A comparative analysis of financial affordability in Islamic home financing instruments in Malaysia

By: Zabri, M.ZM (Zabri, Mohd Zaidi Md) [1], Haron, R [Haron, Razali] [2]

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Abstract
Purpose This study aims to compare and contrast the financial affordability of various Islamic home financing instruments such as bithaman ajil and musharakah mutanaqisah (MM) offered by various home financing institutions in Malaysia. Design/methodology/approach Mathematical simulations were carried out to examine the financial affordability (or lack thereof) of various Islamic home financing by both Islamic commercial banks (ICB) and financial cooperatives (FC). Findings This study has shown that MM by FC is a workable, more financially affordable option to potential homeowners. Unlike ICB, MM by FC uses rental rates as a benchmarking tool because of its inherent nature of flexibility. Originality/value This study shows the financial implication of unaffordable Islamic home financing instruments may have on the Malaysian households, which were derived from using official data from various government agencies.

Keywords
Housing affordability, Islamic home financing; Musharakah mutanaqisah; Bithaman ajil; Financial cooperative; Housing cost burden

Author Information
Reprint Address: Haron, R (reprint author)

EMIR Inst Islamic Banking & Finance, Kuala Lumpur, Malaysia.

Email Addresses: hrazali@iiu.edu.my

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