CHAPTER 4
DATA ANALYSIS AND DISCUSSIONS

This chapter consists of three sections. The first section presents the research results of the data analysis. The second section discusses comparative analysis between Islamic banking and conventional banking. Lastly, the third section displays a real example of comparing the Al-Bai' Bithaman Ajil (BBA) and the loan concepts in the two systems. This section demonstrates the comparison by using three (3) different cases.

4.1 DATA ANALYSIS

Under the Islamic banking system, the housing loan, shophouse loan, and personal loan use the concept of Al-Bai' Bithaman Ajil (BBA) whereas the car loan uses the Al-Qerdh Al-Hasan concept.

4.1.1(a) Housing Loan’s Monthly Repayments for the First 2 Years

<table>
<thead>
<tr>
<th>Table 4.1(a)</th>
<th>Paired Samples Statistics and Test</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Mean</td>
</tr>
<tr>
<td>Pair 1</td>
<td>MthlyRePmtBIMB60k</td>
</tr>
<tr>
<td></td>
<td>MthlyRePmtBCB60k</td>
</tr>
<tr>
<td>Pair 2</td>
<td>MthlyRePmtBIMB100k</td>
</tr>
<tr>
<td></td>
<td>MthlyRePmtBCB100k</td>
</tr>
<tr>
<td>Pair 3</td>
<td>MthlyRePmtBIMB140k</td>
</tr>
<tr>
<td></td>
<td>MthlyRePmtBCB140k</td>
</tr>
<tr>
<td>Pair 4</td>
<td>MthlyRePmtBIMB180k</td>
</tr>
<tr>
<td></td>
<td>MthlyRePmtBCB180k</td>
</tr>
<tr>
<td>Pair 5</td>
<td>MthlyRePmtBIMB220k</td>
</tr>
<tr>
<td></td>
<td>MthlyRePmtBCB220k</td>
</tr>
<tr>
<td>Pair 6</td>
<td>MthlyRePmtBIMB260k</td>
</tr>
<tr>
<td></td>
<td>MthlyRePmtBCB260k</td>
</tr>
<tr>
<td>Pair 7</td>
<td>MthlyRePmtBIMB300k</td>
</tr>
<tr>
<td></td>
<td>MthlyRePmtBCB300k</td>
</tr>
</tbody>
</table>
A statistical analysis has been done to identify the significant difference between monthly loan repayments under BIMB and BCB for housing loan. The rates charged by both banks are different in the first two years and the third year onward. Table 4.1(a) shows the analysis for the first two years whereas Table 4.1(b) shows the analysis for the third year onward. As mentioned in Chapter 3, the t-test for difference of means (Paired Sample T-Test under the SPSS software) has been used to analyze the data.

4.1.1(b) Housing Loan’s Monthly Repayments for the Third Year Onwards

Table 4.1(b)

<table>
<thead>
<tr>
<th>Paired Samples Statistics and Test</th>
<th>Mean</th>
<th>N</th>
<th>Std. Deviation</th>
<th>t</th>
<th>df</th>
<th>Sig. (2-tailed)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Pair 1 MthlyRePmtBIMB60k</td>
<td>$541.31</td>
<td>5</td>
<td>$115.92</td>
<td>21.11</td>
<td>4</td>
<td>0.00</td>
</tr>
<tr>
<td>MthlyRePmtBCB60k</td>
<td>$533.91</td>
<td>5</td>
<td>$116.67</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Pair 2 MthlyRePmtBIMB100k</td>
<td>$902.19</td>
<td>5</td>
<td>$193.21</td>
<td>21.12</td>
<td>4</td>
<td>0.00</td>
</tr>
<tr>
<td>MthlyRePmtBCB100k</td>
<td>$889.86</td>
<td>5</td>
<td>$194.46</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Pair 3 MthlyRePmtBIMB140k</td>
<td>$1,441.27</td>
<td>5</td>
<td>$251.54</td>
<td>20.21</td>
<td>4</td>
<td>0.00</td>
</tr>
<tr>
<td>MthlyRePmtBCB140k</td>
<td>$1,245.80</td>
<td>5</td>
<td>$272.24</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Pair 4 MthlyRePmtBIMB180k</td>
<td>$1,853.06</td>
<td>5</td>
<td>$323.41</td>
<td>20.21</td>
<td>4</td>
<td>0.00</td>
</tr>
<tr>
<td>MthlyRePmtBCB180k</td>
<td>$1,601.74</td>
<td>5</td>
<td>$350.03</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Pair 5 MthlyRePmtBIMB220k</td>
<td>$2,264.86</td>
<td>5</td>
<td>$395.28</td>
<td>20.21</td>
<td>4</td>
<td>0.00</td>
</tr>
<tr>
<td>MthlyRePmtBCB220k</td>
<td>$1,957.69</td>
<td>5</td>
<td>$427.81</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Pair 6 MthlyRePmtBIMB260k</td>
<td>$2,676.65</td>
<td>5</td>
<td>$467.15</td>
<td>20.21</td>
<td>4</td>
<td>0.00</td>
</tr>
<tr>
<td>MthlyRePmtBCB260k</td>
<td>$2,313.63</td>
<td>5</td>
<td>$505.60</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Pair 7 MthlyRePmtBIMB300k</td>
<td>$3,088.44</td>
<td>5</td>
<td>$539.03</td>
<td>20.21</td>
<td>4</td>
<td>0.00</td>
</tr>
<tr>
<td>MthlyRePmtBCB300k</td>
<td>$2,669.58</td>
<td>5</td>
<td>$583.39</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

From Table 4.1(a) and Table 4.1(b), we can see that pair 1 up to pair 7 show that there are very significant differences in loan repayments between the two systems. The means for housing loan’s monthly repayments under BIMB show higher values but the standard deviations show lower values than BCB. For example, the means of pair 1 for BIMB and BCB are $452.65 and $434.29 respectively. But the standard deviations of the same pair for BIMB and BCB are $124.54 and $126.10 respectively. The trend is consistent for all pairs in Table 4.1(a) and Table 4.1(b). Based on the findings, we can conclude that we can
reject the null hypothesis in Chapter 3 (3.1) and we can say that there are significant differences in monthly loan repayments between the two systems.

However, if we see the standard deviations of all pairs for BCB, they have higher values than BIMB. Thus we can conclude that the housing loan’s monthly repayments under BCB tend to vary much more than BIMB and we can say that there are more risk associated with housing loan’s monthly repayments under BCB than BIMB. The BIMB’s loan scheme is more stable with the constant rate of return concept (CRR).

4.1.2 Shophouse Loan’s Monthly Repayments

<table>
<thead>
<tr>
<th>Table 4.2</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Paired Samples Statistics and Test</strong></td>
</tr>
<tr>
<td>-----------</td>
</tr>
<tr>
<td>Pair 1</td>
</tr>
<tr>
<td></td>
</tr>
<tr>
<td>Pair 2</td>
</tr>
<tr>
<td></td>
</tr>
<tr>
<td>Pair 3</td>
</tr>
<tr>
<td></td>
</tr>
<tr>
<td>Pair 4</td>
</tr>
<tr>
<td></td>
</tr>
<tr>
<td>Pair 5</td>
</tr>
<tr>
<td></td>
</tr>
<tr>
<td>Pair 6</td>
</tr>
<tr>
<td></td>
</tr>
<tr>
<td>Pair 7</td>
</tr>
<tr>
<td></td>
</tr>
</tbody>
</table>

The same analysis has been done to the shophouse loan’s monthly repayments for BIMB and BCB. Results are shown in Table 4.2. At the 95% confidence interval for the means, the analyses show significant values of 0.004 for all 7 pairs. Pair 1 for BIMB and BCB shows the mean values of $312.55 and 282.94 respectively. Pair 7 for BIMB and BCB shows the mean values of $4688.34 and 4244.26 respectively. Both pairs indicate higher means values under BIMB and we can conclude that we can reject the null hypothesis in Chapter 3 (3.1) and we
can say that there are significant differences in monthly loan repayments between the two systems. BIMB charges higher monthly loan repayments than BCB for the shophouse loan.

The standard deviations for BCB show higher values than BIMB, for example, pair 1 for BIMB and BCB are $108.60 and $111.62 respectively. The standard deviations for Pair 7 also produce the same trend i.e. BCB has $1629.20 and $1674.37. Thus we can say the monthly loan repayments under BCB for the shophouse loan vary much more and is riskier than BIMB.

4.1.3 Personal Loan’s Monthly Repayments

<table>
<thead>
<tr>
<th>Table 4.3</th>
</tr>
</thead>
</table>

Paired Samples Statistics and Test

<table>
<thead>
<tr>
<th>Pair</th>
<th>MthlyRePmtBIMB5k</th>
<th>MthlyRePmtBCB5k</th>
<th>MthlyRePmtBIMB10k</th>
<th>MthlyRePmtBCB10k</th>
<th>MthlyRePmtBIMB15k</th>
<th>MthlyRePmtBCB15k</th>
<th>MthlyRePmtBIMB20k</th>
<th>MthlyRePmtBCB20k</th>
<th>MthlyRePmtBIMB25k</th>
<th>MthlyRePmtBCB25k</th>
</tr>
</thead>
<tbody>
<tr>
<td>Mean</td>
<td>$234.03</td>
<td>$211.28</td>
<td>$468.04</td>
<td>$422.56</td>
<td>$702.07</td>
<td>$633.84</td>
<td>$936.10</td>
<td>$845.13</td>
<td>$1170.26</td>
<td>$1056.41</td>
</tr>
<tr>
<td>N</td>
<td>5</td>
<td>5</td>
<td>5</td>
<td>5</td>
<td>5</td>
<td>5</td>
<td>5</td>
<td>5</td>
<td>5</td>
<td>5</td>
</tr>
<tr>
<td>Std. Deviation</td>
<td>$135.14</td>
<td>$135.25</td>
<td>$270.33</td>
<td>$270.51</td>
<td>$405.47</td>
<td>$405.76</td>
<td>$540.62</td>
<td>$541.02</td>
<td>$675.73</td>
<td>$676.28</td>
</tr>
<tr>
<td>t</td>
<td>227.70</td>
<td>223.13</td>
<td>229.82</td>
<td>231.54</td>
<td>201.27</td>
<td>201.27</td>
<td>201.27</td>
<td>201.27</td>
<td>201.27</td>
<td>201.27</td>
</tr>
<tr>
<td>df</td>
<td>4</td>
<td>4</td>
<td>4</td>
<td>4</td>
<td>4</td>
<td>4</td>
<td>4</td>
<td>4</td>
<td>4</td>
<td>4</td>
</tr>
<tr>
<td>Sig. (2-tailed)</td>
<td>0.000</td>
<td>0.000</td>
<td>0.000</td>
<td>0.000</td>
<td>0.000</td>
<td>0.000</td>
<td>0.000</td>
<td>0.000</td>
<td>0.000</td>
<td>0.000</td>
</tr>
</tbody>
</table>

For the personal loan analyses, please refer to Table 4.3. The analyses show the same pattern as the other earlier ones. All pairs have very significant values at the 95% confidence interval for the means. BIMB has higher mean values than BCB. Thus, we can conclude that we can reject the null hypothesis and we can say that there are very significant differences in monthly loan repayments between the two systems. The monthly loan repayments under BIMB are higher than BCB for the personal loan. When we see the standard deviation values of BIMB and BCB, they have slightly different values of only $1.00 or less. It means
that both banks have the same risk in terms of its fluctuations in monthly loan repayments.

4.1.4 Car Loan’s Monthly Repayments

Table 4.4

<table>
<thead>
<tr>
<th>Pair</th>
<th>MthlyRePmtBIMB20k</th>
<th>MthlyRePmtBCB20k</th>
<th>MthlyRePmtBIMB30k</th>
<th>MthlyRePmtBCB30k</th>
<th>MthlyRePmtBIMB50k</th>
<th>MthlyRePmtBCB50k</th>
<th>MthlyRePmtBIMB60k</th>
<th>MthlyRePmtBCB60k</th>
<th>MthlyRePmtBIMB70k</th>
<th>MthlyRePmtBCB70k</th>
</tr>
</thead>
<tbody>
<tr>
<td>Mean</td>
<td>$886.10</td>
<td>$869.45</td>
<td>$1,329.17</td>
<td>$1,304.17</td>
<td>$1,772.21</td>
<td>$1,738.90</td>
<td>$2,215.18</td>
<td>$2,173.63</td>
<td>$3,101.41</td>
<td>$3,043.08</td>
</tr>
<tr>
<td>N</td>
<td>5</td>
<td>5</td>
<td>5</td>
<td>5</td>
<td>5</td>
<td>5</td>
<td>5</td>
<td>5</td>
<td>5</td>
<td>5</td>
</tr>
<tr>
<td>Std. Deviation</td>
<td>$540.62</td>
<td>$540.62</td>
<td>$810.94</td>
<td>$810.94</td>
<td>$1,081.27</td>
<td>$1,081.25</td>
<td>$1,351.67</td>
<td>$1,351.57</td>
<td>$1,892.22</td>
<td>$1,892.29</td>
</tr>
<tr>
<td>t</td>
<td>525.53</td>
<td>4</td>
<td>2,282.17</td>
<td>4</td>
<td>971.45</td>
<td>4</td>
<td>509.00</td>
<td>4</td>
<td>1,539.42</td>
<td>4</td>
</tr>
<tr>
<td>df</td>
<td>4</td>
<td>.000</td>
<td>4</td>
<td>.000</td>
<td>4</td>
<td>.000</td>
<td>4</td>
<td>.000</td>
<td>4</td>
<td>.000</td>
</tr>
</tbody>
</table>

The t-test for difference of means for car loan’s monthly repayments shows very significant values for all pairs. Thus, we can conclude that we can reject the null hypothesis and we can say that there are very significant differences in monthly loan repayments between the two systems. BIMB charges higher profit rates for its car loan than BCB interest rates charged for each amount of the car loan. The standard deviations seem to be the same for both banks which means that there are of similar risks in paying monthly installments for the car loan.

As a general conclusion for the comparative analysis in monthly loan repayments for 4 types of loan products in BIMB and BCB, BIMB seems to charge higher profit rates for all four product loans/financing facilities than BCB which charges interest rates. However BIMB shows more stable monthly loan repayments for housing loan and shophouse loan than BCB. For personal loan and car loan, both banks have similar risks in their loan repayments.
4.2 COMPARATIVE ANALYSIS

Having discussed Al-Bai’ Bithaman Ajil, Al-Murabahah, Al-Ijarah, and Al-Qardh Al-Hassan concepts in relation to loans and financing facilities in BIMB and conventional loan schemes in BCB, this section will focus on the comparison among the two schemes. Just to remind once again that under the Islamic banking system, the housing loan, shophouse loan, and personal loan use the concept of Al-Bai’ Bithaman Ajil (BBA) whereas the car loan uses the Al-Qardh Al-Hasan concept.

It is important to take note that Al-Bai’ Bithaman Ajil (BBA) claimed to be the highest share of total financing in BIMB. For year 1998 and 1999, BBA accounted 68.9% and 65.7% respectively of the total customers financing. This is followed by Al-Murabahah, which accounted for 21.3% in year 1998 and 24.7% in year 1999. Since BBA plays an important part of the financing role, then the following discussion will give more attention to the concept without undermining the other Islamic financing concepts.

Even though the elimination of riba’s element is regarded as the main difference between conventional banking and Islamic banking, however other aspects, views and modus operandi of both systems will also differ. In general, financing given by an Islamic bank is based on the concept of trading (buying/selling) whereas a loan given by a conventional bank is based on lending money that associates with interest/riba. In an Islamic system, the trading of goods and services will create profits and there is no dealing with interest as in the conventional or capitalist system. Nevertheless there are still similarities in the two systems and these can be observed in their financing/loan operations.
4.2.1 Similarities

In reality, it is difficult to find any similarity between the two schemes. However in terms of their procedures, BBA and loan schemes will go through similar stages. It means the schemes need to undergo various processes from the stage of interviews and application of the financing/loan until the stage of settling it and releasing the collateral security.

The other obvious similarity is related to the financing/loan installments or repayments that have to be made within a certain period of time, normally by monthly basis. Both schemes are not cash transactions but involve debts.

Probably both schemes seem to be technically similar. However a few differences exist, as we will discuss in the next section.

4.2.2 Differences

There are several differences between the BBA scheme under Islamic banking and loan scheme under conventional banking. These differences are in the following aspects:

1. Philosophy

The Islamic banking system is part of Islam and it binds all activities under Islamic principles. The Islamic system is dedicated to human brotherhood accompanied by social and economic justice and equitable distribution of income, and to individual freedom within the context of social welfare. This dedication is spiritually oriented within the context of social and economic norms. Therefore the freedom of running any business and transaction in an Islamic financial system must not only be based on bottom line considerations but also to uphold the societal needs of the people.
In contrast to this, the conventional banking system is based on the concept of modern capitalism. The concept to social and economic justice and to equitable distribution of income resulting from group pressures, is not the outcome of a spiritual goal to establish human brotherhood, and does not constitute an integral part of its overall philosophy. In short, modern capitalism has separated the function of religion in managing the other aspects of human life. The conventional banking system encourages that any financial decision making should be based on bottom line considerations. Each individual has the full right on his/her wealth and he/she has the full right to do whatever he/she likes about the wealth. This principle is surrounded on the basis of the personal achievement and the individual profit making without having much concern about the whole society unless it will benefit his/her personal goal.

2. Concept

BBA scheme is based on Islamic banking policies under Shari'ah concepts. It is free from any interest. It is based on trading concepts whereby the selling price of a particular product is decided during the 'aqad' (contract) and the price can not be changed until the financing period ends.

Whereas a loan under conventional banking purely uses the concept of lending money to a client to buy for example, a property. In Islam, a loan is permissible but must be without any interest or riba. This type of loan is called a benevolent loan (Al-Qard Al-Hasan). The benevolent nature of the contract is aptly suitable for lending by the country's citizens to their Government for financing its operation and development of social projects.

In another aspect, the relationship between a conventional bank and a client is established as a lender and a borrower. The banker is actually giving the loan to the client and the client is asked to pay interest on the loan given. In short, the
basis of the exchange and transaction is money and not a commodity. The commodity is not the main thing in the exchange but the commodity or good is only used as a collateral security. The risk in the transaction is merely in the context of the ability of the borrower to repay the loan with interest to the lender (banker). Whereas under Islamic banking practice, financing activities are meant to help a client to possess a particular product even though the client has the financial ability to purchase it.

3. Act

Prior to the establishment of the Central Bank in 1959, the operation of commercial banks came within the scope of the Companies Ordinance, 1958.

With the establishment of the Central Bank of Malaysia in 1959, the activities of the commercial banks in the country were brought under its supervision through the Banking Ordinance, 1958, which was amended subsequently on a number of occasion to become the Banking Act, 1973.

In Malaysia, separate Islamic legal provision and banking regulations exist side by side with those for the conventional banking system. The legal basis for the introduction of banking products along Islamic principles was the Islamic Banking Act, 1983. The Act provides the Central Bank with power to supervise and regulate Islamic banks, similar to the case of other licensed banks.

4. Law

Since the BBA scheme uses a trading concept, its transactions are permissible and allowable under Shari'ah as explained earlier in the second chapter based on the Qur'anic verse 2:275 that Allah has permitted trade and forbidden *riba.*
As compared to the loan scheme implemented under conventional banking, it is prohibited according to Shari'ah because it involves the elements of riba such as addition on loan and that addition is part of its conditions in the transaction.

Islam prohibits riba since it constitutes oppression and inculcates the spirit of individualistic. Islam is more concern about the social responsibility of the people. Basically loan is meant to help people but what is happening is otherwise whereby the lender is taking advantage of the borrower.

5. Profit

Under Islamic banking, an agreed profit is determined at the time of 'aqad' (contract) of the BBA scheme. The customer will be told about the cost price and selling price based on a fixed percentage. Whereas under conventional banking, the housing loan depends on the BLR which changes over time and the period of the loan.

The fixed price is determined by BIMB after taking into consideration many long-term factors such as investment profits expected by BIMB's depositors and the benefits gained by the client. In addition, BIMB would also take into account the uncertain economic situation and financial market in the future.

BIMB sets a flat rate of profit and it is based on the concept of Constant Rate of Return (CRR). The rate is decided by BIMB's Board of Directors and under the scrutiny of the Syariah Supervisory Council. BIMB has to set up this Council to supervise its operation in respect of their compliance with the rules of Shari'ah.

On the other hand, interest rate in a conventional bank fluctuates and depends on the BLR. Bank Negara Malaysia has the power to fix the BLR after having discussions with the Association of Banks in Malaysia (ABM). Due to this reason
the price of a property, which a client of a conventional bank wishes to buy, will change due to the fluctuations in the interest rate.

6. Documentation

Having said earlier that the procedure for BBA and loan schemes is generally similar. However there is a difference at the stage of documentation whereby BIMB will sign S & P agreement along with a housing developer and a customer. Firstly, BIMB will directly purchase the house concerned from the housing developer and then sell the house to the customer at an agreed price, which comprises of the actual cost of the asset and the bank’s margin or profit.

Whereas documentation under a conventional bank, will be based on loan contract with a customer. The customer will directly deal with a housing developer to purchase a house. Then the customer will sign S & P agreement with the developer and the role of bank is immaterial or has little involvement in the agreement.

7. Deferred Installment

Under BIMB, during the financing period, the client has to allocate 3 months of security deposits in BIMB. These deposits will be put into the BIMB’s saving account.

If there is a deferred installment for a month, BIMB will liquidate a security deposit for the month that the customer does not pay and the client has to pay double in the following month to update his/her saving account that was liquidated for the previous months unpaid installment.

In contrary to this, under conventional banking, if the client can not pay a monthly installment, the bank will charge compound interest of additional 1% from the
prevailing interest rate. If the prevailing interest rate is 9% then when it is compounded, it will become 10% (9% + 1%). Therefore if the client can not pay the monthly installment for many months then the total amount of the loan will increase tremendously since the interest will continuously increase.

8. Penalty

BIMB will not charge extra payment if the customer fails to pay his/her monthly installments at the end of BBA’s financing period. BIMB will send three (3) reminders and liquidate the three (3) month security deposits. After all security deposits are liquidated and the customer still cannot pay the monthly installment, the bank will take a court order to auction the customer’s asset. The bank will take the proceeds only to the extent of settling the debt and return the remaining proceeds to the client.

However, if a customer under conventional banking can not pay his/her monthly installments for several months then he will be charged compound interest for each day. If the situation prolongs for many months ahead then the banker will take a court order to auction the customer’s asset. The bank will take the proceeds from the auction to compensate for all legal costs and other costs incurred during the process. If there is a big surplus after deducting all costs, the bank will return it to the customer. If it is a small surplus then the bank will keep it to settle any unexpected cost arising in the future.

4.3 HOUSING LOAN AND FINANCING COMPARISON BETWEEN THE TWO SCHEMES

According to Mr. Wan Ismail Wan Jusoh, Chief Executive Officer of BIMB Institute of Research and Training Sdn Bhd. (BIRT), in the implementation of Islamic financing, an issue that has been raised is related to the problem of fixing the financing price whereby Islamic financing is said to charge higher prices.
The above issue is not that obvious under Al-Musyarakah, Al-Mudharabah, Al-Ijara, Al-Qardh Al-Hasan ways of financing because they are not so different in terms of their profit sharing and price fixing as compared to conventional banking. However under Al-Bai Bithaman Ajil (BBA), the issue becomes obvious since this financing caters for long-term property financing.

To illustrate the scenario, let us look at three (3) cases that will clarify the above statement:

4.3.1 Case 1 – House below RM 100,000.00

<table>
<thead>
<tr>
<th>Total Loan/Financing</th>
<th>= RM90,000.00</th>
</tr>
</thead>
<tbody>
<tr>
<td>Duration of Loan/Financing</td>
<td>= 12 years</td>
</tr>
</tbody>
</table>

1. A Commercial Bank

<table>
<thead>
<tr>
<th>Interest rate:</th>
<th>BLR</th>
<th>Below RM100,000 (BLR + 1.25) (Yearly Rest)</th>
<th>(Monthly Rest)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>10.875</td>
<td>12.125</td>
<td>12.65</td>
</tr>
</tbody>
</table>

Monthly Installment: RM1,217.75

Interest rate that are used by the commercial bank, are changing or fluctuating according to BLR for that period of time.

With the assumption that monthly repayments are timely paid, the payment that the customer needs to pay to settle the housing loan is RM159,964.24. The duration of the loan settlement is shorter than originally expected i.e. until month 132.

(See Appendix II)
2. Bank Islam

Profit rate: 10% (Monthly Rest)
Selling Price: RM154, 882.08
Monthly Installment: RM1,075.57

The profit rate charged is fixed until the end of the financing period. With the assumption that the monthly payments are settled on time, the total payment for the housing financing is RM154, 882.08. The duration of the settlement is 144 months

(See Appendix III)

3. Analysis

Based on the above cases, BIMB's customer needs to pay a total amount, which is lower than for the commercial bank. Even though the duration of settling the debt for the commercial bank is shorter but BIMB's monthly payments is lower.

4.3.2 Case 2 – House above RM 100,000.00

<table>
<thead>
<tr>
<th>Total Loan/Financing</th>
<th>= RM100,000.00</th>
</tr>
</thead>
<tbody>
<tr>
<td>Duration of Loan/Financing</td>
<td>= 12 years</td>
</tr>
</tbody>
</table>

1. A Commercial Bank

<table>
<thead>
<tr>
<th>Interest rate:</th>
<th>Above RM100,000 (BLR + 1.75) (Yearly Rest)</th>
<th>(Monthly Rest)</th>
</tr>
</thead>
<tbody>
<tr>
<td>BLR</td>
<td>10.875</td>
<td>12.625</td>
</tr>
<tr>
<td></td>
<td></td>
<td>13.16</td>
</tr>
</tbody>
</table>

Monthly Installment: RM1,384.54
Interest rate used by the commercial bank, are changing or fluctuating according to the BLR for that period of time.

With the assumption that monthly repayments are timely paid, the total payment that the customer needs to pay to settle the housing loan is RM181,798.79. The duration of the loan settlement is shorter than originally expected i.e. until month 132.

(See Appendix IV)

2. Bank Islam

Profit rate: 12.10% (Monthly Rest)
Selling Price: RM190,005.12
Monthly Installment: RM1,319.48

The profit rate charged is fixed and remains the same until the end of the financing period and therefore amount of profits in each monthly installment is calculated based on the same rate. With the assumption that the monthly payments are settled on time, the total payment for the housing financing is RM190,005.12 i.e. original selling price. The duration of the settlement is 144 months.

(See Appendix V)

3. Analysis

Based on the above comparison, to buy a house of RM100,000 with the financing/loan for 12 year payment period, a customer needs to pay RM181,798.79 with the commercial bank as compared to Bank Islam which is RM190,005.10.
Even though the total payment that the customer has to pay is higher under Bank Islam, but the monthly installment is lower i.e. RM1,319.48 than the commercial bank i.e. RM1,384.54.

If the commercial bank's customer were to pay RM1,319.48 and the interest rate in each monthly installment is calculated based on the commercial bank's rate, the total payment the customer has to pay is RM190,468.35 and the duration of the loan settlement ends in month 145.

(See Appendix VI)

4.3.3 Case 3 - Monthly Installment Paid Not on Time

By using the same example for housing loan/financing of RM100,000 and above, comparison will be made where there are a few late monthly payments.

1. A Commercial Bank

(See Appendix VII)

In this case, the total payment made by a customer to settle the debt is RM216,971.96. The duration of the loan period is extended until 157 months from its original of 144 months.

2. Bank Islam

(See Appendix VIII)

By taking into consideration the same late payments as under the commercial bank, the total payment that the customer has to pay is still the same i.e. RM190,005.12.
3. Analysis

From the above comparison, it obviously shows that the conventional bank’s customer has to pay much more if there are late monthly payments as compared to Bank Islam.

This phenomenon occurs because the conventional bank is using the compound interest method. According to this method, if there are delays in monthly repayments, the arrears monthly interests will be added to the remaining payment’s cost to calculate the amount of interest for the following months. This calculation does not take into account the penalty of the interest value. If this is considered then the customer may have to pay a larger amount of the housing loan.

With Bank Islam financing, the arrears profits for particular months, will be added to the remaining cost for the calculation of the coming months’ profit. The profit amount for the coming months are still calculated based on the remaining current cost.

If it is assumed that Bank Islam follows the conventional bank’s method, the total amount that the customer has to pay can only be at the maximum of the selling price i.e. RM190,005.12. If Bank Islam were to take more than the selling price then the extra will be regarded as interest/riba.