

A New Paradigm in Islamic Housing: Non-Bank Islamic Mortgage

Egi Arvian Firmansyah¹, Ardi Gunardi²

Abstract. *An increasing demand for a sharia-compliant housing has resulted in a new initiative where the mortgage can presently be directly handled by the developer without involving the bank. This is called non-bank Islamic mortgage. This paper is aimed at portraying the consumer's profile of non-bank Islamic mortgage and the issues of this practice. We disseminated questionnaires to the respondents in several cities in West Java who bought the house-using non-bank Islamic mortgage scheme. Subsequently, we synthesized the answers regarding their profiles and issues of the scheme for the betterment in the future. One of the issues of this scheme is the higher fraud because there is no rigorous credit scoring as conducted by the bank. The research of non-bank Islamic mortgage is still scant so this paper is expected to shed the light by contributing to the literature of Islamic home financing.*

Keywords: *Islamic mortgage, murabaha, sharia property*

Abstrak. *Semakin meningkatnya permintaan akan perumahan yang benar-benar sesuai syariah telah memunculkan suatu inisiatif baru dimana kini KPR dapat langsung dilakukan oleh pengembang tanpa melibatkan bank untuk pendanaan. Praktek ini disebut KPR syariah tanpa bank. Artikel ini bertujuan menggambarkan profil konsumen atau pembeli rumah yang menggunakan skema KPR syariah tanpa bank serta permasalahan yang ada pada skema ini. Kami menyebarkan kuesioner kepada para responden yang ada di beberapa kota di Jawa Barat yang membeli rumah menggunakan skema KPR syariah tanpa bank. Selanjutnya, kami memproses jawaban terkait profil responden serta permasalahan yang ada dalam skema KPR syariah tanpa bank untuk perbaikan skema ini di masa mendatang. Salah satu permasalahan yang dihadapi adalah tingkat kecurangan karena tidak ada proses credit scoring sebagaimana yang dilakukan oleh perbankan. Penelitian mengenai KPR syariah tanpa bank masih sangat terbatas sehingga artikel ini diharapkan dapat memberikan pencerahan dengan menambah literatur terkait praktik KPR yang sesuai syariah.*

Kata kunci: *pembiayaan rumah syariah, murabahah, properti syariah*

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¹ Universitas Padjadjaran. Jl. Dipati Ukur No. 35, Bandung, West Java, Indonesia

² Universitas Pasundan. Jl. Tamansari No. 6-8, Bandung, West Java, Indonesia

E-mail: ¹egi.firmansyah@unpad.ac.id, ²ardigunardi@unpas.ac.id

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Introduction

There has been an increasing demand for financial services which are sharia-compliant, especially in the country such as Indonesia, which is a developing and the world's largest Muslim country. The financial products provided by Islamic banks are currently fairly competitive compared to the conventional counterparts, both regarding lending and saving products. For acquiring a housing, people may sign a contract with a bank such as *Murabaha* or *Musharakah Mutanaqisah* (Smolo and Hassan, 2011). This approach is common in many countries, either Muslim or non-Muslim country. Nevertheless, there is currently a relatively new approach that is the practice of mortgage without involving the bank. This in Indonesia is called "*KPR Tanpa Bank*" or the non-bank Islamic mortgage. This paper explores this practice by gathering data from respondents buying the house using the practice of non-bank Islamic mortgage in some cities of West Java province, Indonesia. From those responses, we present some recommendations for improving this practice.

The practice of non-bank Islamic mortgage is relatively new in the field of Islamic Finance. This is an alternative to acquiring a house which is considered more sharia-compliant and this approach has been chosen by certain Muslims in Indonesia and has the potential to grow in the future.

Islam strictly prohibits the practice of usury (*riba*) and promotes the trade as stated in the Qur'an "[...*Allah hath permitted trade and forbidden usury...*]" (QS 2: 275). Referring to this verse, Islamic banks provide the products which are sharia-compliant or in accordance with the teaching of Islam such as *Murabaha* and *Ijara* contract. But, some Muslims are still hesitant about the compliance of the Islamic banks' products because the bank, according to the regulation of the Indonesian Central Bank (Bank of Indonesia), cannot act as the seller of any product. Thus, the contract of *Murabaha* or *bay* in the Islamic mortgage is deemed a flawed contract, thus not sharia-compliant. In searching for a better alternative, some developers initiated the non-bank mortgage known as *KPR Tanpa Bank* and promote it to as many people as possible in the media such as Facebook, websites, WhatsApp, and e-commerce websites. According to our observation, this practice is presently available in the cities such as West Bandung, Bogor, Purwakarta, Depok, Bekasi, Sukabumi, and Tasikmalaya.

To our best knowledge, the non-bank Islamic mortgage has not been studied extensively as the Islamic mortgage bank has. The research in the later field is prevalent in some countries such as Indonesia (Wulandari, et al 2016), Malaysia (Amin, et al, 2013), Nigeria (Usman and Lizam, 2016) and Pakistan (Hamid and

Masood, 2011). Due to the relatively new approach, the non-bank Islamic home financing also faces some challenges in its implementation. One of the challenges is the protection of both seller and buyer. Thus, there is a need for optimizing this practice so it can grow better in the future. One of the indicators of the better practice is the minimum case of fraud.

For optimizing the practice of the non-bank mortgage, we gathered data by surveying respondents in some cities in West Java province. We asked the respondents questions regarding the challenges or issues they experience in the non-bank Islamic mortgage so we can suggest or propose the ways for improvement or optimization.

The outline of this research is as follows. This first section is the introduction followed by the second section that is the literature review. There, we review some literature which has a relationship with the topic of this research. In the third part, we briefly discuss the method and the data of this research, followed by the results and discussion in the fourth section. The fifth section concludes the research question.

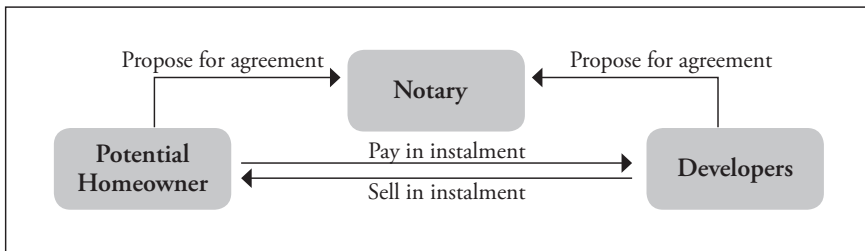
Literature Review

The scheme of non-bank Islamic mortgage

The term non-bank Islamic mortgage is introduced here referring to the mortgage that uses no bank or any financial institution such as cooperative. In this scheme, the buyer of the house pays the installment directly to the seller on a monthly basis, usually the developer. This scheme is rather unusual compared to the regular Islamic mortgage prevalent in many countries where the bank's role is eliminated. Meaning the developer itself sells the house directly to the potential buyer.

For maintaining the liquidity, the credit period is set shorter than the regular bank mortgage, ranging one to three years. Usually, the seller is the owner of the property sold to the potential homebuyer. Nevertheless, there is also the case when the seller is the manager (or developer) collecting the money of the potential buyers then build the house using the non-bank scheme. The scheme of this practice is illustrated as follows:

Figure 1. The Model of Non-bank Islamic Mortgage



Source: Firmansyah (2016)

Selling Websites and Association

The practice of non-bank Islamic mortgage is quite prevalent and this is supported by the advancement of technology so the information spreads quite extensively. The advertisement of the non-bank Islamic mortgage is presently available in the media such as e-commerce website. The sellers of the house usually sell the house in the e-commerce website and also promote it in their website. The examples of e-commerce website used for selling the house are rumah123.com, lamudi.co.id, rumah.trovit.co.id, and olx.com. Some of the websites promoting the house using the non-bank Islamic mortgage approach such as: zonarumahsyariah.com, solusirumahsyariah.com, kprtanpabank.com, rumahkprsyariah.com, agen-syariah.com, bursakprsyariah.com, and dpsi.or.id.

Those websites provide information regarding the house for sale as well as the importance of using the non-bank Islamic mortgage when buying the house. This latter step is important in educating the society about the importance of avoiding usury when buying a house.

The non-bank Islamic mortgage is almost similar to the seller-financed mortgage, i.e. the agreement between a property's seller and buyer so the seller becomes the mortgagor (Wright, 2012). The non-bank mortgage is an alternative for those with a lower credit score or unusual credit situation to buy a home and to be financed (Plaehn, 2011). Nevertheless, the seller-financed mortgage, which is, for example available in the USA, still charges interest, thus it this cannot be called as sharia-compliant practice. There were many cases of abuse found in the seller-financed transactions so there is a need for consumer protection (Fajardo, 2013).

To our best knowledge, the empirical research studying the non-bank Islamic mortgage is still rare. Some of the previous research in this field has been conducted by Firmansyah (2016) and Firmansyah and Indika (2017). Thus, considering all the previous literature on Islamic mortgage above, this paper

is expected to add some literature in Islamic finance specifically the non-bank Islamic mortgage.

Method

This research mainly discusses the issues and measures for optimizing the practice of non-bank Islamic mortgage. This paper uses descriptive analysis in analyzing the data obtained. The data are mainly the primary data obtained from the respondents. To acquire the primary data, we collected responses from respondents in the areas of West Java province from March to September 2017 by using questionnaires. Nevertheless, we first asked their profiles consisting age, sex, marital status, number of children, education, occupation, and monthly income.

The respondents we successfully interviewed are located in some cities or regencies, namely West Bandung regency, Bandung regency, Purwakarta regency, and Sukabumi regency. Some participants were not willing to be surveyed so we only have a relatively small number of sample that is thirty respondents. Moreover, some residences are not well established yet so there are only limited residences to be surveyed. Besides, we also use the secondary data related to the non-bank Islamic mortgage from other sources.

Results and Discussion

The respondents of our research are the buyers of the house using the non-bank Islamic mortgage scheme. They are spread across West Java province and they are averagely the new couple having one to two children. The following data in Table 1 is the description of the respondents in this research.

Table 1 shows that most of the respondents are those who are in productive age and relatively new married couple. This fact is also supported by the data of their children where most of them only have one child, so there is a little need to have a big house. In terms of educational background, we can see that most of the respondents are educated people with an undergraduate degree in any field. This fact is sensible since the residences we surveyed are located in the urban areas nearby the large cities. The observation results show that the professions of the buyers are mostly the employees at private sectors with the monthly income of 5-8 million rupiahs. Base on those results, it is shown that most of the respondents are mostly the middle-class family categorized as the new-married couples living in the urban areas.

Table 1 Profile of Respondents

No	Item	n	Percentage
1	Age		
	- Bellow 25 years old	2	6.7%
	- 25-35 years old	18	60%
	- 35-50 years old	11	36.7%
2	Sex		
	- Male	17	56.7%
	- Female	13	43.4%
3	Marital status		
	- Married	28	93.3%
	- Single	2	6.7%
4	Number of children		
	- 0	8	26.6%
	- 1	10	33.3%
	- 2	7	23.3%
	- 3	1	3.3%
	- No response	4	13.8%
5	Education		
	- Junior High School	1	3.3%
	- Senior High School	9	30%
	- Diploma	1	3.3%
	- Undergraduate	14	46.7%
	- Master Degree	3	10%
	- Doctoral Degree	2	6.7%
6	Occupation		
	- Civil Servant/Army/Police	2	6.7%
	- Entrepreneur	7	23.3%
	- Employee in private sectors	11	36.6%
	- Housewife	7	23.3%
	- Freelance	1	3.3%
	- Teacher/lecturer	2	6.7%

7	Monthly Income (in IDR)		
	- 3-5 million	4	13.8%
	- 5-8 million	14	48.3%
	- 8-10 million	6	20.7%
	- More than 10 million	5	17.2%

Source: Processed data (2017)

The issues of non-bank Islamic mortgage

According to the interview results with the respondents, there are some issues faced in the practice of non-bank Islamic mortgage. Those problems are considered to hamper the approach to thrive. Those problems are described as follows:

Short credit period, higher down-payment and installment

The credit period of housing in non-bank Islamic approach is shorter than it is the regular mortgage bank. The installment usually ranges from one to three years where the regular mortgage can up to twenty years. The consequence of this short credit period is the higher installment that should be paid monthly and the higher down-payment that should be placed at the beginning. Thus, this non-bank Islamic mortgage is currently limited to those who have a relatively higher income. Our finding shows that most of the buyers are categorized as the middle-income families with 5-8 million rupiahs income per month. The low-income families are a little bit harder to use this approach because they will find it difficult to pay for the installment which is certainly more than the regular bank mortgage, making the growth of this approach slower. Hence, they tend to still use the regular mortgage where the third party, namely the bank involves as the lending party (or selling party in the case of Islamic banks).

The short credit period is caused by the limited liquidity of the developers. The developers are not similar to banks who have much idle cash. In fact, they are the sellers who always have to make the cash available at any time for operating their main business, constructing the houses. Besides, the longer credit period will definitely be riskier for the developers because there is uncertainty about the debts to be collected. This clearly shows that this practice embeds risks to both parties, the sellers, and the buyers. Thus, there should be the regulating parties protecting both sides, i.e. protect the potential buyers who often suffer from the fraud and developers from the bad debts.

Lack of prudential aspect

Frequently, the advertisement of the non-bank Islamic mortgage states that this approach is suitable for those who are not eligible for the regular banking mortgage. Those who actually have a bad record in the bank, found by the BI checking mechanism at the bank, are one of the target markets of the non-bank Islamic mortgage. Surely, this campaign is less appropriate as it promotes something unsafe. There is a case when a fraud happened because the developer did not really build the housings. The developer cheated the potential buyers by campaigning that the non-bank Islamic mortgage is the solution to have a house and sharia-compliant. This case once happened in the city of Bogor and Bekasi causing IDR 4,7 billion loss in the consumer side (JPPN, 2017).

Poor promotion

Our respondents also indicated that the promotion of non-bank mortgage is lacking. The promotion consists of the media selection and the intensity of the promotion itself. In terms of media selection, the practice of non-bank mortgage intensifies the advertisement via social media such as Facebook and chat applications. Besides, the developers also advertise the residences they sell via websites which are also intended to educate the potentials buyers regarding the importance of avoiding usury (*riba*) when buying the house.

Improvements to make

According to the observation results, as outlined earlier, there should be some changes made for the betterment of the non-bank Islamic mortgage practice. Some of them are as follows: Firstly, the developers need to improve their professionalism in managing the property business. In order to compete with the conventional mortgage bank scheme, aside from establishing high-quality and sharia-compliant housing, the management aspect of the developers should be enhanced for ensuring that the business process runs well. The developers should also make sure that the account receivable is collected as soon as possible. By doing so, the firm liquidity is expected to be balanced. Making a longer credit tenor is indeed risky so this cannot be done if the developer financial condition is limited. Thus, targeting the right target market is one of the keys to selling the housing. In line with our research results, the developers should target the middle-income families living in urban areas for marketing their products.

Secondly, the developers should rigorously study their potential buyers

before they sell the property. Therefore, there should be a good standard operating procedure (SOP) regarding the credit scoring which is always updated and improved. Credit scoring can be defined as the series of decision models and their underlying procedures helping lenders decide whether credit should be granted to an applicant. The evaluation to the potential buyer is intended to minimize the risk of the bad loan as in the case of a bank. To do this, the banks definitely conduct a much better credit scoring by using a common approach called as the 5 C(s) approach, i.e. character, capacity, collateral, capital and condition of the economy (Abrahams and Zhang, 2008). Though recently there are better approaches in credit scoring by utilizing computer technology (Marqués, et al, 2013), the developers of non-bank Islamic mortgage may use the traditional approach as used by the banks for evaluating the potential home buyers.

Thirdly, the campaign or promotion of non-bank Islamic mortgage should be improved in terms of media selection and contents. The media used so far are online and offline. In online side, the ads are quite intensive in the media such as websites of developers, Facebook and an array of mobile chat applications. Meanwhile, in the offline side, the campaign is done through the banners usually placed on the street side. To make it more effective, the developers should make advertisements which are well integrated by doing several advertisements at the same time, for example making partnership with companies whose employees need sharia-compliant housing, employing brand endorser to educate people about non-bank Islamic mortgage, attending property fair, and optimizing digital ads such as search engine optimization (SEO). In terms of the content of advertising, the developers should provide a clear information about the non-bank Islamic mortgage in terms of strengths and weaknesses. Only a few people already recognize this approach, so there is a need for a more massive socialization. The presence of association of Islamic property developers is a plus point for promoting the practice. This association is also useful for building links among the developers.

Whereas previous research in Islamic housing focuses on the mortgage where the bank is included (Alaghbari, et al, 2011; Eroğlu, et al, 2012; Hamid and Masood, 2011; Usman and Lizam, 2016; Wulandari et al., 2016). The results of this paper differ from all of them because the object of the research is different, namely the respondents who bought housing without involving bank or any financial institution.

Conclusion

The consumers of non-bank Islamic mortgage are mostly the middle-income families and the new married couples living in urban areas. Aside from searching for an affordable housing, they prefer the non-bank Islamic mortgage as it is deemed more sharia-compliant compared to the regular mortgage in an Islamic bank. The main issue of non-bank Islamic mortgage felt by the consumers is the short credit period causing higher down-payment and monthly installment. This is indeed set to maintain the liquidity of developers. The second issue in this practice is the lack of prudential aspect so the risk barred by the developers is high enough. Thirdly, in addition to the potential of this approach to grow, the promotion of the non-bank Islamic mortgage is less creative so the developers need to improve the advertisement to attract more people to use this scheme.

In order the practice of non-bank Islamic mortgage to prosper, we recommend that there should be a regulating party which shall protect both the developer and consumer side. This can also be translated that there should be formal regulation from the government ruling the practice of non-bank Islamic mortgage. In addition, we also suggest that the Islamic banks be prepared to compete with the Islamic property developers because the practice of non-bank Islamic mortgage indirectly results in competition to the Islamic banks.

This research is limited as it is conducted in few cities in West Java using a relatively small number of sample. The forthcoming research should be conducted by adding the number of samples and using statistical method employing several variables related to the non-bank Islamic mortgage.

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