

# Islamic Home Financing

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# What is Riba?

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- Riba, or “interest”, is a profit made from a lending and borrowing transaction
- Money has no Intrinsic Value
- Money as a Means of Exchange



# Prohibition of Riba in Islam, Judaism & Christianity

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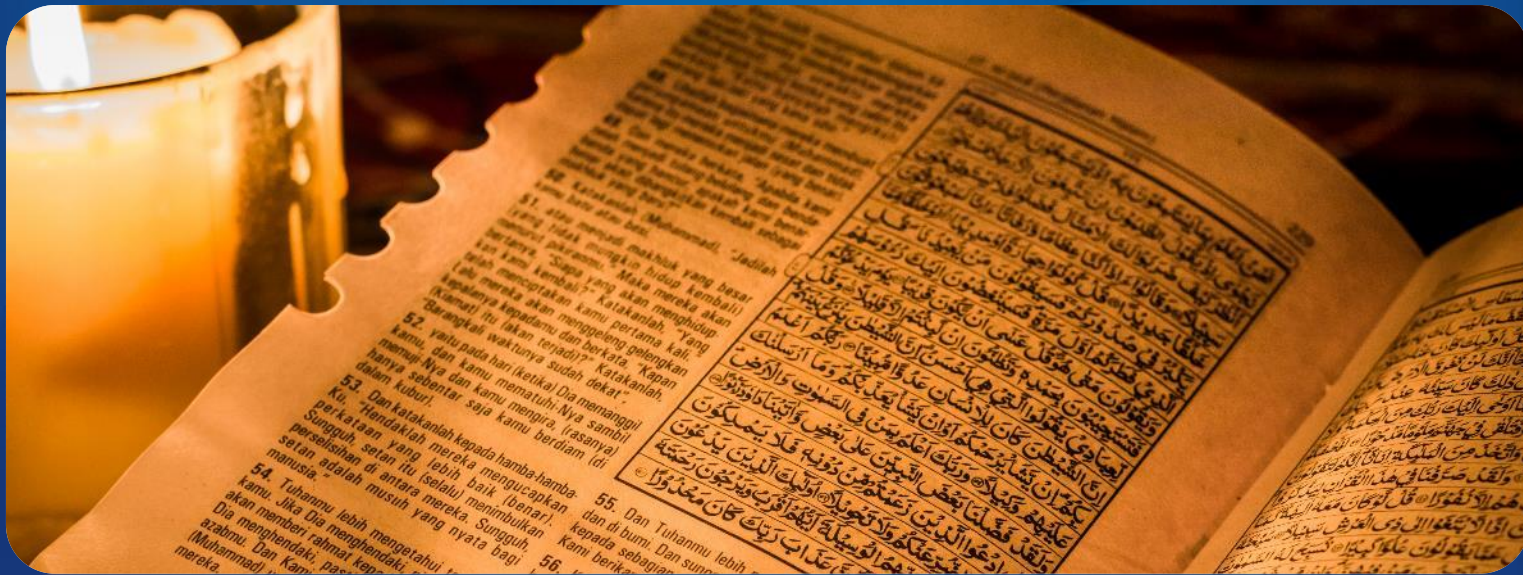




# Riba in Islam, Judaism & Christianity

“Those who take unlawful interest will stand before God (on the Day of Judgment) as those whose minds have been corrupted by the influence of Satan. They say that commerce is just like interest. But God has made commerce lawful and has forbidden interest.”

(Qur'an 2:275)

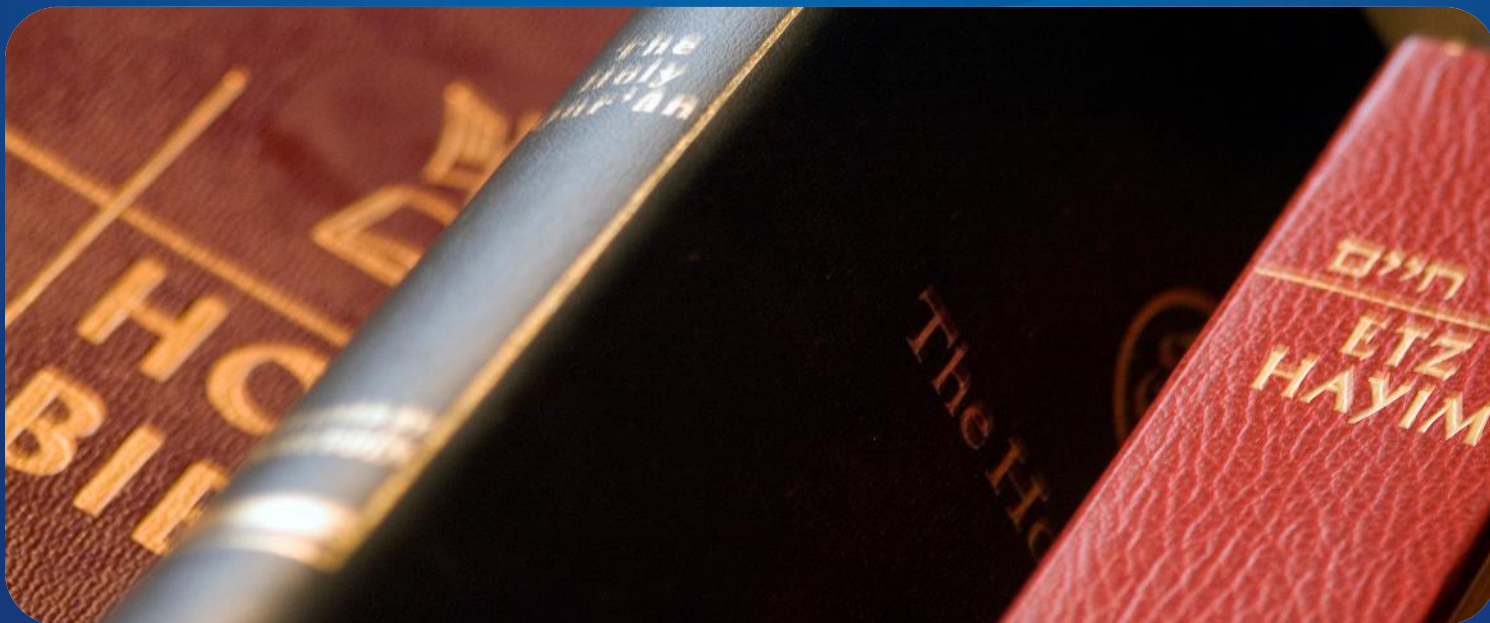


# Riba in Islam, Judaism & Christianity

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“If you lend money to one of my people among you who is needy, do not be like a moneylender; charge him no interest.”  
(Exodus 22:25)

“Do not take interest of any kind from him, but fear your God, so that your countryman may continue to live among you.”  
(Leviticus 25:36)



# Founding Fathers on Riba

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“There are two ways to conquer and enslave a country. One is by the sword. The other is by debt.”

- John Adams



“I believe that banking institutions are more dangerous to our liberties than standing armies... The modern theory of the perpetuation of debt has drenched the earth with blood, and crushed its inhabitants under burdens ever accumulating.”

-Thomas Jefferson



"Rather go to bed supperless, than rise in debt."

- Benjamin Franklin



# What is Permissible

- Loan without Profit (Charity)
- Trade
- Buy – Sell



# Methods of Islamic Financing

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## Three Shariah-Compliant Contracts





# Instruments of Financing in Islam

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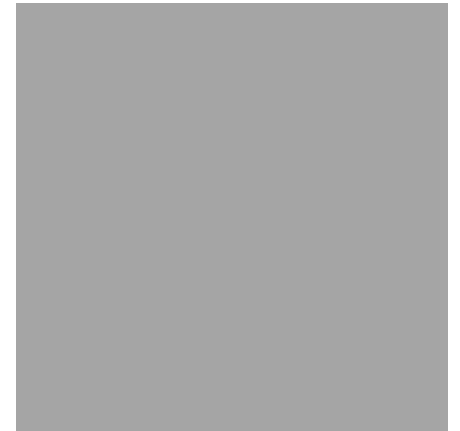
Musharaka | Partnership

**Musharaka**

Shirkat-ul-milk  
(Asset Ownership)

Shirkat-ul-Aqd  
(Business Venture)

# Musharaka or Declining Balance Co-Ownership Program



# Case Study

## Declining Balance Co-Ownership Program

### SHARIA-COMPLIANT

(Declining Balance Co-ownership Program)

1



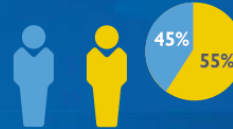
The home buyer and Guidance agree to be co-owners in the property

2



The two parties buy the home, and the ownership in the property is determined by each party's down payment

3



The home buyer makes monthly payments to Guidance. Part of the payment is a utility fee for full use of the home, and the rest is a payment to increase the buyers ownership in the property.

4



Over the course of the arrangement, the home buyer purchases all of the Guidance's ownership stake and becomes the sole owner of the property.

### CONVENTIONAL MORTGAGE

1



The home buyer arranges a loan from a bank or mortgage company according to a fixed or floating interest rate.

2



The home buyer purchases the home

3



The home buyer makes monthly payments to repay principal and interest on the loan.

4



Over the course of the loan, the home buyer repays the debt in full.

# How It Works

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1. Homebuyer and Guidance purchase a property through a partnership agreement
2. Home buyer exclusively utilizes the property
3. Home buyer makes monthly payments for both utilizing the property and gaining ownership.
4. After time, home buyer becomes 100% owner of the property





# Sample Payment Schedule

Partial Payment Schedule for a \$100,000, 15 year (180-Payment) Contract at a 3.750 Profit Rate						
Payment Number (Month)	Beginning Balance	Scheduled Payment	Acquisition	Profit	Your % Ownership	Ending Balance
1	\$100,000.00	\$727.23	\$414.73	\$312.50	20.33%	\$99,585.27
2	\$99,585.27	\$727.23	\$416.03	\$311.20	20.67%	\$99,169.24
3	\$99,169.24	\$727.23	\$417.32	\$309.91	21.00%	\$98,751.92
12	\$95,366.02	\$727.23	\$429.22	\$298.01	24.05%	\$94,936.80
24	\$90,126.03	\$727.23	\$445.59	\$281.64	28.26%	\$89,680.44
60	\$73,175.79	\$727.23	\$498.55	\$228.68	41.86%	\$72,677.24
120	\$40,330.52	\$727.23	\$601.19	\$126.04	68.22%	\$39,729.33
180	\$725.41	\$725.41	\$723.15	\$2.26	100.00%	\$0.00

Total Profit \$30.899.58

# Benefits of Musharaka

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**Non-Recourse Commitment:** In the event the customer defaults, Guidance does not have recourse against the customer's personal assets.



**No Pre-Payment Penalty:** If a customer makes advance payments, the ownership will increase more rapidly and will shorten the remaining term of the contract.



**Shared Risk:** If a natural disaster or a public service project initiated by the government forces the customer out of the property, Guidance will share in the monetary loss that may occur.



**Capped Late Payment Fee:** Late payments are only subject to a capped fee up to \$50, which covers the expenses involved in administering a late payment.

# Oversight Independent Shariah Board

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Pakistan



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Thank you

Q&A

