

Owning a house the Islamic way

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Dubai: There are three ways to acquire a property or house through Islamic financing. They are called Ijarah, Musharakah Mutanaqisah and Murabaha.

Perhaps the most popular mode of Islamic financing is Ijarah, which literally means lease to own.

The Ijarah contract starts with the bank purchasing the property, which is then leased out to the customer. The customer agrees to pay a monthly installment to the bank, in which a portion of the installment goes towards ownership, until the customer owns 100 per cent of the property. By structuring the purchase price this way, payment of interest is avoided and the Sharia is not infringed upon by either party.

According to Steve Gregory, director of technical services at Holborn Assets, the reason that this type of mortgage is popular is because it does not require a customer to pay a huge deposit and it is considered slightly more flexible.

"An extra benefit to this type of mortgage is that it can even be taken out to replace an existing interest mortgage. The amount you pay each month is usually fixed yearly. The outstanding balance can be paid off at any time, usually without incurring any penalties," he explained.

Another popular means of financing a property is based on the concept of Mur-abaha (cost plus sales). In this case, the bank buys the property on behalf of the customer. Both the bank and the customer agree on a profit margin, often referred to as 'mark-up', which is added to the cost of the property.

The bank then sells the property to the customer at a higher price (the cost price plus the agreed mark-up).

Gregory says Murabaha is for people who have a fair amount of capital, because it is a condition of this mortgage package that you are expected to pay a sizeable part of a property's value on the day of purchase.

"However, from that day the house will be registered as your own. You may repay any debt that is outstanding on your home at any point. This package offers a fixed repayment period that is agreed between the buyer and the lender, and a monthly repayment amount that is fixed for the term of your mortgage."

A recently developed mode of Islamic financing is based on the concept of Musharakah mutanaqisah

(decreasing partnership). It is the combination of Musharakah (partnership) and Ijarah in one document of agreement.

The contract works as follows. First, the bank and the customer enter into a Musharakah agreement to jointly purchase the property based on an agreed share. For example, the bank finances 80 per cent of the property, while the customer pays the remaining 20 per cent. The customer will rent the banks' shares of the jointly acquired property through an Ijarah agreement, whereby the customer gradually buys back the bank's 80 per cent share at an agreed portion periodically until the asset is fully owned by the customer.

The Musharakah Mutanaqisah contract is regarded as a better Islamic financing alternative for long-term transaction compared with the Bai' Bithamin Ajil (a form of Murabahah in which payment is made in installments some time after the delivery of the purchased property).