



AL RAYAN BANK



SHARIA COMPLIANCE GUARANTEED

**Rent not interest**



Banking you can **believe** in

Home **Purchase Plan**

[alrayanbank.co.uk](http://alrayanbank.co.uk)

Product information

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# Sharia compliant, flexible, affordable home finance

Unlike a conventional mortgage where the purchaser borrows money from a lender which is then repaid with interest, the Home Purchase Plan (HPP) from Al Rayan Bank uses the Islamic finance principles of co-ownership and leasing.

We have a dedicated team of experts available who will guide you through the stages of your HPP enquiry.

Our team not only understands the house buying and refinancing processes but also understands the Sharia principles involved.

They will provide the necessary information and advice, and make a recommendation for you after assessing your personal circumstances and needs.



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Banking you can believe in

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## How a HPP works

Both you and Al Rayan Bank contribute towards the purchase or refinance of your chosen property as partners. Al Rayan Bank agrees to sell its share of the property to you over a period of time, known as the finance term.

Al Rayan Bank also leases its share of the property to you, for which you pay a monthly rent. Therefore, your monthly payment consists of two elements: an acquisition payment, which is the payment you make to acquire Al Rayan Bank's share in the property; and a rental payment which is the charge for renting Al Rayan Bank's share in the property.

Once you have fully acquired Al Rayan Bank's share in the property, your monthly payments cease and full ownership of the property transfers to you.



- ▶ Your monthly payments will remain constant throughout the term of the finance (subject to rent reviews), although the rental element will decrease whilst the acquisition payment element increases.
- ▶ Rent is reviewed quarterly in March, June, September and December each year.

The rent rate may increase, decrease or stay the same at each rent review.



- ▶ You can make additional acquisition payments in the month of each rent review, which can be used to either reduce your finance term, or reduce your monthly payments.
- ▶ Additional acquisition payments are subject to a minimum amount of **£4,000** and incur a small administration fee of **£25**.

Additional acquisition payments are not permitted on a fixed rental rate product during the fixed period.

- ▶ At any time, including during a fixed rental rate period, it is possible to settle the finance amount in full, without any penalty (subject to a small administration fee).

For a full list of the different fees that apply, please refer to the **HPP Tariff List**.

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# Agreements

To complete your application, Al Rayan Bank will enter into a number of agreements with you. The agreements will be sent to your solicitor along with their copy of the offer letter. You will also receive the offer letter which will contain Al Rayan Bank's offer of finance and the Home Purchase Plan Schedule, which specifies the details of the offer such as the finance amount, the finance term and the rental rate.

## Co-ownership Agreement

This is a partnership agreement in which Al Rayan Bank agrees to sell its share of the property to you over the finance term.

The price that Al Rayan Bank sells its share to you is the same as the level of financial contribution Al Rayan Bank makes.

If the value of the property increases over the term of the finance, the price at which you purchase Al Rayan Bank's share remains the same, and therefore only you will benefit from any increase in the value of the property.

## Leasing Agreement

This is the agreement in which Al Rayan Bank agrees to lease its share of the property to you, and in return you agree to pay Al Rayan Bank a monthly rent.

The rent you pay is based on Al Rayan Bank's share in the property, as detailed in the Co-ownership Agreement.

## Service Agency Agreement

With a HPP, Al Rayan Bank appoints you as a Service Agent, responsible for the maintenance of the property and ensuring that the property is covered by appropriate buildings insurance.

If the bank were responsible for carrying out maintenance and ensuring that suitable buildings insurance were in place, the rental rate charged would need to be higher.

## Legal Charge

This document grants Al Rayan Bank a first priority legal charge, and therefore, offers Al Rayan Bank security for your payment obligations under the Co-ownership and Leasing Agreements.

## Notice to Insure

This document outlines the requirements for the buildings insurance that you will have to obtain under the Service Agency Agreement.

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# Key points to note

## **With a Home Purchase Plan from Al Rayan Bank you:**

- ▶ Pay no interest
- ▶ Purchase or refinance your chosen property as a partner with Al Rayan Bank
- ▶ Make monthly rent and acquisition payments to Al Rayan Bank
- ▶ Are able to make additional acquisition payments to reduce either your finance term or monthly payments (subject to a small administration fee)
- ▶ Choose from a range of products to find the right HPP for you
- ▶ Have legal ownership of the property transferred to you following settlement of the finance
- ▶ Can sell the property at any time, even in a fixed rental rate period, and if the value of the property increases, only you will benefit from it

## **Properties that qualify:**

- ▶ Freehold domestic residential properties in England and Wales
- ▶ Leasehold domestic and residential properties in England and Wales, with an unexpired term of at least 50 years plus the term of financing



For a full list of the different fees that apply, please refer to the HPP Tariff List.

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# Key stages of an application

## Obtain an agreement in principle (AIP)

- ▶ An AIP confirms your basic eligibility for the Home Purchase Plan.
- ▶ Gives you an indication of how much the monthly HPP payments might be.
- ▶ Provides you with the key details of the services offered by Al Rayan Bank, and the features of Al Rayan Bank's HPP products.

You can obtain an AIP online, over the phone or by visiting a branch. An AIP lasts for 90 days.

## Make an application

You can make an application online, over the phone or in a branch. You will need to send us original documents such as payslips and bank statements.

As part of the application, we will carry out a credit check with Credit Reference Agencies.

## Valuation

Al Rayan Bank needs to check that the property is suitable security for the finance amount requested.

There are various types of surveys available, which vary in how detailed they are and the price charged. For details, please refer to the HPP Tariff List.

Following your credit check, Al Rayan Bank will instruct your valuation.

You should note that whilst you may pass the credit check, if the documentation you submit does not support the details contained in your application, following the full assessment by Al Rayan Bank's Underwriting team, you may still be declined for Al Rayan Bank's HPP product.

In this case you may lose the valuation fee that you have paid.



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## Underwriting

Once we have received the documents that we have requested, your application will be passed to our Underwriting team for a full assessment.

## Issuing the documentation

Once we are happy with your application and the valuation, and assuming there is nothing untoward, we will send you an offer pack.

A copy of the offer pack is also sent to your solicitor. The offer document must be signed and returned to Al Rayan Bank within thirty (30) days.

The offer will expire in four (4) months from the date of the offer.

If the completion doesn't take place in this time, we will need to confirm that your circumstances remain the same. This may mean that you will have to complete a new application and provide up to date documentation such as payslips & bank statements.

Please therefore ensure that you fully understand the content of the documents we send you before you sign the offer.

## Conveyancing

Conveyancing is the process of transferring the title of the property from one person to another. Your solicitor will conduct searches on the property and request the title deeds.

You will need to give an indication to your solicitor of your preferred completion date.

You should keep in touch with your solicitor throughout to make sure that things are moving along smoothly.

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# Completion

The property will be purchased on a date pre-arranged with your solicitor. You should ensure that you have passed any deposit monies and fees payable to your solicitor to avoid any unnecessary delays. You will also need to ensure that appropriate buildings insurance is in place in time for completion.

## Confirmation of your payments

Once the property has completed, Al Rayan Bank will send you a letter confirming your first and subsequent monthly HPP payments. The first payment may differ from the rest of the payments. This is because the number of days between completion and your first payment may be more or less than the usual one month period.



**This booklet is designed to provide you with an overview of Al Rayan Bank's Sharia compliant HPP. In the event of any conflict between the contents of this booklet and the legal documents, the legal documents shall prevail. If you have any doubts or if there is anything that you do not understand, you should consider taking independent legal advice.**

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# Buildings insurance

All finance providers require you to take out a buildings insurance policy to cover the property in the event of incidences. The details of the buildings insurance requirements are contained in the Notice to Insure letter sent to you with the offer letter.

- ▶ Buildings insurance is a mandatory requirement of the HPP. The details of the buildings insurance requirements are contained in the Notice to Insure letter which will be sent to you and your solicitors, along with the offer document and other legal documents.
- ▶ The property must be covered by a standard “all risks” buildings insurance policy for the minimum amount as detailed in the valuation report.
- ▶ Al Rayan Bank must be noted as the first loss payee as follows:  
  
Al Rayan Bank PLC  
44 Hans Crescent  
Knightsbridge  
London  
SW1X 0LZ
- ▶ A certified copy of the policy must be provided by your solicitors before we allow the transaction to complete.



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# Frequently asked questions

## **Q. Should I obtain advice from anyone else before proceeding?**

**A.** Al Rayan Bank sells this product on an advised basis. Our HPP Specialists will make a recommendation to you, based on an assessment of your needs.

You can reject our recommendation and take a product of your own choosing. In this case, should you experience any issues in the future because of your choice of product, you may not be able to take your case to the Financial Ombudsman Service.

You can also consult an IFA who will be able to provide you with advice in relation to Home Finance products.

## **Q. Why are Sharia compliant finance products benchmarked to conventional indices such as the Bank of England Base Rate (BBR)?**

**A.** It is important to understand that Sharia does not prohibit the use of benchmarking as long as it is a commonly recognised and easily accessible benchmark.

A benchmark is an important tool in Islamic finance; Islamic banks must ensure that their products, and the prices that are charged, avoid uncertainty for the customer and are consistent with the prices of the local market.

Islamic banks therefore use indices such as BBR to price their products, as they are very widely recognised and enable them to meet these important criteria.

For example, a benchmark is usually used by Islamic banks to determine the rental rates for Home Purchase Plans. It does not have any bearing on any other aspect of the product.

An Al Rayan Bank HPP is based on the two Islamic finance principles of Co-ownership and Leasing. The benchmark does not impact these principles or the way in which a Al Rayan Bank's HPP works.

## **Q. Why doesn't Al Rayan Bank use the local rental market rates for HPP?**

**A.** If we were to take this approach, there would be too much variation across the country and we would not be able to offer a fair and consistent rental rate for our HPPs. Not only is this against the Sharia but it would also be more costly for the customer.

## **Q. What contracts do I need to sign?**

**A.** You will be required to enter into five (5) legal agreements with Al Rayan Bank. You must take independent legal advice before you sign the agreements.

The agreements will be sent to your solicitor when your application has been approved.

- ▶ The Offer Letter
- ▶ The Co-ownership Agreement
- ▶ The Lease Agreement
- ▶ The Service Agency Agreement
- ▶ The Legal Charge

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## **Q. Can I make additional payments to my HPP?**

**A.** Yes. You can make additional acquisition payments in addition to your regular monthly payments, by ensuring that additional funds are paid into your Home Purchase Plan account by the 20th day of the month of your rent review, in order for it to be taken into account when the rent you pay is reviewed.

Please note that as any additional acquisition payments you make are not applied until the rent review, you will not benefit from making your additional acquisition payment any earlier than the 20th day of the month of your rent review.

The payments are subject to a minimum amount of **£4,000** and incur a small administration fee of **£25**. For more information on additional acquisition payments, please refer to the HPP tariff list.

## **Q. If I make payments late, why do I have to pay additional amounts? Surely this additional payment is interest?**

**A.** There may be times when some customers make their payments late. As a bank, since we incur additional administrative costs to process late payments and to recover these costs, we charge our customers.

Once the costs have been recovered, any additional amounts are donated to charity. Al Rayan Bank does not profit from any extra income generated from these additional charges.

Our Sharia Supervisory Committee has agreed that this is acceptable.

## **Q. What happens if I lose my job or I am unable to pay you for any reason?**

**A.** If your financial circumstances change for any reason and you encounter difficulty in meeting your monthly payment requirement, it is vital that you contact Al Rayan Bank as soon as possible.

The action that Al Rayan Bank will take is dependant upon your individual circumstances. However, Al Rayan Bank promises to act fairly and reasonably at all times. You must make sure that you can afford the monthly payments. If you do not keep up the payments, you may lose your home.

## **Q. Why does Al Rayan Bank hold the legal title? If I am buying the property, why am I not the legal owner?**

**A.** This is necessary in order for Al Rayan Bank to issue the lease. This allows you to occupy the property according to the law applicable on properties in England and Wales.

Although Al Rayan Bank will hold the freehold title, your rights (including your beneficial share of the property) will be protected by registering the long leasehold at the Land Registry in your name. For leasehold properties the long leasehold is registered in Al Rayan Bank's name, with the sub lease in your name.

As the property is leased to you, you cannot become the legal owner immediately. However, you become the legal owner once you have purchased Al Rayan Bank's share in the property.

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**Q. If Al Rayan Bank holds the legal title, does this mean that Al Rayan Bank will benefit from any increase in the value of the property?**

**A.** No. As the price at which Al Rayan Bank agrees to sell the property to you is fixed at the beginning of the term, any increase in the value of the property over of the term will only benefit you.

**Q. Why are there two sets of solicitors involved?**

**A.** To ensure compliance with the Sharia principles and applicable law, the Law Society suggests that for Islamic finance transactions, two sets of solicitors are involved.

One set of solicitors represents you, the other set of solicitors represents Al Rayan Bank.

**Q. Can I refinance?**

**A.** Yes you can. You can switch to Al Rayan Bank from an existing conventional mortgage or from another Islamic finance provider. This process is similar to a new purchase.

**Q. Why does Al Rayan Bank review the rent periodically?**

**A.** We believe it is important that the rent payable remains competitive for our customers and providing a finance product that has a variable rental rate is beneficial to both you and Al Rayan Bank.

When the benchmark rate increases or decreases, the rent we charge you is adjusted accordingly.

At rent reviews we also take into account any additional acquisition payments when assessing the new rent figure.

**Q. If I want to sell the property in the future, can I do so?**

**A.** Yes. Under the Co-ownership Agreement you have the right to ask Al Rayan Bank to transfer the property either to yourself or to a third party. You will be required to pay the remaining acquisition cost balance to Al Rayan Bank under the agreement.

If you are selling the property to a third party, you must ensure that the selling price is sufficient to pay Al Rayan Bank the remainder of the acquisition cost. The property will not be transferred unless all sums are paid in full.

**Q. If I sell my property and make a profit, do I share this with Al Rayan Bank as a joint purchaser?**

**A.** No. If you decide to sell your property, Al Rayan Bank will forego its right to a share of the profit and only you will benefit from it.

**Q. If I wish to sell my property during a negative equity situation, can I do so and are there any conditions surrounding this?**

**A.** If you are in a negative equity situation, Sharia permits Al Rayan Bank to refuse the sale. However, you can buy Al Rayan Bank's share for the same initial purchase price.

You may then sell the property to a third party at any price you are willing to take. This, however, may result in a loss for you.

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**Q. Under a HPP contract, why does the customer pay the Stamp Duty?**

**A.** In order to be able to offer the HPP with a competitive monthly rental rate, it is more practical if the customer pays the Stamp Duty when the property is initially purchased.

Also, it is because the customer will become the ultimate owner of the property after buying the Bank's share over a period of time.

**Q. As Al Rayan Bank jointly purchases the property with me and transfers the property to me on full settlement, will I have to pay stamp duty twice?**

**A.** No, the stamp duty laws have been changed so that anyone financing property using Islamic finance is not disadvantaged in this way.

**Q. Will I have to pay stamp duty if I am refinancing my existing property?**

**A.** No, the stamp duty is only payable on new purchases.

**Q. Is it true that Sharia does not permit contracts to be interdependent or to have 'two contracts in one', and is the case with the HPP?**

**A.** Sharia does not allow clauses in two contracts which make them interdependent on each other, with a complicated outcome that is not Sharia compliant.

However, this is not the basis for an Al Rayan Bank HPP which is based on two independent contracts, the outcome of which is straightforward for both the customer and the Bank.

**Q. Under a HPP contract the property is 'owned' by the Bank. If this is the case, as tenants why do the occupiers have to pay for buildings insurance and general maintenance? Is this permissible under Sharia?**

**A.** In order for an Islamic bank to be able to offer the HPP at a competitive rental rate, it does not take on the responsibility of maintenance and insurance as part of the Lease Agreement.

The Bank appoints the customer as a Service Agent responsible for maintenance of the property and ensuring that it is covered by appropriate insurance. This keeps the HPP payment costs low for the customer and is permissible according to Sharia.

**Q. Does Al Rayan Bank keep the electrical/gas certificates in order?**

**A.** No. Responsibility for maintenance rests with the customer, who will ultimately own the property after they have bought the Bank's share over a period of time.

**Q. If Al Rayan Bank doesn't charge interest, why does it advertise % rates?**

**A.** Al Rayan Bank, together with other Islamic banks, advertise % rates for products so that customers can compare the rates and charges to those charged by conventional banks.

A percentage simply means a proportion.



## AL RAYAN BANK

Want to know more about any of our products or services?

Call us on:

**0800 4083 093\***

Monday to Friday, 9am to 7pm.

Saturday, 9am to 1pm.

\*Calls may be recorded for training and security purposes.

Visit: [alrayanbank.co.uk](http://alrayanbank.co.uk)

Write to: **Al Rayan Bank, PO Box 12461, Birmingham, B16 6AQ**

Or visit any of our branches.

### If we don't get it right

Al Rayan Bank PLC will endeavour to ensure that you receive the highest standard of service and that you are treated with courtesy at all times. If you are unhappy with any aspect of our service, we would like to know why.

For a copy of our Customer Care leaflet dealing with our complaint handling procedures, please call our Customer Care team on 0800 4086 407.

### Data Protection

Under the prevailing data protection legislation you have the right of access to your records.

Should you wish to access this right, please contact our customer service team or write to:

Data Protection Officer,  
Data Subject Access Requests,  
Customer Care Team,  
Al Rayan Bank PLC,  
24a Calthorpe Road,  
Edgbaston,  
Birmingham,  
B15 1RP

### Membership of the Financial Services Compensation Scheme

Al Rayan Bank PLC is a member of the Financial Services Compensation Scheme.

This scheme may provide compensation, if we cannot meet our obligations. Most depositors including individuals and businesses are covered.

For more information about the Financial Services Compensation Scheme, visit [www.alrayanbank.co.uk/fscs](http://www.alrayanbank.co.uk/fscs)

**YOUR HOME MAY BE AT RISK IF YOU DO NOT KEEP UP THE PAYMENTS ON YOUR HOME PURCHASE PLAN**

Al Rayan Bank PLC is authorised by the Prudential Regulation Authority and regulated by the Financial Conduct Authority and the Prudential Regulation Authority. Our firm reference number is 229148. Al Rayan Bank PLC is incorporated and registered in England and Wales. Registration No. 4483430. Registered office: 44 Hans Crescent, Knightsbridge, London, SW1X 0LZ.



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