



Issues of Human
Development
Towards A
Prosperous Life

PART V
Entrepreneurship

CHAPTER 11

ISLAMIC HOME FINANCING IN MALAYSIA: An In-Depth Study On The Bay Bithaman Ajil (Bba) Instrument

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Introduction

Bai Bithaman Ajil (BBA) is a popular type of financing which has been practised by every Islamic bank in Malaysia despite being disputed by some jurists. Other Islamic modes of home financing in the country include Bay Inah, Istisna, and Musharakah Mutanaqisah (MMQ - diminishing partnership). Islamic banking which comprises financial transactions in banks and non-bank financial institutions is said to be based on the concept of a social order of brotherhood and solidarity. The participants in Islamic financing transactions are considered as business partners who jointly bear the risks and profits. Islamic finance has permanently established itself within the global financial landscape. The permissibility of risky capital investments without explicit interest earnings has merged the three basic forms of Islamic financing namely; synthetic loans which is debt-based through sales and repurchase agreement; lease contract which is based on assets through sale and leaseback agreement (operating lease) or third party acquired assets with obligation (finance lease); and profit sharing contracts which is equity based for future assets.

Islamic Home Financing

Purchasing a property is an important decision to make in one's life. Islamic banking institutions provide financing for those who want to purchase a property based on Syariah principles. Home financing is a

Syariah based financing facility to finance the purchase of all types of residential properties including houses, flats, apartments, or condominiums. It can also be used to refinance existing facilities taken either from conventional housing loans or other house financing schemes.

Islamic home financing serves as a substitute to the conventional housing loan. Although, many people assume that, this form of financing is a mirror to the conventional housing loan, Islamic financing has its own special features. In a conventional, housing loan, it is simply giving a loan to the customer. The product or loan is interest-driven, with the interest charged to the customer over the period of payment. Islamic home financing is an alternative financial product which is a substitute to the conventional interest-based home financing modes. In Islamic home financing, the dominant products used in a sale and purchase transaction are Bai Bithamin Ajil (BBA) and Musyarakah Mutanaqisah (MMQ).

How Home Financing-i Works

If a customer intends sign to a Sale and Purchase (S&P) agreement for a property, through an Islamic bank to secure financing, the bank will assess the customer's application in relation to eligibility, tenure of financing and payment capability. If approved, the Islamic bank will purchase the property from the customer through a Property Purchase Agreement and pay the developer or seller, the purchase price or financial amount of the property.

The Property Purchase Agreement is executed on the basis that the customer already has rights to the property concerned based on the S&P between the customer and the developer/seller and the Islamic bank (which is purchasing those rights in order to provide financing to the customer). This Islamic bank subsequently sells the property back to the customer through the Property Sale Agreement at an agreed selling price which includes a profit margin to the Islamic bank.