

Sharia-compliant home loans

Islamic mortgages are different to conventional mortgages. Under Islamic law, the payment of interest is forbidden.

There are three models of Home Purchase Plans (HPPs); **Iraja**, which means 'lease' in Arabic; **Musharaka**, which means 'partnership'; and **Murabaha**, meaning 'profit'. Depending on the model the lender will levy rent or add profit to the amount you pay back instead of charging interest.

An **Iraja** is a lease-to-own HPP: the bank purchases the property you want then leases it out to you. At the end of the term the bank transfers ownership of the property to you.

Under a **Musharaka** plan (also known as 'diminishing Musharaka'), you buy the property jointly with your provider and gradually buy the bank out of it. So if you put down 10 per cent of the purchase price, the bank will buy the remaining 90 per cent. You pay the bank monthly rent on the share you don't own as well as buying more shares in the property with each monthly payment, with a view to owning the property outright at the end of the term - hence the 'diminishing' nature of the partnership. The more shares you own, the less rent you pay to the bank, and the cost of a share in the property is based on the property's original cost price, not its market value.

In a **Murabaha** plan, the bank will buy the property you want then immediately sell it on to you for a profit. You then pay fixed monthly repayments on the higher price, but with no interest to pay back to the bank. So the bank might buy a property that costs £200,000 and sell it on to a customer for £250,000; the customer then pays that sum back over a fixed term

The following are a list of financial institutions that offer Sharia-compliant home loans:

- HSBC through its Islamic finance arm, HSBC Amanah
- Natwest
- Arab Banking Corporation
- Lloyds TSB (underwritten by Bristol & West)
- Ahli United Bank
- United National Bank
- Islamic Bank of Britain (IBB)
- West Bromwich Building Society