



# What Are The Advantages Of Taking Islamic Property Financing?





## What is Islamic Banking?



Islamic banking is a system that follows **Islamic Laws (Shariah)** principles. These principles dictate that money lending in return for interest charge, as well as investing in businesses that are considered Shariah non-compliant or haram (unlawful) is prohibited.





## What's the difference?

**Conventional financing profits by charging interest on the loan, meaning that borrowers will end up paying back more than they borrowed.**

**Islamic financing is providing financing to consumers based on pre-determined profits rather than dealing with interest or riba, making profit through various application of other suitable contracts such as the sale (including sale of commodities), leasing (ijarah), partnership (mudharabah and/or musyarakah) and so on.**

**This can also include the act of the bank buying the item identified by the customer in order to facilitate the customer to buy the exact item that they want, which is then sold to them by the bank at an additional mark-up. The buyer is then asked to pay for the item on instalments basis.**



## What are the advantages?

The role of Islamic Bank is to provide greater social and moral responsibility, hence the Bank had embraced value based intermediation (VBI). Moreover, property financing-i offers quite a few advantages, such as:



★ **Fixed or floating monthly payment** to help customers balance their monthly budget.

★ **Stamp duty waived for the redeemed amount** when refinancing from a conventional loan to an Islamic home financing.







★ **Early settlement charge for property disposal or redemption within the lock-in (holding) period can be potentially lower than a conventional loan.**

A conventional loan's penalty fee for early settlement is a set percentage, whereas the Islamic bank will charge based on the bank's prevailing cost of funds. However, the fee differs from one Islamic bank to another.

★ **Based on Islamic Base Rate (IBR)** which the bank can adjust based on prevailing market conditions but not more than the ceiling rate, which is the maximum profit an Islamic finance provider will earn.



★ **For risk averse customers,** the ceiling rate in Islamic financing ensures that you will not be charged a rate which is any higher than the ceiling rate or extreme hike in rates.

★ For default payment during facility tenure, **maximum of 1% p.a. compensation charge** on the overdue instalment amount will be charged.







**In the years leading to 2020, home buyers may find property financing-i more attractive compared to conventional loans as there may be more government-introduced incentives to further push the products towards the right direction.**



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