

HOUSING NEEDS

ISLAMIC FINANCE OPTION FOR HOME OWNERSHIP



Bank Negara assistant governor Marzunisham Omar says based on the Ijarah concept, Islamic banks can meet the needs of Malaysians to own houses.

An Islamic bank looking to roll out first rent-to-own scheme for Malaysians

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ISLAMIC finance may become a significant option for affordability and home ownership, a key concern among policymakers, says Bank Negara Malaysia.

If all goes well, one of Islamic banks in the country will be able to roll out the first programme for Malaysians to 'rent-to-own'

properties by year-end or early next year.

Bank Negara Malaysia assistant governor Marzunisham Omar was very encouraged by the response from Islamic finance players in a recent discussion on innovating their current suite of products.

Islamic banks currently hold a 28 per cent market share of the banking industry.

Through the Value-based Intermediation (VBI) initiative, a banking institution can create

better economic value and be more impactful in the long run.

"Based on the lease or Ijarah concept, they (Islamic banks) can meet the needs of Malaysians to own houses, especially those who are just joining the job market."

After five years or so, the customers would be given an option to buy the house with the cost of rent being only about two per cent upfront.

While the central bank would look at the risk management aspects, it is also important that the option is fair to consumers in terms of transparency and disclosure, he added.

"We know one of the Islamic financial institutions is seriously

looking at piloting this."

The programme will be designed ala the rent-to-own scheme by IMalaysia People's Housing Programme (PRIMA).

In this pilot case, the prospective buyer will be given a choice of addresses to rent by the bank.

At the outset there will be transparency as the person will be made aware of the option to buy the property and the price, even if there is no initial commitment.

The Islamic Financial Services Act 2013 provides for Islamic banks to own properties beyond which they use for their operations.

In the United Kingdom and Canada some banks offer this scheme as a niche segment.

Gatehouse Bank offers a rent-to-own scheme for properties in Manchester.

End-financing is 32 per cent of the total banking system of RML6 trillion.

According to Bank Negara, the average lending approval rate remains high at 73 per cent in the second quarter this year.

In the first half, RM78.1 billion had been approved to 183,655 borrowers, of which more than 70 per cent are for first time buyers.

About 116,640 were buyers of houses costing RM500,000 and below.