

September 2007

Our **MONEY**madeclear™ guides –  
here to help you

This guide is part of our **Buying a home** series.



Available from our Consumer Helpline or website  
[www.moneymadeclear.fsa.gov.uk](http://www.moneymadeclear.fsa.gov.uk)

**No selling. No jargon. Just the facts.**

If you would like this guide in Braille, large print or audio format, please call our Consumer Helpline on 0845 606 1234 or Minicom/Textphone on 08457 300 104 (call rates may vary).

To help us maintain and improve our service, we may record or monitor calls.



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**No selling.  
No jargon.**

**Just the facts  
about home  
purchase  
plans.**

**MONEY**madeclear™  
from the UK's financial watchdog (FSA)

With our **MONEY**madeclear™ range of guides, we cut out the jargon and give you just the facts about financial products and services, helping you to make an informed decision.

# Just the facts about home purchase plans.



The Financial Services Authority (FSA) is the UK's financial watchdog set up by government to regulate financial services and protect your rights.

**Remember, this is general information and isn't the same as getting financial or other professional advice. For advice based on your own circumstances, talk to a professional adviser.**

# This guide is for you if

## You want

to buy your home in a way that:

- doesn't involve paying interest; and
- a number of Islamic scholars consider acceptable.

It's about home purchase plans and:

- explains how they work;
- points out some of the risks involved; and
- answers some of the questions you may have.

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# How home purchase plans work

Home purchase plans help you buy your home in a way that doesn't involve paying interest. So they may be of special interest to Muslims who want to buy a home in a way a number of scholars of Islamic law consider acceptable.

See the *Jargon buster* on page 15 for an explanation of some words you may come across when buying a home.

With a home purchase plan:

- you find the property you want and agree the price with the seller;
- you pay the home purchase plan firm a contribution towards the price;
- the firm buys the property in its name;
- you agree to buy the property from the firm **at the end of a fixed period (known as 'the term')** at the same price as the firm paid;
- you also take out a lease with the firm allowing you to live in the property during that period;
- you make monthly payments to the firm, made up of a rental payment and a payment towards the price of the property; and
- once you have made all the payments to the firm, the property is transferred into your name and becomes legally yours.

## Key points

With a home purchase plan you:

- pay no interest;
- take out a lease allowing you to live in the property;
- make monthly payments to the home purchase plan firm; and
- won't legally own your home until the end of the plan – this could be up to 25 years.

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# Different types of home purchase plans

There are two types of home purchase plan available – the **ijara** and the **diminishing musharaka**.

## The ijara

With the ijara, the monthly payments you make towards buying the property are held by the firm and used to buy your home at the end of the agreement.

## The diminishing musharaka

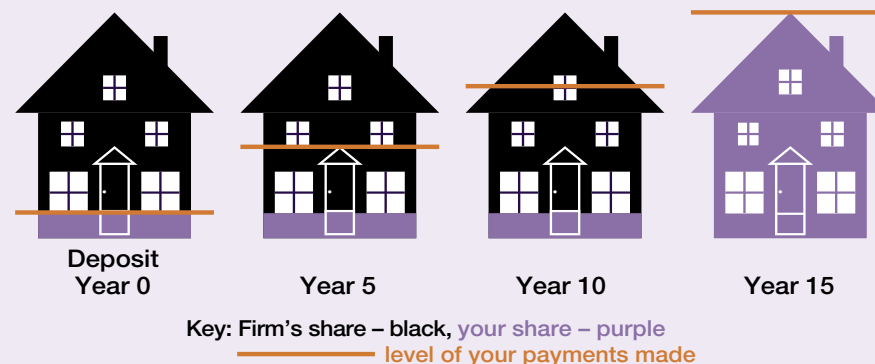
With the diminishing musharaka, each payment you make towards buying the property buys an extra slice of the firm's share. As your share increases, the firm's share gets smaller and so does the rent you pay for the use of the firm's share.

### Key points

Home purchase plans may lack some of the features of a mortgage, so always:

- ask firms for full details of their home purchase plans to make sure you understand how they work; and
- check the information from firms to see what features they offer.

### 1. Ijara home purchase plan – 15-year term



### 2. Diminishing musharaka home purchase plan – 15-year term



# Key things to think about

## Getting financial advice

Firms selling home purchase plans must be regulated by us. This means they have to meet certain standards that we monitor, and we can take action if they don't.

### Firms that offer Islamic services

If it is important to you that the firm you use offers services that comply with Islamic law, check it does by looking at the **keyfacts**® **about our home purchase plan services** document – see page 7. This will tell you the names of the scholars who have checked that the firm's services comply with Islamic law.

We regulate the financial services provided by a firm, but we do not regulate its compliance with Islamic law.

If you have any doubts about the Islamic nature of the product or services a firm is offering, you should speak to your imam or an independent Islamic scholar.

### How you're protected by using a regulated firm

The firm's adverts, product brochures and other literature must be clear, fair and not misleading. You can check if we regulate a firm – see *Useful contacts*.

In addition, you may have access to the Financial Ombudsman Service and the Financial Services Compensation Scheme if things go wrong – see *Useful contacts*.

### Information or advice?

When you ask about home purchase plans, the person you speak to will usually describe the product or service to you. You'll also receive printed information. This is general information – not advice specific to your needs and circumstances.

## Buying with advice

If you are not sure which home purchase plan is right for you, then consider getting advice from a professional adviser.

FSA-regulated firms must only recommend home purchase plans that are suitable for your personal circumstances, based on the information you give them.

## Buying without advice

You don't have to take advice, but if you don't and the plan you choose turns out to be unsuitable, you will have fewer grounds for complaint.

## Information you will get

The firm will give you certain information that we require them to. You'll recognise it from this **keyfacts**® sign. This means that the information is important and you should read it.

You should get the following documents:

- **keyfacts**® **about our home purchase plan services** – explains the service and the range of products on offer, and gives the names of the firm's Islamic scholars. These are the people that certify the firm complies with Islamic law.
- **keyfacts**® **risks and features of this home purchase plan** – explains the key risks, features and benefits of the plan.
- **keyfacts**® **financial information statement** sets out the cost of the plan – ie the overall cost and how much you will pay each month.
- **Offer letter** including an updated **keyfacts**® **financial information statement** – you'll get this when the firm offers you a home purchase plan.

## Key things to think about

### Shop around

There can be a big difference in what different firms offer.

Shop around to:

- get all the information available from firms about their individual services and products; and
- find out about different rental rates on offer – for example, standard, fixed and discount rates – and the total cost of each one.

Use the **keyfacts**® **about our home purchase plan services** document to compare the services being offered by different firms and the **keyfacts**® **financial information statement** to compare the cost of the products on offer.

### Fees and costs

Two solicitors will be needed – one to act on behalf of the home purchase plan firm and one to act on your behalf. You will have to pay for both.

Because the home purchase plan firm owns the property, you may pay more for a valuation and buildings insurance than you would with a mortgage.

The firm should provide you with a tariff leaflet detailing all fees and levies it may charge you.

#### Paying off a home purchase plan

Home purchase plans are a long-term commitment, so think about how much you can afford.

For example, what would happen if your circumstances changed and you lost your job or had to take a drop in income? What would happen if your rent went up in future? If you couldn't pay your rent, you'd be breaking the terms of the lease and could lose your home.

### Renting the property

With a home purchase plan, you enter an agreement with the firm to buy the property from them at the end of a fixed period. You also take out a lease with the firm allowing you to live in the property during that fixed period.

Your solicitor should register the lease with HM Land Registry or you may lose your right to live there. They should ensure your rights to occupy the property are protected.

#### Key points

- Home purchase plans are complex – so make sure you get advice from a professional adviser.
- Protect yourself – only deal with firms regulated by the FSA.
- **keyfacts**® documents contain important information that we require firms to give you – so read them.

## When choosing a home purchase plan:

### Check that

you get independent legal advice before making any commitment – home purchase plans are complex products.

### Check that

you will be able to afford your payments if your circumstances change or your rent goes up.

### Check that

the firm you're dealing with is regulated by the FSA – see *Useful contacts* and make sure you get and read the **keyfacts**® documents.

### Check that

the lease giving you the right to live in the property is properly registered with HM Land Registry, or you may lose your right to live there – see *Useful contacts*.

# Your questions answered

## Question

### What are the risks?

#### Answer

We require firms offering home purchase plans to protect your interests. However, there will be limits to what the firm can do, so it's important to get independent legal advice to make sure your interests are properly protected.

The solicitor should also ensure the lease is registered with HM Land Registry, or you may lose your right to live there.

It is the firm, not you, who owns the property, and you won't legally own your home until the end of the agreement – this can be anything up to 25 years.

During this time, if the firm goes bust, or sells its part of the property to someone else, you may risk losing your share of the property and your right to live there, unless your interests have been protected.

## Question

### If the property is owned by the firm, can I sell it?

#### Answer

Yes, you can sell the property when you wish even though the home purchase plan firm is the legal owner.

## Question

### Can I borrow more money?

#### Answer

Unlike a mortgage, you may not be able to borrow more money on an existing home purchase plan to pay for things like home improvements.

## Your questions answered

### Question

#### Can I make overpayments?

#### Answer

With an interest-based mortgage, overpayments normally allow you to pay for your home more quickly.

With a home purchase plan you can only make overpayments when the rent is reviewed; overpayments won't reduce the term, but will reduce the amount you pay each month in future.

This means you usually won't benefit immediately from overpaying each month, as you would with a mortgage.

### Question

#### Can I take a payment holiday?

#### Answer

Payment holidays allow you to stop making payments on your loan for a time. This may be useful if you lose your job or take time off to look after a child.

You can't usually take a payment holiday with a home purchase plan.

## Next steps

### Step 1

Take the time to make sure a home purchase plan is right for you. Consider the risks and benefits. There are other ways of buying a home, for example a standard mortgage.

### Step 2

Make sure you get the **keyfacts**® documents from the firm and read them. If Islamic services are important to you, then check the **keyfacts**® **about our home purchase plan services** for the names of the scholars who have checked the firm's services.

### Step 3

When the firm offers you a home purchase plan, you will get an offer letter including an updated **keyfacts**® financial information statement. Use this to make sure you're getting the product you applied for.

### Step 4

We require firms offering these products to protect your interests. However, there will be limits to what the firm can do, so it's important to get independent legal advice to make sure your interests are properly protected.

# If things go wrong

If something goes wrong, contact the firm to put matters right. It has a procedure to follow when dealing with complaints.

If you're not satisfied with its response, you may be able to take the matter to the Financial Ombudsman Service. The Ombudsman deals with complaints that can't be resolved between you and the firm.

The firm should give you the details of this service, or you can get our **Making a complaint** guide – see *Useful contacts*.

If you can't contact the firm because it's gone out of business, the Financial Services Compensation Scheme (FSCS) may be able to help – see *Useful contacts*.

If the firm goes out of business, or sells its part of the property to someone else, then unless your interests have been properly protected you may risk losing your share of the property and your right to live there. So it's important to get independent legal advice to ensure your interests are properly protected.

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# Jargon buster

## Some key words and phrases explained.

### APR

Annual Percentage Rate – for a mortgage, this shows the overall cost, taking into account the term, interest rate and other costs.

### Buildings insurance

Pays the cost of repairing or rebuilding your home if it is damaged by unforeseen events (as detailed in the insurance policy).

### Buy-to-let mortgage

A mortgage you take out to buy a property that you intend to rent to tenants.

### Capped mortgage

A mortgage with a maximum interest rate you'll pay during the deal period.

### Cashback mortgage

A mortgage that comes with a cash sum (often a percentage of the amount you're borrowing).

### Collared mortgage

A mortgage with a minimum interest rate you'll pay during the deal period.

### Contribution/Deposit

The amount of money you put into buying a home (not including the mortgage money you're borrowing).

### Discounted mortgage

A mortgage that has a lower variable rate of interest for a set period, then the rate increases.

# Jargon buster

## Early-repayment charge

A charge you may have to pay if you pay back a mortgage early (including if you move to another lender).

## Financial adviser

A professional person qualified to give you advice about financial products. They study your personal circumstances, and assess and recommend financial products that are suitable for you. Firms that give financial advice have to be regulated by us, or be the agent of a regulated firm.

## Fixed rate mortgage

A mortgage where the interest rate is fixed (in other words, it doesn't move up or down) for a set time.

## FSA Register

Firms that we regulate to sell financial services in the UK are placed on our Register. You can check online or by phone to see whether a firm is on our Register – see *Useful contacts*.

## Home information pack

The government requires sellers of homes with three or more bedrooms to provide this pack. The pack must contain title deeds, local searches and an energy performance certificate for the property for sale.

## Income multiples

The number by which a lender multiplies your earnings to work out how much you can borrow.

## Interest

The charge made by lenders when you borrow their money through a mortgage. Home purchase plans do not charge interest.

## Interest-only mortgage

A mortgage in which you pay only the interest charges of the loan each month. You are not reducing the loan amount (the capital), and you must repay this in some other way at the end of the term.

## keyfacts® documents

Standard documents with important information that explain the firm's services and details about the home purchase plan you're interested in.

## Loan-to-value

The amount of finance you want compared (as a percentage) to the value of the property.

## Monthly insurance rent

A monthly payment you make to the home purchase plan firm to cover the cost of insuring your share of the property.

## Mortgage

A loan that is secured against your property.

## Remortgaging

Changing a mortgage for a different one, without moving home. You can't do this with a home purchase plan.

## Rent review

The home purchase plan firm will review your rental agreement regularly, usually every six months. The rent you pay may increase or decrease after each review.

## Repayment mortgage

A mortgage in which you pay off both the loan amount (capital) and interest at the same time.

## Secured

When a loan is 'secured' on your home, it means the lender can repossess your home and sell it to get their money back if you don't keep up your repayments.

## Jargon buster

### Stamp duty land tax

A government tax that home buyers must pay on properties above a set amount.

### Standard variable rate

The lender's normal rate – without any discounts or deals.

### Survey

A report on the condition of the property you are planning to buy.

### Term

The length of your home purchase plan or mortgage.

### Tracker mortgage

A mortgage with an interest rate usually linked to the Bank of England or other base rate, moving up or down with it.

### Valuation

A brief inspection of the home you hope to buy, so the lender can ensure it is suitable security for the mortgage.

## Useful contacts

**Call rates may vary – check with your telephone provider for their charges.**

**To order other Moneymadeclear guides, check our Register or for general information or guidance**

### Financial Services Authority (FSA)

Consumer Helpline: 0845 606 1234  
Minicom/Textphone: 08457 300 104  
[www.moneymadeclear.fsa.gov.uk](http://www.moneymadeclear.fsa.gov.uk)

### Other Moneymadeclear guides

- **Getting financial advice**
- **Mortgages**
- **Making a complaint**

For information about home purchase plans in Arabic, Bengali or Urdu call our Consumer Helpline.

**On our Moneymadeclear website you can find**

- A **Budget calculator** to help you work out if you have enough money coming in to cover your bills – [www.moneymadeclear.fsa.gov.uk/tools/budget\\_calculator.html](http://www.moneymadeclear.fsa.gov.uk/tools/budget_calculator.html)
- A **Mortgage calculator** to help you estimate your monthly mortgage payment – [www.moneymadeclear.fsa.gov.uk/tools/mortgage\\_calculator.html](http://www.moneymadeclear.fsa.gov.uk/tools/mortgage_calculator.html)
- Tables to help you **Compare products** like savings accounts and mortgages – [www.fsa.gov.uk/tables](http://www.fsa.gov.uk/tables)
- Insurance information – [www.moneymadeclear.fsa.gov.uk/products\\_explained/insurance.html](http://www.moneymadeclear.fsa.gov.uk/products_explained/insurance.html)

**To report misleading financial adverts and promotions**

08457 300 168

[www.moneymadeclear.fsa.gov.uk](http://www.moneymadeclear.fsa.gov.uk)

## Useful Contacts

### To check details of your lease

#### HM Land Registry

[www.landregisteronline.gov.uk](http://www.landregisteronline.gov.uk)

Download leases and other documents relating to a property for a small fee

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### For details about Home information packs

#### Department for Communities and Local Government

020 7944 4400

[www.homeinformationpacks.gov.uk](http://www.homeinformationpacks.gov.uk)

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### Information about ethical investments

#### Ethical Investment Research Service

020 7840 5700

[www.eiris.org](http://www.eiris.org)

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### Financial advisers/planners

#### IFA Promotion

0800 085 3250 (freephone)

[www.unbiased.co.uk](http://www.unbiased.co.uk)

Provides a list of eight independent financial advisers in your area

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#### Institute of Financial Planning

0117 945 2470

[www.financialplanning.org.uk](http://www.financialplanning.org.uk)

For help in planning your finances

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#### MyLocalAdviser

[www.mylocaladviser.co.uk](http://www.mylocaladviser.co.uk)

Online only – no telephone number

For a mortgage, insurance or investment adviser in your area

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#### The Personal Finance Society

[www.thepfs.org/findanadviser](http://www.thepfs.org/findanadviser)

Provides a list of up to six PFS members

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### To find a solicitor

#### The Law Society (England & Wales)

The Law Society's Hall

113 Chancery Lane

London WC2A 1PL

0870 606 2555

[www.lawsociety.org.uk](http://www.lawsociety.org.uk)

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#### The Law Society of Northern Ireland

40 Linenhall Street

Belfast BT2 8BA

028 9023 1614

[www.lawsoc-ni.org](http://www.lawsoc-ni.org) and

[www.nilad.org](http://www.nilad.org)

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#### The Law Society of Scotland

26 Drumsheugh Gardens

Edinburgh EH3 7YR

0131 226 7411

[www.lawscot.org.uk](http://www.lawscot.org.uk)

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### Complaints and compensation

#### Financial Ombudsman Service

South Quay Plaza

183 Marsh Wall

London E14 9SR

0845 080 1800

[www.financial-ombudsman.org.uk](http://www.financial-ombudsman.org.uk)

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Complaints resolution

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#### Financial Services Compensation Scheme

7th Floor, Lloyds Chambers

Portsooken Street

London E1 8BN

020 7892 7300

[www.fscs.org.uk](http://www.fscs.org.uk)

For help if a financial services firm goes out of business

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