

Which Islamic Mortgage?

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Introduction

- Alternative Finance Act
- Developments in Islamic Mortgages
- Main Structures used in Islamic Mortgages
- Comparative Analysis
- Mortgage Backed Sukuk
- Challenges
- Questions and Answers

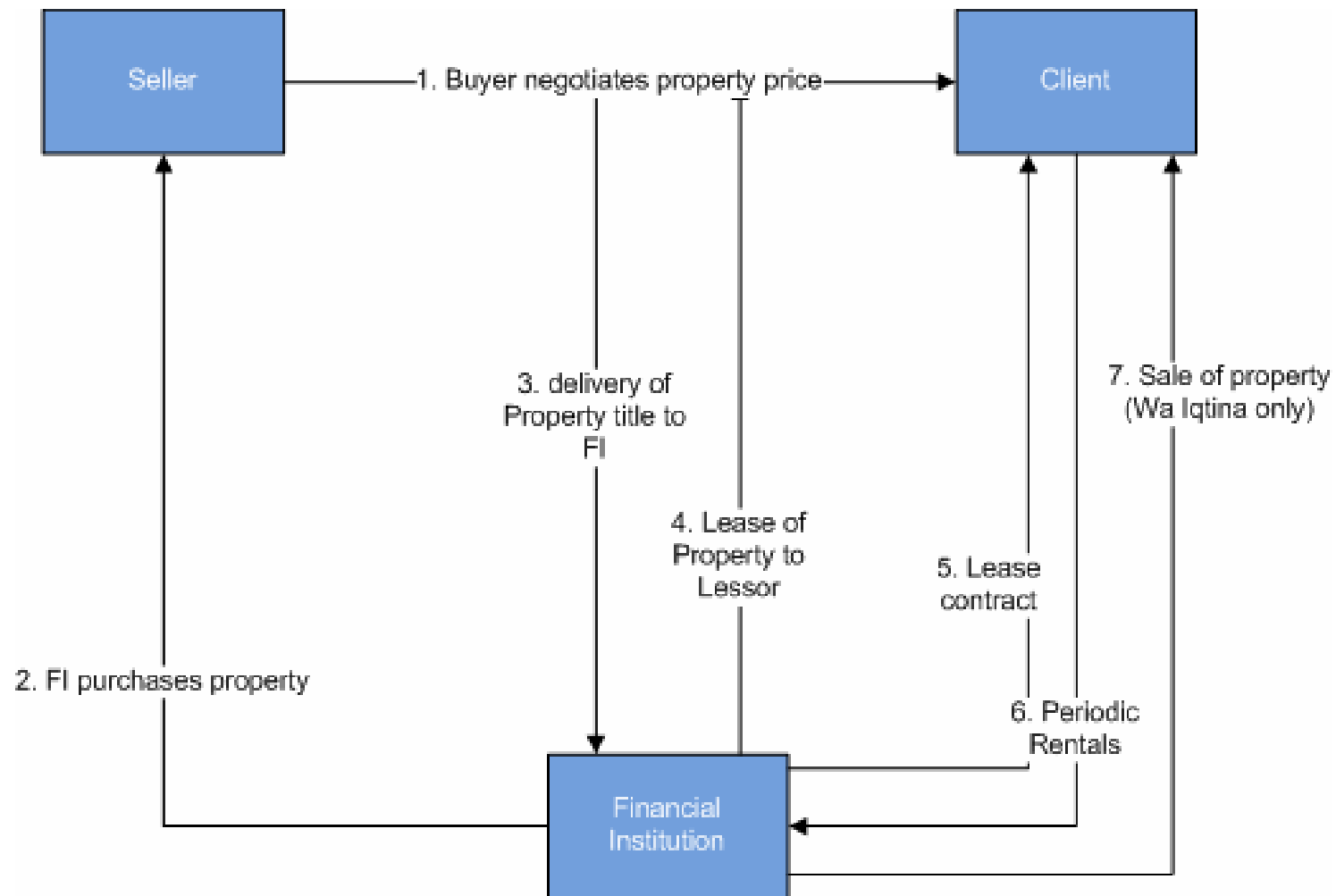
Alternative Finance Act

- 2005 and 2006 Acts are only applicable when at least one of the parties is a financial institution
- 2006 Act excluded financial institutions from enjoying any increase in the value of the asset in the diminishing Musharaka structure
- Double Stamp Duty – historically the main obstacle to offer Islamic mortgages – is addressed under the new legislation and has been abolished

Islamic Mortgages Structures

- Ijara Wa Iqtina
- Diminishing Musharaka
- Murabaha

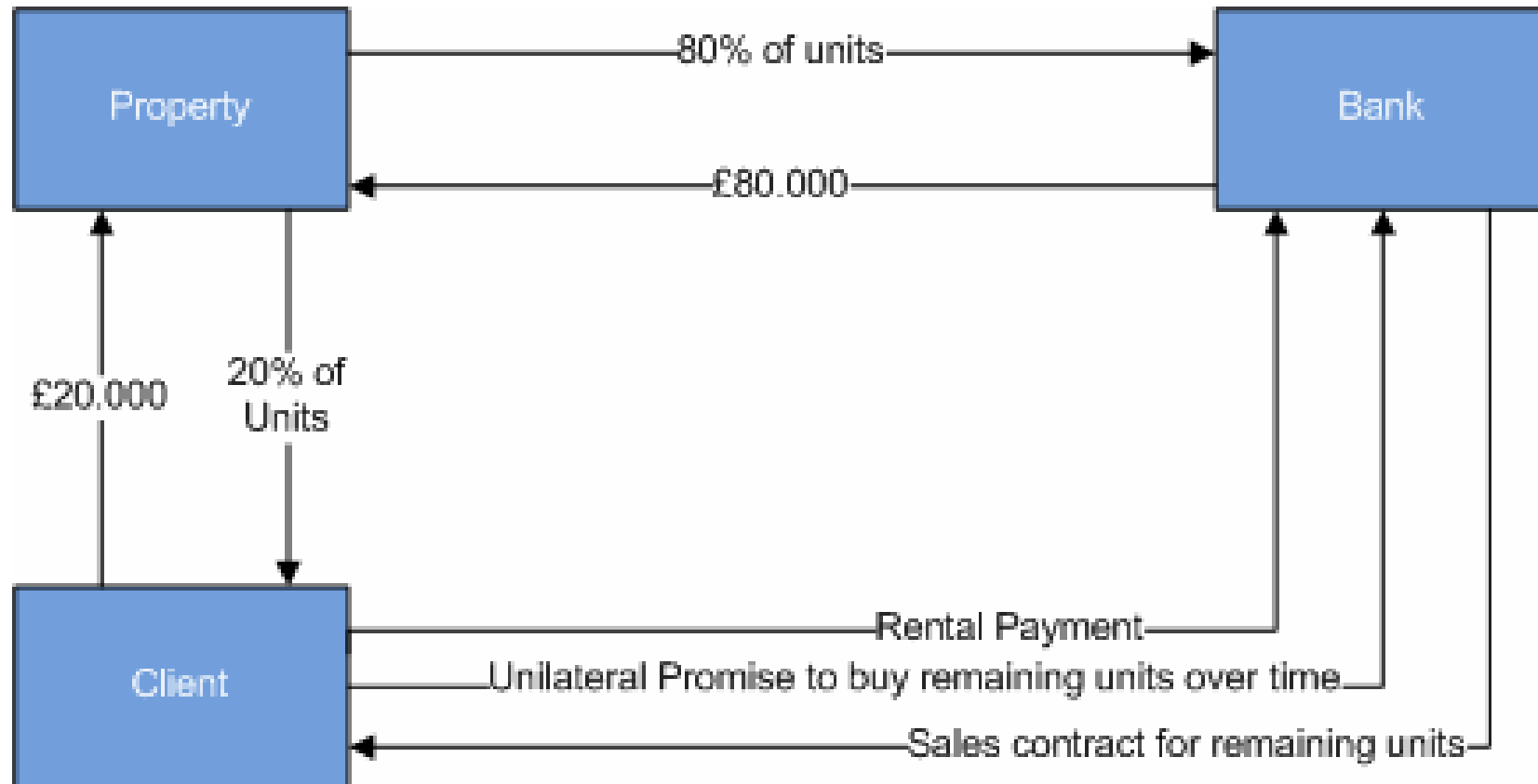
Ijara Wa Iqtina Structure



Diminishing Musharaka

- Financial institution and customer participate in the joint ownership of the property that the customer identified
- Ownership is divided into a number of units on the outset part owned by the bank and part by the customer
- Customer purchases the remaining units throughout the tenor of the mortgage

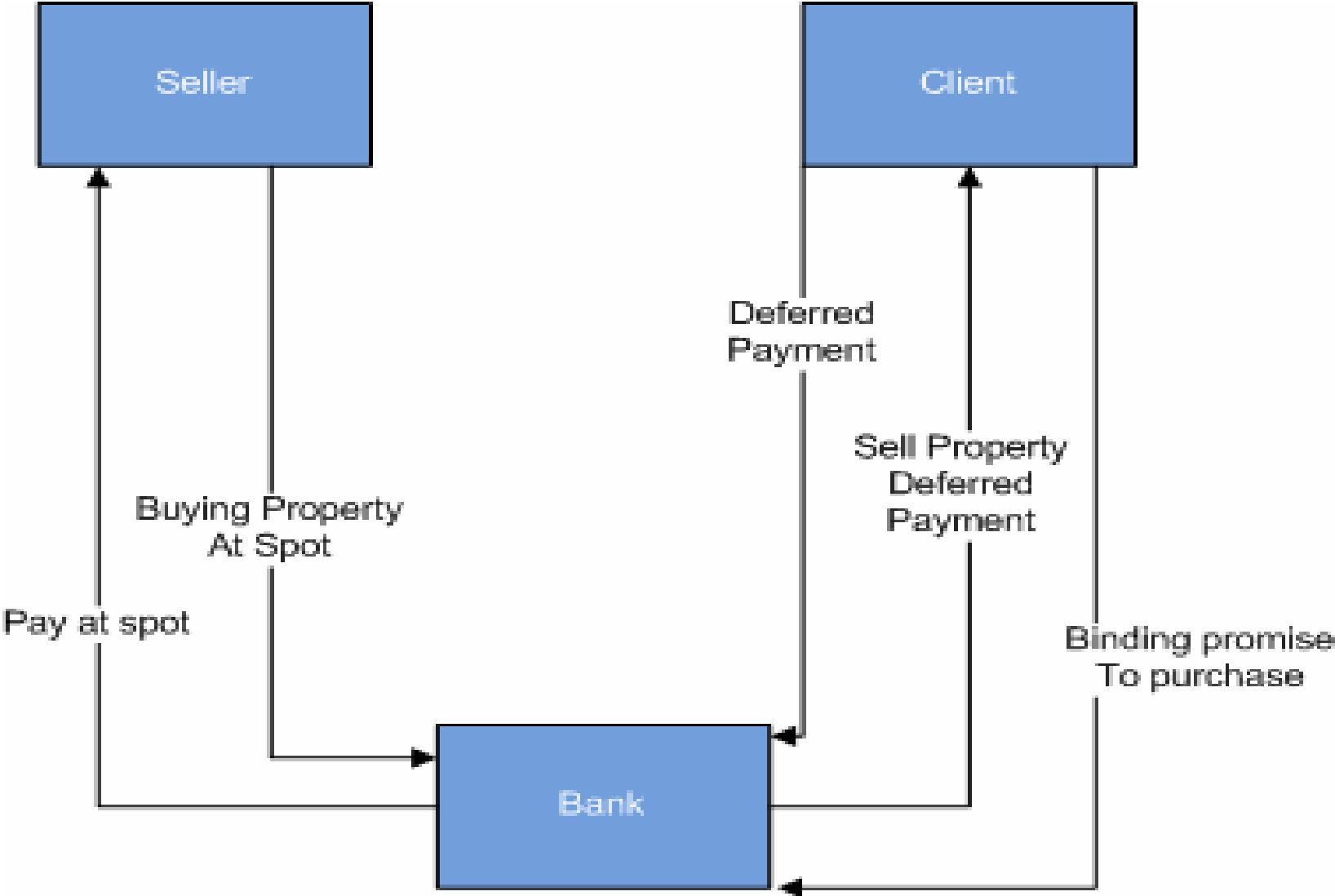
Diminishing Musharaka Structure



Murabaha Structure

- Financial institution purchase the property from the vendor based on the customer request
- Financial institution immediately sells the property with a fixed mark-up profit to the customer on a deferred payment basis

Murabaha Structure



Comparative Analysis of existing Islamic Mortgages Structures

Islamic Mortgage Structure	Murabaha Structure	Ijara Wa Iqtina Structure	Diminshing Musharaka Structure
Profit Rate	Fixed	Variable	Variable
Financial Institution Risk (based on the length of ownership by the financial institution)	Low	High	Medium
Early Repayment Option	Contractually Not Available	Available	Available
Penalty Payments	Available- Provided that it is repaid to Charity, after excluding actual losses and damages.	Available- Provided that it is repaid to Charity, after excluding actual losses and damages.	Available- Provided that it is repaid to Charity, after excluding actual losses and damages.
Securitization	Not Suitable for Securitization	Suitable for Securitization	Suitable for Securitization
Basel II Implications	Mortgage-like treatment	Risk Weight depending on counterparty with collateral	Some experts believe that it should be treated as Equity Participation attracting 400% risk weight

Mortgage Backed Sukuk

- Potential market for mortgage backed Sukuk
- Emergence of this market may result in the abandon of the Murabaha structure
 - Murabaha is considered to be a debt
 - Debt is not suitable for Islamic securitization.

Challenges

- The main challenge facing Islamic Financial Institutions is to offer Islamic mortgages that are economically viable and can compete with conventional mortgages.
- Sell Islamic Mortgages to Muslims as well as non-Muslims
- Basel II can have negative impacts on Islamic Finance Institutions offering Islamic Mortgages.

Questions and Answers