



## **Full Length Research Article**

### **A COMPARATIVE ANALYSIS BETWEEN MUSHARAKAH MUTANAQISAH AND AL-BAY` BITHAMAN AJIL CONTRACTS UNDER THE ISLAMIC HOME FINANCING IN MALAYSIA**

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#### **ABSTRACT**

House is one of the essential needs for every human being. People mostly use conventional financing to finance their home. The conventional system is based on interest which is entirely prohibited in Islam, its utilization is not recommended. Islamic home financing such as Bay Bithaman Ajil (BBA) and Musharakah Mutanaqisah (MM) are proposed as an alternative home financing. MM is believed to be a better option than BBA nowadays. This study uses a convenient sampling technique by using a questionnaire for college students and employees at the securities commission because of the need to explain the product features for BBA and MM home financing. The result showed that MM as an alternative home financing is trusted and perceived by the customer to substitute BBA application. Furthermore, MM is recognized as the product whereby it perceived as a fully-Shariah product compares with BBA and conventional financing. In Malaysia, housing stock has increased since 2005-2015 but the supply of housing still experiencing deficiencies. It is shown by the gap between housing stock and household number broaden to 2.5 million units in 2015. HSBC Amanah looks the potential visibility for MM product to be marketed for low income to high-income customers and also sustain in the market due to fulfilling Maqasid Al-Shariah and also high-profit generation.

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#### **INTRODUCTION**

In Malaysia, Islamic finance recognized first as an industry in 1983 with the performance of Islamic Banking Act 1983 and monitored one year later by the Takaful Act 1984, both of which form the foundations of Islamic finance industry in Malaysia that we see it today. The way for the licensing of the first Islamic bank and Takaful operator was covered by these Acts. Consequently, in 1993, the Securities Commission was recognized. The progress of Islamic capital market was considered as one of the Securities Commission's evolving plan. The modern form of Islamic finance is allied with the need of pious Muslims who want to avoid obligating a sin in their financial transactions. However, over the last few years, it has developed beyond anybody's imagination. Today, the industry, with above 600 financial institutions in 75 countries, is valued approximately USD1 trillion globally and is projected to grow to USD1.6 trillion in 2012 (Ali, 2008). The Malaysian government has persisted fully dedicated to

promoting and enabling the development of the Islamic finance industry, initially for the domestic market and afterward on the international front (Shah, 2013). This is reflected in part through the execution of the Malaysia International Islamic Financial Centre initiative (MIFC).

A brief history of the development of Islamic finance in Malaysia is provided in Table below:

The Muslim community has been gradually pulled towards the presumed glow of Islamic banking and finance. The thought of having a Sharia-compliant banking product at hand (and therefore avoiding committing any sin) is a big attraction for Muslims around the world, as more have begun to realize the many benefits of Islamic banking products as compared to the traditional, conventional products available. Many banking and financial institutions throughout the world has noticed this demand and have moved to address the increased demand by providing Islamic banking products either through their Islamic banking windows or by setting up Islamic banks as subsidiaries. In an ideal Islamic banking and finance landscape, Islamic banking products would be leading the financial industry. However, as it is, the conventional banking

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products still contribute a significant form of revenue for the financial bodies.

### Research Objectives

Based on the problem statement, there are three research objectives which are addressed:

- To investigate issues relating the currently existing conventional and Islamic home financing models
- To find out the general public's views and understanding relating to the current models of home financing available; and
- To structure an alternative home financing model which will be more in line with Maqasid al-Shariah.

distinctively objective situated. This component of the Qur'anic language is regular to its laws on common exchanges (mu'amalat) as well as devotional matters ('ibadat). Along these lines when the content explains the customs of Wudū (ablution) it takes after on to pronounce that "God does not want to inflict hardship on us, what Allah means is cleanliness for you and to accomplish his favour upon you" (Al-Maidah:6). With regard to Salah, it is stated clearly that prayer protects us from the evil (Al- Ankabut: 45), thus, the objective of prayer is to gain spiritual purity and well-being that is done together with physical cleanliness through wudhu prior Salah. In zakat that is given to the poor people and Quran proves it "so that mal or wealth dose does not circulate only among the rich people" (Al-Hashr: 7). Talking about jihad is to prevent zulm or injustice.

**Table: Key highlights of Islamic finance in Malaysia**

YEAR	KEY HIGHLIGHTS
1962	- Establishment of the Pilgrim Fund Board or Tabung Haji.
1983	- Islamic Banking Act 1983 came into effect. - Establishment of the first full-fledged Islamic bank, BIMB.
1984	- Establishment of the first takaful operator, Syarikat Takaful Malaysia Berhad.
1993	- Interest-free Banking Scheme was introduced, later known as Islamic Banking Scheme.
1994	- Islamic Inter-bank Money Market and dual banking system was created.
1997	- The Shariah Advisory Council for Islamic Banking and Takaful was formed.
1997-1998	- Economic crisis.
1999	- Establishment of the second Islamic bank, Bank Muamalat Malaysia Berhad.
2002	- Islamic Financial Services Board was established. - International Islamic Financial Market was launched.
2003	- Bank Negara Malaysia's review called for the setting-up of Islamic subsidiary. - Legal reforms adopted to improve the efficiency of Islamic banking and financial system.
2006	- Various Islamic banking services began operations, including Affin Islamic Bank Berhad, Kuwait Finance House, and Al Rajhi Bank.
2008	- Maybank's Islamic Banking began to operate.

Source: Securities Commission Malaysia, Introduction to Islamic Capital Market, (Kuala Lumpur: LexisNexis, 2009).

### Literature Review

#### *History of Maqasid*

The earlier scholars of Usul al-fiqh, they did not give much attention to this important branch of knowledge (maqasid al-shariah). They did not even give a special chapter of maqasid in their writings until the great imam Al-Shatibi [1388] gave a special emphasis on maqasid as well as specific chapters in his writings. Imam Al-Tirmidhi Al-Hakim was the first scholar who utilized the Maqasid Al-Shariah in his fiqh writings, the same work also is reflected from the effort of the great Imam Al-Juwayni. This imam also is known as the first jurist who makes the well-accepted classification of objectives of Sharia which is (daruriyat, hajiyat and tahsinayat). Imam Al-Ghazali who was the student of Al-Juwayni in his book of Shifa Al-Ghalil add to the newly born writings of Maqasid an important concept of public interest (maslaha) and ta'lil. The great imam Abu Hamid al-Ghazali introduced the preservation of the five and he said in his book Al-Mustafa (al-ghazali, 1973 ) stated that "The objective of the Shari'ah is to promote the well-being of all mankind, which lays in protection of their religion (*din*), the human life (*nafs*), their intellect (*'aql*), their progeny (*nasl*), and their wealth (*mal*). Whatever ensures the safeguard of these five serves the public interest and is desirable.

#### *Quranic Text*

The Qur'an is expressive, in various spots and an a variety of contexts, of the method of reasoning, objective and advantage of its laws to such an extent that content turns out to be

As far the law of Qisas (retaliation) is a concern the holy Quran also declares that "O people of understanding there is a life for you in qisas" (Al-Baqarah: 179). According to lower the gaze Quran, it justifies similarly (An-Nur: 30). In the prophetic traditions, one may find more examples of the same idea, that is like when the prophet (S.A.W) prohibits the woman to travel with strange man or stay with the man separately that may lead a forbidden thing, same goes to marry woman together with her aunty and the prophet clearly mention by saying that if you do that you will go against the concept of family tie in Islam. In the financial transaction the prophet, PBUH forbade giving gifts to someone who borrowed his money and he said that may end up to Riba that is forbidden. In addition, many more Quranic verses and the Sunnah of the prophet are effectively conveying the same idea.

#### *Maqasid Al-Shariah View on Home Financing Models*

Having a house is one of the essential needs of every human being, especially in this day and age since the people cannot live in tents due to urbanization and expansion of the human needs. In Islam, it is more encouraged people to have houses and that is one of the basic needs of the society, to have a house in maqasid perspective. It becomes the safeguards more than one of the five preservation of our religion mainly protection of an-nafs (life), mal protection (wealth), protection of al-nasl (lineage) as well as deen (religion). That in mind that house financing with the conventional system is based on interest which is entirely prohibited in Islam. The prevailing BBA home financing does not change much from the conventional interests. Instead of charging the customer

interest, financiers charge a profit derived through a buy-and-sell contract which is allowed in Islam, but disappointedly, the profit rate is reliant on the market interest rate due to arbitrage activities. For that reason, it is similar to the conventional form in terms of computational formulas whereby the profit rate tracks the market interest rate. BBA is also one of the controversial contracts in Islamic finance regarding its permissibility, the scholars argued a lot about it, most of the Malaysian scholars see that this contract is valid, the Malaysian Islamic banks use BBA to finance long-term financing. In other Muslim countries especially in the middle east scholars many of them see that this contract has so many issues among which is totally risk transfer to the customer, that is against the essence of Islamic finance which is based on (al-ghunumbilghurum) and (al-kharajbildhaman) no reward without risk, (any benefit must be accompanied with liability) (Omar, 2005). As for MM, currently, some of the Islamic banks use this contract to provide the medium and high-income customers. Therefore, other alternatives should be explored in order to make the MM contract that accessible to the low-income group so that the Maqasid al-Shariah is achieved. Among possible alternatives is the implementation of Musharakah Mutanaqisah partnership contract through the cooperative," as suggested by Meera and Abdul Razak (2005). This is done in some Muslim minorities such as in Canada and America, we can see through this the spirit of Islam and we think it is in line with maqasid al-shariah compared to BBA model.

### Conventional Home Financing

Every people in this world need to fulfill their basic necessities. One of them is a home as a place where someone can live in and protect their life from outside disturbance. Another definition is stated according to Quranic verses by Al-Qardawi (1960), a house is a shelter where every individual can protect themselves from the external environment. Nowadays, human population growth is tremendous which is not comparable with the growth of land for housing area. This causes the demand for home very high while the supply is not showing significant addition. In Malaysia, housing stock has increased since 2005-2015 but the supply of housing still experiencing deficiencies. So, the gap is 2.5 million units in 2015 between housing stock and household numbers.

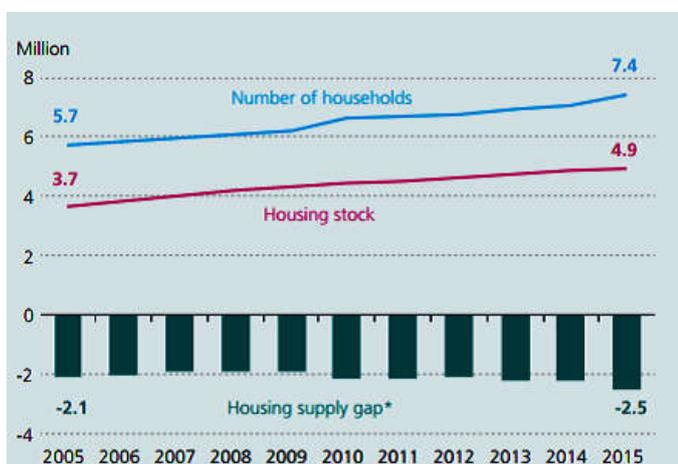


Figure 1. Widening Housing Supply Shortfall over past Decade  
Source: Bank Negara Malaysia (2015)

Thus, it makes the cost of the house become very high and this become part of huge expenditure in the household budget.

When someone decides to buy a house, they must consider whether their budget can afford to buy a particular house or not. If they could not afford it, they need to find external financing to finance it. The common sources of financing come from financial institutions which are banks. Nowadays, most of the financial institutions finance their home by using the conventional system. In a conventional system, a financial institution which is bank usually giving a loan to customers for their home financing. The loan is usually given depends on the customer needed. The principal amount and tenure are agreed between bank and customer. In the due date of tenure, the customer pays the principle plus with the due interest. In Malaysia, the interest rate is in accordance with the based lending rate (BLR) plus the profit rate which is determined by the bank. According to BNM (2016), in conventional housing loan, the relation between bank and customer is as creditor and lender. The principal amount is charged with interest which using base lending rate plus profit rate and lender make periodic installment repayment. The BLR will fluctuate time by time and it will affect the total loan cost. Simultaneously, arrears in conventional loans are normally capitalized. The calculation of interest rate is based on the compounding interest. The loan contract for in conventional home financing is notably called as a Loan Facility Agreement.

### Calculation Method of Conventional Home Financing

Home financing amount is RM450,000 given by the bank to the customer. Profit rate agreed 10% used annual profit rate with loan duration 15 years. By using equation (1), the monthly payment amounted to RM 4,835.72.

The formula is as follows:

$$PV = \text{Pmt} / i [1 - 1 / (1 + i)^n] \quad \dots \dots \dots (1)$$

Where:

PV = Present value of the loan

PMT = Monthly payment

i = Interest rate paid periodically

n = number of the period

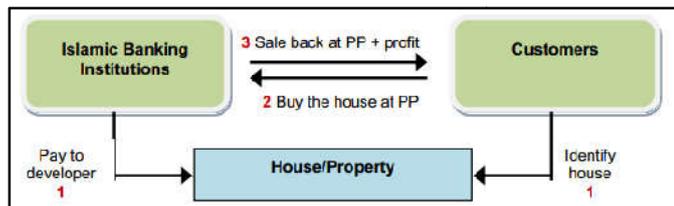
In Islamic finance principle, riba is strictly prohibited. According to Qur'an (2:275), "...But Allah hath permitted trade and forbidden usury". Formula (1) shows that the excess quantity paid by the customer and excess in quantity. This is classified as riba al duyun and al nasi'ah due to it was charged in relation to the time given to repay the loans.

### Bay Bithaman Ajil (BBA)

**Bay Bithaman Ajil (BBA) Contract:** Islamic home financing primarily offers two common methods which are Al-Bay Bithan Ajil (BBA) and Musharakah Mutanaqisah (MM). Bay' Bithaman Ajil (BBA) is a sale and buy back asset transaction which belongs to Bai al-inah. Bank buys the asset and directly sell back the house on a deferred payment to the customer. The deferred payment has already included the profit margin agreed between bank and customer (MIDF, 2016). The nature of transaction basically the murabahah contract (cost plus) because of the asset rendered at the point of sale. However, the deferred payment is settled by paying monthly installments within a particular period of time. Then, the bank settles the remaining amount debt to the developer. The main different between ordinary conventional home financing and BBA is the

customer's interest rate risk is eradicated and arrears will not be capitalized (BNM, 2016).

**Figure:** modus operandi of BBA is exhibited as follows:



**Figure 2. Bai' Bithaman Ajil Home Financing Structure**  
Source: (Azli et al., 2011)

BBA has its advantages for customer and bank. In terms of payment, the customer will have better financial planning because they pay with the fix monthly payment and bank treats this product as a low-risk product. If the customer can settle the installment early, they will not get a rebate because the bank will experience a sole discretion. Besides, the bank cannot enforce a penalty for late payment for BBA product because the transactions belong to murabahah contract. However, according to Meera and Abdul Razak (2009), BBA practice makes customer got the disadvantage, especially for early redemption and default event. Higher financing balance will be burden by customer compared to the conventional loan with identical APR.

#### Scholars View of Bay Bithaman Ajil (BBA)

The main intention for BBA is to get the asset. In practice, financing documents which involve in this transaction are Property Sale Agreement (PSA) and Property Purchase Agreement (PPA) (Hanafi, 2012). These agreement embedded in the process flow of BBA practice. By acquiring and selling off the asset without appropriate transfer and ownership, it does not represent the real BBA. Thus, PSA and PPA have a sole propose to get ready cash to be settled to the developers. As discussed in the abovementioned definition, BBA belongs to bay' al-inah where it is a sale based on the delay (al-nasiah). Bay 'al inah practice is allowed by Shafi'is and Zahiris, contracts based on Bay al'-Inah satisfy all the compulsion as a legitimate sale, it cannot be solely assumed that it will evade riba prohibition. According to them, the legal judgment must be seen based on the expressed intention and not hidden intention which only can be judged the by god. Therefore, referring to Shafi'i school, such sales are permissible due to the contracts are valid (sahih) by the external evidence that was properly concluded. Shafi'i takes into consideration which the intention of the parties solely when the invalid intention is explicitly mentioned in the contract. Nevertheless, both scholars consider bay' al-inah as makruh in spite of admitting its validity (Rosly, 2001). Maliki and Hanbali school of fiqh do not permit bay' al-inah because it is a backdoor to the riba. The concept based on the 'plugging the door to harm' (saad al dhariah) where a certain act is prohibited in order to avoid future harm.

#### Calculation Method of Bay Bithaman Ajil (BBA) Financing

The customer desires to get a house with a cost price of RM500,000. Customer contributes 10% payment which is RM50,000 while Islamic bank makes payment amounted to

90% which is RM450,000. Bank and customer agree to use BBA contract. The agreed annual profit rate (APR) amounted to 10% per year and financing tenor for 15 years. Bank will buy the house amounted to RM450,000 and subsequently sell the house with murabahah (cost plus profit) with deferred payments within 15 years.

In calculating monthly payment, annuity formula is used because of the constant cash flow paid by the customer to the bank.

$$PV = \frac{Pmt}{i} \left[ 1 - \frac{1}{(1+i)^n} \right] \quad (2)$$

Monthly payment is calculated as follows:

$$Pmt = \frac{i(1+i)^n PV}{(1+i)^n - 1} \quad (3)$$

By using (3) formula, monthly payments paid by the customer amounted to RM4, 835.72. Total 180 months payment amounted to RM870, 429.60. Total profit for the bank (RM870, 429.60 - RM450, 000) equals to RM420, 429.60. In the BBA concept, this profit amount is recognized upfront. After 10 years, the total remaining 60 monthly payments amounted to RM290, 143.20. However, in the conventional home financing, the remaining payment is treated as total interest paid for the loan within 15 years.

#### Musharakah Mutanaqisah (MM)

**Musharakah Mutanaqisah (MM) Contract:** According to Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI) Sharia Standards, Musharakah Mutanaqisah (MM) is "a form of partnership in which one of the partner's promises to buy the equity share of the other partner gradually until the title to the equity is completely transferred to him. This transaction starts with the formation of a partnership, after which buying and selling of the equity take place between two partners. It is, therefore, necessary that this buying and selling should not be stipulated in the partnership contract. In other words, the buying partner is allowed to give only a promise to buy. This promise should be independent of the partnership contract. In addition, the buying and selling agreement must be independent of the partnership contract. It is not permitted that one contract is entered into as a condition for concluding the other" (AAOIFI, 2008).

From the AAOIFI definition, MM comprises of two contracts which are Musharakah under the Shirkat al-milk (joint ownership) consent between the customer and the bank. The other contract is ijarah where bank leases share ownership to the customer. Nowadays, many people choose to utilize Musharakah Mutanaqisah (MM) for their alternative home financing compare to the Bay' Bithaman 'Ajil (BBA).

The reason arises because some jurists have a disagreement in the implementation which have compliant issues against Shariah regulations. According to Usmani (2005), MM as a way for getting home financing where it maintains the Shariah principles. Meera and Abdul Razak (2005) stated that MM is a preferable mode of home financing compare to BBA because the practice of BBA is mimicking the conventional home financing by using the same formula to calculate the profit rate. The profit rate is determined by the fixed amount and it cannot be changed while MM profit rate based on the rental price which can be amended by the bank periodically.

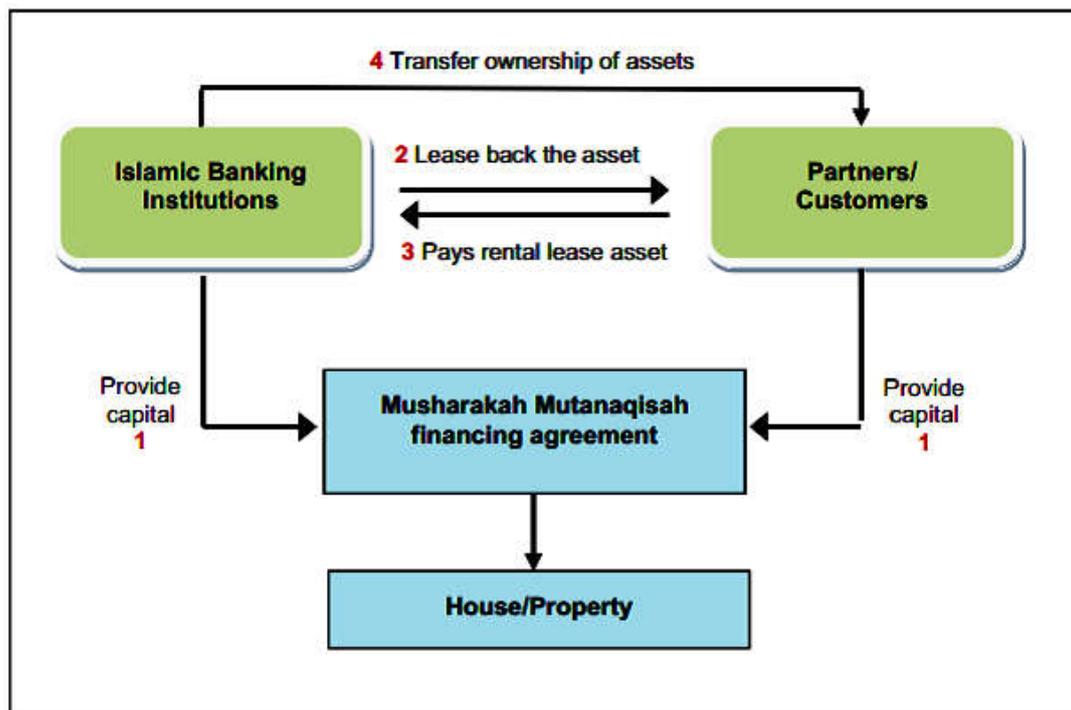


Figure 3. Musharakah Mutanaqisah (MM) Home Financing Structure  
Source: (Azli et al., 2011)

For customer side, Noreeta Mohdnor (2008) stated that MM fairer compare with BBA. There is no interest imposed or advanced profit charge. The notion of MM is rental payments where customer reduces the bank's shares based on monthly instalments. In addition, Meera and Abdul Razak (2009) stated that the house rental rate distinct from the interest rate. Based on the Islamic economy theory, the rental rate must be determined based on the market actual rental price to represent the real economy movement.

#### Scholars View of Musharakah Mutanaqisah (MM)

Most of the Islamic scholars concurred related the permissibility of MM implementation. Musharakah contract itself generally can be discovered in the Qur'an (an-Nisa: 12 and Sad 23-4), Sunnah, and Ijma (consensus of Muslim scholars). They concurred the combination of a partnership (Musharakah), sale contract (Bay'), and lease contract (Ijarah) because the legality is discovered in all sources of Shariah. In the 15th International Fiqh Academy, MM is agreed as the model if it is exercised based on agreed shariah resolution. In addition, Bank Negara Malaysia took the decision to permit the practice of MM in Malaysia (Bank Negara Malaysia, 2007). In order to be properly executed, the principles and guidelines must be followed. When the contract is executed, it cannot break the Shariah rule and also not follow the interest based principle.

International Fiqh Academy (2004) spell out the principles which must be followed:

- The property has to exist.
- The profit proportion must be determined and the profit proportion is not in the amount of money.
- Bank and customer must share the profit and loss of the property.
- Shariah advisory board obligate to supervise the contract.

- Each contract which consists of the contract of sale (bay') and contract of partnership (Musharakah) must be split.
- Wa'ad can be exercised from one partner in order to give promise to the other partner to purchase the share gradually.
- According to Smolo & Hassan (2011), MM is in accordance with Shariah.

#### Method of Musharakah Mutanaqisah (MM)

This calculation method will use similar case with BBA. The customer desires to get a house with a cost price of RM500,000. Customer contributes 10% payment which is RM50,000 while Islamic bank makes payment amounted to 90% which is RM450,000. The financing tenor over 15 years. Home rental is assessed based on the house location and consider the average rental in that area. Customer and bank agree the rental payment amounted to RM2000 each month.

$$M = \frac{x(1+x)^n B_0}{(1+x)^n - 1}$$

Equation (4) is used to calculate additional monthly payment besides rental payment to reduce equity portion of bank's share in 15 years. This equation is same with the annuity formula which used in conventional home financing. Thus, this can be utilized for Musharakah Mutanaqisah calculations whereby the interest rate must be changed to the rental rate. The rental rate can be computed by  $X=R/P$ . Rental rate is generated from  $RM2000/RM500,000$  which is equal to 0.4% per month. Therefore, monthly payment amounted to RM3,511.86. Because the monthly rent amounted to RM2,000, afterward the extra amount needed is RM1,511.86. Total payment for 15 years equal to RM632,134.80

## Similarities and Differences between Bay Bithaman Ajil (BBA) and Musharakah Mutanaqisah (MM)

Table. BBA and MM Comparison

Criteria	Bai' Bithaman Ajil	Musharakah Mutanaqisah
Operational Mechanism	Buy and sell back the asset (home) to customer	Bank and customer buy the house jointly and customer rents the house from the bank
Profit Rate	Profit is generated from the difference between the sale price and purchase price from the customer	Monthly installment payment comprises of rent payment and buys a portion of the house
Pricing	Fixed profit rate based on interest rate	Variable rental rates based on the value of the property
Profit Treatment	Capitalized up front in the selling price	Customer and banks shared the profit based on ratios
Margin of Financing	Up to 100%	Up to 90%
Owner of Property	Customer	Both of bank and customer have property based on the agreed shares
Property Typed	Completed and Under Construction House	Completed and Under Construction House
Monthly Payment	Fixed	Variable
Early Payment	Not Allowed	Allowed
Home Improvement	Allowed	Allowed
Risk of Bank	Low-Risk	High-Risk

Source: compiled from Hanafi (2012)

### Comparison calculation between Conventional Home Financing, BBA and Musharakah Mutanaqisah (MM) end of 10 years

House price = RM 500,000

Customer share = RM 50,000/Bank Financing = RM 450,000

Monthly Rental = RM 2,000

	Conventional Home Financing	Bay Bithaman Ajil (BBA)	Musharakah Mutanaqisah (MM)
	APR = 10% +	APR = 10% +	Rental = 4.8%
Monthly Payment	4,835.72	4,835.72	3,511.86
Total payment in 15 years	870,429.60	870,429.60	632,134.80
Financing Cost	(450,000)	(450,000)	(450,000)
Total Profit for Bank after 15 years	420,429.60	420,429.60	182,134.80
Balance after 10 years	227,594.95	290,143.20	187,002.57

- Conventional Home Financing = RM (Present value of the remaining 60 months based on reducing balance)
- BBA = RM4,835.72 X 60 months = RM290,143.20 (Total profit is capitalized up front)
- MM = RM187,002.57 (Balance is determined by the rental rate plus additional share using the diminishing balance method)

## MATERIALS AND METHODS

### Research Design

This study use survey as research instrument as the primary data. The questionnaire comprises of 30 questions by dividing into 4 measurements i.e. concept, pricing method of

computation, sharia-compliant, and willingness. This study uses a convenient sampling technique using college students and employees at the securities commission because of the need to explain the product features for BBA and MM home financing. This is very crucial where MM as the proposed model of Home Financing which HSBC Amanah wants to propose as a new product for its customers and it will support the marketing analysis of MM product. Besides, the secondary data come from books and article journals.

### Data Collection

The survey was held in two weeks on April 2016. A total sample size of 40 respondents targeted as the requirement for data testing. The data collection was held in IIUM which targeted undergraduate and postgraduate students and securities commission which targeted the executives who have been experienced in Islamic finance field. Then, data is processed into table and depiction by pie chart and graphic in order to be analyzed.

## DISCUSSION AND FINDINGS

This survey was conducted to know how the customer perceives the BBA and MM related to the concept, pricing method of computation, sharia complaint, and willingness. The question will cater all the aspects of the Sharia issue and practicability of BBA and MM as home financing in Malaysia. Understanding the level of the concept, as it is found that 82.5% of the respondents agreed on the importance of Shariah rules and regulation and also Maqasid Al- Shariah. 75% of them think that MM is the better mode of Islamic Home Financing and understand the structure of MM. However, only 33% thought that BBA is Shariah compliant. In addition, most of the respondents have the same compelling feature that the model of Islamic Home Financing is complicated. As for the pricing, most of the respondents have replied to somewhat agree. That might be the misunderstanding of pricing method, in terms of similarities with conventional home financing, 55% of the respondents agreed by responding that MM is not similar the conventional pricing.

Regarding the Shariah compliant measurement, most respondents are well aware that there are two modes of home financing which consist of conventional and Islamic home financing. Moreover, 90% of them understand the prohibition of Riba, Gharar, and Maisir. These aspects which differentiate between Islamic financing compare with conventional financing. As a result, 77.5% of the survey respondent will choose their home financing with interest-free. However, 45% of these respondents agreed that the prevailing home financing offered by financial institutions are fully sharia compliant and this aspect should be more than that percentage because all of the Islamic home financing products are authorized by Shariah committee at their respective banks. The willingness of the respondents to words Islamic home financing is high, 80% of them replied that they will go for Islamic model home financing, and they also feel more confident about it. Furthermore, they would go for Islamic home financing in order to fulfill their need of home ownership. Regarding the better option of home financing, 75% of the respondents think that MM is the better option than BBA. In terms of less risky, customers also agree that 57% said MM is less risky in case of defaults. Furthermore, Musharakah Mutanaqisah is recognized as the more authentic model of providing home financing

facilities. According to Razak and Ismail (2011), four issues were examined consist of concept utilize, computation method and pricing, Sharia compliance, and product preference. The primary invention that customers apprehended Musharakah Mutanaqisah home financing fulfill their necessity better than the concept of debt financing. The Shariah scholars also concurred that Musharakah Mutanaqisah has justice, fairness and satisfy for the well-being of individual and society. On the other hand, as the bankers, they support the Musharakah Mutanaqisah implementation besides the concern of pricing and operations. The outcome signifies that Musharakah Mutanaqisah concept is more widely acceptable for all three stakeholders if compared to the Bay Bithaman Ajil (BBA).

## Conclusion

House is one of the essential needs for every human being. People mostly use conventional financing to finance their home. As the conventional system is based on interest which is entirely prohibited in Islam, its utilization is not recommended. Islamic home financing such as BBA and MM are proposed as an alternative home financing. MM is believed to be the better option than BBA nowadays. Hashim and Hassan (2015), Taib et al (2008) and Smolo and Hassan (2011) stated that MM home financing can solve the use of interest rate as a benchmark through the utilization of the rental income. Along the way, the utilization of MM as an alternative home financing is trusted and perceived by the customer to substitute BBA application. Furthermore, MM is recognized as the product whereby it perceived as a fully-Shariah product compares with BBA and conventional financing. In Malaysia, housing stock has increased since 2005-2015 but the supply of housing still experiencing deficiencies. It is shown by the gap between housing stock and household number broaden to 2.5 million units in 2015.

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