006, from http://www.sc.com.my/eng/html/iaffairs/ioscoislamicpdf/Standardising.pdf.

CONFERENCE PAPER

Albarzinji, Z. (2002). Islamic Finance: Dynamics and Development. *Fifth Harvard University Forum on Islamic Finance,* Harvard University, Massachusetts, Harvard Islamic Finance Information Program.

Cheng, H. S., Ed. (1998). The Secondary Mortgage Market and Capital Markets in Malaysia. *New Directions in Asian Housing Finance.* Washington DC, International Finance Corporation (IFC).

Dualeh, S. A. (1998). Islamic Securitisation: Practical Aspects. *World Conference on Islamic Banking.* Noga Hilton, Geneva.

Khalid, M. S. (2005). The Abandoned Housing Projects in Malaysia: An Institutional Analysis of Real Estate Development Processes. *The 2nd College of Arts & Social Sciences Postgraduate Conference.* University of Aberdeen.

Laldin, M. A. (2006). The formation of contracts and the classifications of contracts in Islamic Commercial Law. *Workshop on Islamic Banking & Finance ILKAP.*

Martinez, M., B. Krupa, et al. (2002). Housing Policy in the New Millennium: The Development of Housing and Housing Finance in Developing Countries. *FIG XXII International Congress.* Washington D.C. USA.

Ong, H. C. and D. Lenard (2002). Partnerships between Stakeholders in the Provision of and Access to Affordable Housing in Malaysia. *FIG XXII International Congress.* Washington D.C. USA.

Qaiser, W. (2006). Introduction to Islamic Banking. *Islamic Finance Summer School 2006.* Durham University, UK.

Salama, A. A. (1991). Housing Finance in Islamic Countries. *Islamic Banking Modes for Building Financing*, Sudan, Islamic Research and Training Institute.

Shaltut, K. (1991). The Experience of the Al Baraka International Bank London in Financing Real Estate. *Islamic Banking Modes for House Building Financing*, Khartoum, Sudan.

Thomas, A. (2003). Achieving a Double Crossover Success. *International Seminar on Islamic Wealth Creation.* University of Durham.

Thomas, R. (2006). Islamic Banking in the UK: Islamic Home Finance, ABC International Bank plc._*Islamic Finance Summer School 2006.* Durham University, UK.

Tlemsani, I. and R. Matthews (2003). Islamic and Conventional Mortgages in the United Kingdom: A Comparative Study. *International Seminar on Islamic Wealth Creation. University of Durham.*

REPORT

Association of British Insurers. (2006). *Mortgage Endowments - A Factsheet.* Retrieved 12 March 2007, from http://www.abi.org.uk/BookShop/ResearchReports/ABI_EndowmentFactsheet_Sep2006.pdf.

Burrows, R. (1998). *The Dynamics of The Owner Occupied Market.* London, Council of Mortgage Lenders.

Centre, N. P. I. (2005*). Property Market Report 2005.* Retrieved 20 March 2007, from http://www.jpph.gov.my/pdf/lph05.pdf

Datamonitor. (2006). *UK Islamic Mortgage 2005.* Retrieved 13 March 2007, from http://www.researchandmarkets.com/reportinfo.asp?report_id=305547.

Department, V. a. P. S. (2006). *The Malaysian House Price Index.* Retrieved 20 March 2007, from http://www.jpph.gov.my/pdf/ihr06.pdf.

Evans, A., B. Pannell, et al. (1998). *Trends, Attitudes and Issues in British Housing.* London, Council of Mortgage Lenders.

Hetherington-Gore, J. (2006). *Islamic Finance - An Alternative Alternative.* Retrieved 4 September 2006, from http://www.investorsoffshore.com/html/specials/february06_islamic.html

Holmans, A. and C. Whitehead (1998). *Housing Subsidies and Tax Reliefs in Britain: Trends and Prospects.* London, Council of Mortgage Lenders.

Holmans, A. E. (2003*). Home Ownership, House Purchases and Mortgages: International Comparisons.* London, Council of Mortgage Lenders.

Holmans, A., N. K. Karley, et al. (2003). *The Mortgage Backed Securities Market in the UK: Overview and Prospects.* CML Research, London School of Economics and Cambridge Centre for Housing and Planning Research.

Laslett, R., T. Wilsdon, et al. (2001). *Managing the Housing Market.* CML Research. London, Charles River Associates Ltd. London.

Lea, M. and L. Chiquier (1998). *Providing Long-Term Financing for Housing: The Role of Secondary Markets.* Office of Development Studies, Bureau for Development Policy, United Nations Development Programme.

Lim, Y. K. (2004). *Consumer Credit Regulations in Malaysia: A Country Report.* Kuala Lumpur, Ministry of Domestic Trade and Consumer Affairs Malaysia.

Malaysia, B. N. (2005). *The Malaysian Economy in 2005.* Retrieved 20 March 2007, from http://www.bnm.gov.my/files/publication/ar/en/2005/cp01.pdf.

Malaysia, B. N. (2006). *Economic and Financial Developments in Malaysia in the second quarter of 2006.* Retrieved 12 September 2006, from http://www.bnm.gov.my/view.php?dbIndex=0&website_id=1&id=574.

Miles, D. (2004). *The UK Mortgage Market: Taking a Longer Term View: Final Report and Recommendations.* Retrieved 24 March 2004, from http://www.hm-treasury.gov.uk/media//80DDF/miles04_470[1].pdf.

NST. (2005). *Economic Outlook Remains Favourable. Malaysia Economic Report 2005 -2006. R*etrieved 24 September 2006, from www.btimes.com.my/Current_News/BT/Friday/economicrep/ecnrp0506.pdf.

Shahid, I. (2005). *Islamic House Financing in the UK Nottingham.* Nottingham University Business School. M.A.

SPEECHES

Aziz, Z. A. (2004). *Sustaining Islamic Banking and Finance Growth Through Effective Dissemination of Information.* Official Launching of the Islamic Banking and Takaful Expo, Kuala Lumpur. Retrieved 8 October 2004, from www.bis.org/review/r041013c.pdf

_____ (2005). *Building a Progressive Islamic Banking Sector: Charting the Way Forward.* Seminar on 10-year Master Plan for Islamic Financial Services Industry, Putrajaya. Retrieved 22 June 2005, from www.bnm.gov.my/index.php?ch=9&pg=15&ac=173.

_____ (2005). *Fostering Leadership Role in Islamic Finance.* Launching of Hong Leong Islamic Bank Berhad. Retrieved 22 June 2005, from www.bnm.gov.my/index.php?ch=9&pg=15&ac=180&lang=bm&print=1.

_____ (2005). Governor's Speech at the Launch of Commerce Tijari Bank Berhad, Kuala Lumpur. Retrieved 7 October 2006, from www.bnm.gov.my/index.php?ch=9&pg=15&ac=167.

_____ (2005). *Islamic Finance: Promoting the Competitive Advantage.* Islamic Bankers' Forum 2005. Retrieved 7 October 2006, from www.bnm.gov.my/index.php?ch=9&pg=15&ac=171&lang=bm&print=1

_____ (2004). *New Opportunities, New Market and New Frontier in Islamic Banking and Finance.* ASLI's Conference on Developing Islamic Banking and Capital Market, Kuala Lumpur. Retrieved 25 August, 2004, from www.bnm.gov.my/index.php?ch=9&pg=15&ac=153&lang=bm&print=1.

Chen, E. (2003). *Accessibility to Adequate Housing - Role of Housing Developers.* Economic, Social and Cultural Rights on Accessibility to Basic Needs. Kuala Lumpur, Real Estate and Housing Developers' Association Malaysia

Thomas C. Baxter, J. (2005). *Regulation of Islamic Financial Services in the United States.* Retrieved 31 August 2006, from http://www.ny.frb.org/newsevents/speeches/2005/bax050302.html.

NEWSLETTER

Anderson, S. (2003). Fixed-rate Mortgages in the UK. *CML News and Views*, Issue No.9, from pdf_pub_misc_nv-2003-9.pdf[1].pdf.

Anonymous. (2003). The Housing Sector: Roles and Responsibilities. *CML News and Views, Issue No. 3,* from pdf_pub_misc_nv-2003-3.pdf[1].pdf.

Bennett, N., N. Foster, et al. (2002). Alternative financing: issues and opportunities for lenders and interest-averse population'. *Community Dividend.* Retrieved 2 July 2004, from http://minneapolisfed.org/pubs/cd/02-1/islamic.cfm

Haneef, R. My *Say: BBA not suitable for long-term financing.* Retrieved 25 September 2006, from http://www.theedgedaily.com/cms/content.jsp?id=com.tms.cms.article.Article_40873e81-cb73c03a-1a1ff900-fc7fa618.

The Council of Mortgage Lenders. (2003). *Fixed rate mortgage market in the UK.* CML News and Views. Retrieved 24 March 2004, from http://www.cml.org.uk/servlet/dycon/zt-cml/cml/live/en/cml/regandpolicy_responses_2003_0916a.

_____(2003). Lenders Propose Budget Reforms. *CML News and Views* Retrieved 21 March 2004, from http://www.cml.org.uk/servlet/dycon/zt-cml/cml/live/en/cml/pdf_pub_misc_nv-2003-21.pdf.

_____ (2003). Survey Sheds New Light on Borrowing. *CML News and Views* Retrieved 29 March 2004, from http://www.cml.org.uk/servlet/dycon/zt-cml/cml/live/en/cml/pdf_pub_misc_nv-2003-14.pdf.

_____ (2005). *No increase in long-term arrears or possessions but small increase in short-term arrears.* Retrieved 12 March 2007, from http://www.cml.org.uk/cml/media/press/47.

_____ (2003). The CML's Consumer Survey. Retrieved 25 March 2004 from http://www.cml.org.uk/servlet/dycon/zt-cml/cml/live/en/cml/pdf_pub_misc_nv-2003-2.pdf

_____ (2003). Giving Due Credits to Home Owners. Retrieved 26 March 2006, from http://www.cml.org.uk/servlet/dycon/zt-cml/cml/live/en/cml/pdf_pub_misc_nv-2003-8.pdf

_____ (2003). The Three Rs of Mortgage Lending. Retrieved 26 March 2003, from http://www.cml.org.uk/servlet/dycon/zt-cml/cml/live/en/cml/pdf_pub_misc_nv-2003-17.pdf.

United Nation General Assembly. Housing Finance. *Urban Shelter* Retrieved 18 August 2006 from www.un.org/ga/Instabul+5/38.pdf.

Vass, J. (2003). The CML's Housing and Mortgage Market Forecasts. *CML News and Views*, Issue No.15

_____ (2003). Housing Supply in the UK. *CML News and Views*, Issue No.10, from pdf_pub_misc_nv-2003-10.pdf[1].pdf.

NEWSPAPER ARTICLE

Bhaimia, K. (2005). Full-fledged Islamic Bank's Advantages. *Business Times.* Dubai.

Chin, V. K. (2003). Act Against Errant Developers *The Star.* Kuala Lumpur.

Knight, J. (2002). Moral Mortgages for Muslims, *Daily Telegraph.* London.

Leng, Y. B. (2003). Tribunal a Big Letdown. *The Star.* The Retrieved 8 April 2004, from http://www.hba.org.my/news/tribunal/trib_big_letdown.htm.

Ministry of Housing and Local Government. (2004). Low Cost Housing - Call for a New Formula. *New Straits Times.* Retrieved 18 April 2004, from http://aplikasi.kpkt.gov.my/akhbar.nst/0/40f3e8d977e918a148256e7b000c475a?OpenDocument.

National House Buyers Association. (2003). Vigilant Watchdogs. Retrieved 8 April 2004, from http://www.hba.org.my/HBA/biz_mag/vigilant.htm

_____ (2004). Self-Certification or Self-Destruction. *Malaysian Business - Housing & Property.* Retrieved 17 April 2004, from http://www.hba.org.my/articles/buyer_watch/biz_mag/2004/self.htm.

_____ (2002). The Way We See It. *Property Times.* Retrieved 9 April 2004, from http://www.hba.org.my/buyer_watch/way_we.htm.

_____ (2002). A Firm Hand. *New Straits Times* Retrieved 9 April 2004, from http://www.hba.org.my/buyer_watch/firm_hand.htm

_____ (2002). Championing Buyers' Right. *New Straits Times*_Kuala Lumpur.

_____ (2002). Not There Yet. *New Straits Times* Retrieved 9 April 2004, from http://www.hba.org.my/news/2002/not_there_yet.htm.

_____ (2002). Power to Change. *Property Times*_ Retrieved 9 April 2004, from http://www.hba.org.my/buyer_watch/power_to_change.htm

_____ (2002). The Mystical CFO. *New Straits Times* Retrieved 9 April 2004, from http://www.hba.org.my/buyer_watch/mytstical_cfo.htm

_____ (2003). Pay Only for Completed Houses. *Property Times.* Retrieved 9 April 2004, from http://www.hba.org.my/buyer_watch/pay_only.htm

_____ (2003). Questioning the Housing Safeguard. *News Straits Times.* Kuala Lumpur.

_____ (2003). Stranded. *Malaysian Business-Housing & Property*. Kuala Lumpur.

_____ (2004). Law Protects Developers, Penalizes Buyers." Retrieved 12 April 2004, from http://www.hba.org.my/news/2001/law_protects.htm.

_____(2001) The Challenges of Buying a Residential Property. Retrieved 12 April 2004, from http://www.hba.ort.my/speaking_up/2001_su/challenges.htm.

The Star Online. Employee Provident Fund. *All Malaysia.info* Retrieved 6 February 2004, from http://allmalaysia.info/msiacommerce/resources/.

Then, S. (2003). 82 Projects Abandoned. *The Star* Retrieved 20 April 2004, from http://www.hba.org.my/news/2003/803/82_projects.htm.

Tyrrell, E. (2003). How Property Equals Poverty. *The Guardian.*

Umakanthan, G. (2003). "Impact of Budget 2004: Public Sector." *Property Times* Retrieved 8 January 2004, from http://property.nst.com.my/Weekly/PropertyTimes/News/Focus/20030923181036/Article/.

Yakcop, N. M. (2003). Reviewing Malaysia's Islamic Financial System and its Way Forward. *New Straits Times.* Kuala Lumpur.

WEBSITES

Afzal, O. *How Islamic is the Islamic Mortgage*? Retrieved 17 November 2003, from www.globalwebpost.com/farooqm/study_res/i_econ_fin/afzal_imortgage.htm.

Alburaq. Halal *Home Finance: Diminshing Musharaka Key Features Guide.* Retrieved 1 September 2006, from http://www.alburaq.co.uk/keyfeaturesguide.pdf.

Alburaq. *How Does it Work?* . AlBuraq Home Finance Retrieved 29 August 2006, from http://www.alburaq.co.uk/Products/home%20finance/howDoesItWork2.html

Amanah, H. *FAQs.* Retrieved 25 September 2006, from http://www.hsbcamanah.com/hsbc/amanah_banking/faqs#32.

Association for Islamic Banking Institutions Malaysia. *Islamic Banking Products and Services in Malaysia.* Retrieved 18 February 2004, from http://www.aibim.com/01/02balslamic%20Banking%20Products.htm.

Bank Islam. *Baiti Home Financing.* Retrieved 11 February 2004, from http://www.bankislam.com.my/cms/default.asp?cms_articleID=9&languageID=0.

Bank Muamalat. *Muamalat Home Financing - i.* Retrieved 11 February 2004, from http://www.muamalat.com.my/default.asp?page=financing

Bank Negara Malaysia. *Frequently Asked Questions on Al-Bai' Bithaman Ajil (BBA) House Financing.* Retrieved 25 September 2006, from http://www.bnm.gov.my/index.php?ch=174&pg=469&ac=388.

Bank Negara Malaysia. List of Financial Institutions Offering Islamic Banking Services. Retrieved 17 September 2006, from http://www.bnm.gov.my/index.php?ch=174&pg=467&ac=369.

BBC News. (2003). *Longer-term Mortgage Review.* Retrieved 24 March 2004, from http://news.bbc.co.uk/1/hi/business/3300469.stm.

_____ (2004*). A Guide Through the Mortgage Maze.* Retrieved 20 March 2004, from http://news.bbc.co.uk/1/hi/business/480121.stm.

_____ Moving Mortgages. Retrieved 25 March 2004, from http://news.bbc.co.uk/1/hi/business/1560906.stm.

Central Bank of Malaysia and the Association of Banks in Malaysia. House Financing-i. *Banking Info.* Retrieved 13 February 2004, from http://www.bankinginfo.com.my/index.php?tpl_id=47.*)*

Colliers International. *Appraisal/Valuation Information.* Retrieved 12 February 2004, from http://www.colliers.com.my/services/value_guide.htm.

Communities and Local Government. (2003). *Risk,Homeowners & Safety-Nets:Mortgage Payment Protection Insurance & Beyond.* Office of the Deputy Prime Minister.

Deloitte. (2006). *Securities and Banking Updates.* Retrieved 1 September 2006, from http://www.deloitte.com/dtt/cda/doc/content/UK_FS_SBU_july06.pdf.

Department of Health and Community Services. (2002). *Information gathering tools for planning and evaluation.* Retrieved 28 May 2004, from http://www.nt.gov.au/health/healthdev/health_promotion/bushbook/volume1/info.html.

Dyers Partnership. *Capital Gains Tax.* Retrieved 21 March 2004, from http://www.netaccountants.com/capgain.html.

Economic Planning Unit, Malaysia. *FAQ.* Retrieved 8 January 2004, from http://www.epu.jpm.my/new%20folder/FAQsocial.htm.

Employees Provident Fund. *About EPF.* Retrieved 16 March 2007, from http://www.kwsp.gov.my/index.php?ch=p2corporateinfo&pg=en_p2corporateinfo_geninfo&ac=1856.

Encyclopedia of Education Technology. *Types of Survey Questions.* Retrieved 16 October 2006, from http://coe.sdsu.edu/eet/Articles/surveyquest/index.htm

EU Research in Social Sciences and Humanities. *Why Social Sciences and Humanities.* Retrieved 9 October 2006, from http://ec.europa.eu/research/social-sciences/index_en.htm.

FHA Today. *FHA vs. Conventional Financing.* Retrieved 20 March 2004, from http://www.fhatoday.com/comparison.htm.

FinanceProfessor.com. *Mortgage Markets.* Notes for Institutions and Markets Retrieved 21 March 2004, from http://www.financeprofessor.com/fin322/notes/chapter9-mortgagemarket.htm

Glasgow City Council. Living in Glasgow. *Council Tax.* Retrieved 28 February 2007, from www.glasgow.gov.uk/en/Residents/YourHome/CouncilTax.

Henrichsen, L., M. T. Smith, et al. *Research Methods in*

HM Revenue and Customs. *Capital Gains Tax.* Retrieved 21 March 2004, from http://www.inlandrevenue.gov.uk/pdfs/cgt1_1.htm

HSBC Amanah Finance. *Amanah Home Finance.* Retrieved 27 March 2007, from http://www.hsbc.co.uk/1/2/personal/current-accounts/more/amanah-finance.

Inland Revenue Service. *Tax Facts About Capital Gains and Losses.* Retrieved 12 March 2007, from http://www.irs.gov/newsroom/article/0,,id=106799,00.html.

Intel Malaysia. *Jobs at Intel - Malaysia.* Retrieved 25 September 2006, from http://www.intel.com/jobs/malaysia/bencomp/benefits.htm#top.

iProperty.com.my. *Housing Loans.* Retrieved 15 March 2007, from http://www.iproperty.com.my/financing/housingloans.htm.

IslamOnline and News Agencies. (2004). *Freddie Mac to Invest in Islamic Mortgages.* Retrieved 2 July 2004, from http://www.islam-online.net/English/News/2001-04/04/article5.shtml

Khan, I. "Issues and Relevance of Islamic finance in Britain." Retrieved 1 September 2006, from http://www.islamic-banking.com/aom/ibanking/ia_khan.php.

Kuwait Finance House. (2006). *KFHMB is The First in Malaysia to Introduce Musyarakah Mutanaqisah Home & Property Financing-i.* Retrieved 19 September 2006, from http://www.kfh.com.my/about_us/media_centre/news_events/articles/article.php?intPrefLangID=1&&intArticleID=16.

Land Registry. (2006). *House Price Index.* Retrieved 14 December 2006, from www.landregistry.gov.uk/assets/library/documents/hpir1106.pdf

Lawyerment.com.my. *Buying a House in Malaysia.* Retrieved 31 January 2004, from http://www.lawyerment.com.my/real_estate/bshouse.shtml.

_____ *Malaysia Tax Law - Property Tax Law.* Retrieved 6 February 2004, from http://www.lawyerment.com.my/tax/property.shtml.

Maybank. *Mortgage Takaful.* Retrieved 25 September 2006, from http://www.maybank2u.com.my/business/other_services/islamic_banking/maybank/mortgage_takaful.shtml.

Ministry of Housing and Local Government. *Buyer Pays When Bank Delays Payment.* Retrieved 12 April 2004, from http://www.kpkt.gov.my/artikel/perumahan/eng08.html.

_____ Towards Successful Housing Development in Malaysia. Retrieved 8 January 2004, from http://www.kpkt.gov.my/jpn/artikel4.htm.

_____ *Legislation to Protect House Buyers.* Retrieved 12 April 2004, from http://www.kpkt.gov.my/artikel/perumahan/eng04.html.

_____ *Housing Loan Scheme.* Retrieved 23 April 2004, from http://www.kpkt.gov.my/kpkt_en/main.php?Content=sections&SectionID=3&DC=.

_____ Ministry Acts Only When There is a Breach of the Law. Retrieved 12 April 2004, from http://www.kpkt.gov.my/artikel/perumahan/eng02.html.

_____ What a Purchaser Should Do When Buying a House. Retrieved 12 April 2004, from http://www.kpkt.gov.my/artikel/perumahan/eng05.html.

_____ *Legislation to Protect House Buyers.* Retrieved 12 April 2004, from http://www.kpkt.gov.my/artikel/perumahan/index2.html

_____ *Ministry's Role In Reviving Stalled Housing Projects.* Retrieved 12 April 2004, from http://www.kpkt.gov.my/artikel/perumahan/eng11.html.

_____ *Pitfalls to Avoid After Taking Vacant Possession.* Retrieved 12 April 2004, from http://www.kpkt.gov.my/artikel/perumahan/eng06.html.

_____Understanding the role of the Housing Ministry. Retrieved 12 April 2004, from http://www.kpkt.gov.my/artikel/perumahan/eng01.html.

Moneyfacts. *Mortgages Guides.* Retrieved 24 February 2004, from http://www.moneyfacts.co.uk/guides/guide_mortgages.asp.

Mortgage Research Centre. *FHA Loans.* Retrieved 20 March 2004, from http://www.mortgageresearchcenter.com/mortgages/fha.php

_____ *VA Loans - Are you Throwing Away Free Money?* Retrieved 20 March 2004, from http://www.mortgageresearchcenter.com/loans/va.htm.

National House Buyers Association. *Frequently Asked Questions.* Retrieved 12 February 2004, from http://www.hba.org.my/faq/list.htm#What%20are%20valuations%20and%20surveys.

Mortgage-X Service. *Rural Housing Service (RHS) Programs.* Retrieved 20 March 2004, from http://mortgage-x.com/library/rural.htm.

_____ Types of Mortgage Loans. Retrieved 12 December 2003, from http://mortgage-x.com/library/loans.htm.

National Property Information Centre. *NAPIC - Objectives.* Retrieved 21 March 2007, from http://www.jpph.gov.my/V1/index2kandungan.php?versi=2&bilms=10&bilmu=2.

Nationwide. (2003). *Stamp Duty Hits All First Time Buyers in All UK Regions.* Retrieved 21 March 2004, from http://www.nationwide.co.uk/mediacentre/pdf/regional_stamp_duty_report.pdf

Nationwide. (2007). *Interest Rate Hikes Begins to Take Their Toll.* Retrieved 12 March 2007, from http://www.nationwide.co.uk/hpi/review.htm.

Norton Rose. *What is Takaful?* Retrieved 2 September 2006, from http://www.nortonrose.com/html_pubs/view.asp?id=6247.

Office of Real Property Services. *How the Property Tax Works.* Retrieved 21 March 2004, from http://www.orps.state.ny.us/pamphlet/taxworks.htm.

OFHEO. (2006). *House Price Index.* Retrieved 14 December 2006, from www.ofheo.gov/HPIHistNation.asp

Securities Commission Malaysia. *Islamic Banking Guidelines.* Retrieved 17 September 2006, from http://www.standardchartered.com.my/ib/info/guide.html.

Standard Chartered. (2007). *Fees and Charges for Products and Services.* Retrieved 15 March 2007, from http://www.standardchartered.com.my/cb/fees_and_charges.pdf.

TESL and Language Acquisition. Retrieved 10 October 2006, from http://linguistics.byu.edu/faculty/henrichsenl/ResearchMethods/RM_2_03.html.

Treasury Malaysia. *About Housing Loan.* Retrieved 19 March 2007, from http://www.treasury.gov.my/index.php?ch=76&pg=299&ac=930&lang=eng.

Valuation and Property Services Department. *Stamp Duty.* Retrieved 21 March 2007, from www.jpph.gov.my/bmdutisetemb.htm.

Valuation Office Agency. *Council Tax.* Retrieved 28 February 2007, from www.voa.gov.uk/council_tax/index.htm.

West, M. (2005). *Islamic Mortgages Moving into Mainstream Lending.* Retrieved 31 August 2006, from http://businessleader.blogspot.com/2005/08/islamic-mortgages-moving-into.html.

Wikipedia. *Employees Provident Fund.* Retrieved 16 March 2007, from http://en.wikipedia.org/wiki/Employees_Provident_Fund#Accounts.