

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

We produce a range of user-friendly factsheets and booklets which are available from our website and helpline.

If after reading this booklet you have any general queries our helpline will try to clarify things for you.

We can tell you if a firm is authorised and help you if you have a complaint and don't know who to contact. But as the regulator, we can't recommend firms or advisers, or tell you whether a particular product or investment is right for you.

March 2007

Financial Services Authority



Home purchase plans

Our website, www.moneymadeclear.fsa.gov.uk, aims to help you understand financial services and get a fair deal.

Use the site to:

- check a firm or person is authorised by the FSA, or is the agent of an authorised firm. If they are not authorised you will not have access to complaints procedures and compensation schemes if things go wrong;
- order any of our wide range of consumer publications;
- report any misleading financial advertising;
- see explanations of financial products in plain English;
- read news articles about firms and products.

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This factsheet is for you if you want to buy your home in a way:

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

It explains:

- what home purchase plans are;
- how they work; and
- some things to consider, including some of the risks involved.



The Financial Services Authority is the UK's financial watchdog set up by the government to regulate financial services and protect your rights. This means we set standards that financial services firms have to meet and we take action if they don't.

We will regulate the sale of home purchase plans from 6 April 2007.

If you would like this booklet in Braille, large print, audio format or Urdu, Arabic or Bengali, please call our Consumer Helpline on 0845 606 1234 or minicom/textphone 08457 300 104 (call rates may vary).

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

Our website and publications aim to give you general information to help you make financial decisions. It is not advice, nor can it take account of your own particular circumstances. For advice on making decisions about your own circumstances you should consult a financial or other professional adviser.

Home purchase plans and regulation

What are home purchase plans?

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.

What does regulation mean for you?

Firms we regulate must meet set standards. Among other things, this means that firms must:

- have staff with the necessary skills and knowledge;
- give you clear information about the services they provide – see page 9; and
- only sell you products that suit your needs and circumstances.

And if things go wrong with a firm we regulate, you may have access to schemes that deal with complaints and possibly compensation – see page 9.

Always check that the firm you're dealing with is regulated by us. For how to find out, see page 11.

- **You won't pay interest with a home purchase plan.**
- **keyfacts[®] documents contain important information that you should read.**
- **Protect yourself – only deal with firms regulated by the FSA.**

How do home purchase plans work?

Home purchase plans work in the following way:

Stage 1: You find the property you want to buy and agree the purchase price with the seller.

Stage 2: You pay the home purchase plan firm a contribution towards the purchase price.

Stage 3: The firm buys the property in its name.

Stage 4: You enter an agreement to buy the property from the firm at the end of a fixed period (known as 'the term') at the same price as the purchase price paid by the firm.

Stage 5: At the same time you enter the agreement with the firm to buy the property, you also take out a lease with the firm allowing you to live in the property during that fixed period.

Stage 6: You make monthly payments to the firm. Each payment is made up of a rental payment and a payment towards the purchase price of the property.

Stage 7: Once you have made all the payments to the firm, the property is transferred into your name and becomes legally yours.

Two types of home purchase plan are currently available – the **ijara** and the **diminishing musharaka**.

1. The ijara

Under 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.

2. The diminishing musharaka

Under the diminishing musharaka, each payment you make towards buying the property buys a slice of the firm's share. So the firm's share in the property gets smaller while your share increases. As your share in the property increases, so the rent you pay for the use of the firm's share will get smaller.

1. Ijara home purchase plan – 15-year term



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



Ask the firm for full details of their home purchase plans to make sure you understand how they work. You can then choose which is best for you.

Some things to consider

A home purchase plan may be right for you if you want to buy your home in a way that does not involve paying interest and that a number of scholars of Islamic law consider acceptable. But you need to think about several things, some of which are listed below.

Islamic services

If it is important to you that the firm you use offers Islamic services, check that it does. Firms we regulate must give you a document called **keyfacts**[®] **about our home purchase plan services**. The document must tell you the names of the scholars who have checked that the firm's services comply with Islamic law – see page 9. We regulate the financial services provided by a firm – 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 much finance do I need?

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? Also you can't be sure that your rent won't go up in future. If you can't pay your rent, you'll be breaking the terms of the lease.

Shop around

There can be a big difference in what is available from different firms, so shop around to:

- get all the information available from firms about their individual services and products; and →

Shop around

- find out about different rental rates on offer – for example, standard, fixed and discount rates – and the total cost of each one.

Use the document called **keyfacts**[®] **about our home purchase plan services** to compare the service being offered by different firms and the **keyfacts**[®] **financial information statement** to compare the cost of the products on offer – see page 9.

Getting advice

Home purchase plans are complex products. Make sure you get advice from a specialist adviser to help you understand them.

Firms we regulate and their agents must follow the standards we set when giving you advice. They should only recommend those home purchase plans that are suitable for your personal circumstances, based on the information you give them.

What are the risks?

- 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. Take the time you need to make sure a home purchase plan is right for you.
- You need to remember that the firm, not you, owns the property, and that 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, unless your interests have been properly protected you may risk losing your share of the property and your right to live there.
- Make sure that the lease giving you the right to live in the property has been properly registered with HM Land Registry or you may lose your right to live there. See *Useful contacts* on page 11.

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| What are the risks? | <ul style="list-style-type: none"> ■ As with any method of buying a home, you need to think about whether or not you will be able to continue to make payments if your circumstances change. |
| Additional costs | <p>Two solicitors will be needed – one to act on behalf of the firm and one to act on your behalf. You will have to bear the costs of both.</p> <p>Because the firm is the owner of the property, you may also pay more for a valuation and buildings insurance than you would with a mortgage.</p> |
| Features not included | <p>Because of the way they work, home purchase plans may lack some of the features of an interest-based mortgage. For example:</p> <ul style="list-style-type: none"> ■ Overpayments normally allow you to pay for your home more quickly. When you take out a home purchase plan you can only make overpayments when the rent is reviewed, and this does not reduce the term but the amount you pay each month. This means you usually won't benefit immediately from overpaying each month as you could with a mortgage. ■ A further advance of money is often used to pay for things like home improvements. Unlike a mortgage, you may not get a further advance on an existing home purchase plan. ■ Payment holidays allow you to stop making payments for a time. This may be useful if you were to lose your job or take time off to look after a child, for example. You can't usually take a payment holiday with a home purchase plan. <p>Check the information from firms to see what features they offer.</p> |

Keyfacts information

Firms regulated by the FSA have to give you certain documents. Whenever you see the **keyfacts** sign, this means you are being given information that's important for you.

Keyfacts documents that firms must give you

You should get the following documents:

- **keyfacts** **about our home purchase plan services** – explains the service and the range of products firms offer, and, if appropriate, the names of the Islamic scholars they have consulted.
- **keyfacts** **risks and features of this home purchase plan** – will explain the key risks, features and benefits of the plan.

- **keyfacts** **financial information statement** – will give you the costs involved in 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. Use this to make sure you're getting the product you applied for.

Complaints


If things go wrong with a firm, you should take your complaint to the firm first. If you can't resolve the problem between you and the firm, you may have access to the Financial Ombudsman Service – see *Useful contacts* on page 11. The Ombudsman deals with complaints that cannot be resolved between you and the firm.

Compensation

If you are dealing with a broker who advises you or arranges the sale of the plan for you, and the broker stops trading, you may have access

to the Financial Services Compensation Scheme. The scheme provides a safety net for consumers. See *Useful contacts* on page 11.

Don't forget

- A home purchase plan may be suitable for you if you want to buy your home in a way that doesn't involve paying interest.
- You will bear the costs of two solicitors' fees and you may pay more for a property valuation and building insurance.
- You won't legally own your home until the end of the plan – this could be between 7 and 25 years.
- Home purchase plans are complex products, so make sure you get independent legal advice.
- If you want Islamic services, the  **about our home purchase plan services** document will tell you which firms can offer them.
- Make sure you deal with a firm we regulate. For how to find one, see page 11.
- Make sure a home purchase plan is right for you – there are other ways of buying your home.

Useful contacts

0845 numbers will be charged at the local rate based on current charges from BT landlines. Charges for calls from mobile phones and other networks may vary.

To find out if we regulate a firm check our register:

You can do this by calling our helpline or using the **check our register** link on our website.

FSA Consumer Helpline
0845 606 1234
minicom/textphone
08457 300 104

FSA Consumer website
www.moneymadeclear.fsa.gov.uk

To check details of your lease:

HM Land Registry
www.landregisteronline.gov.uk
Download leases and other documents relating to a property for a small fee.

Financial Ombudsman Service
South Quay Plaza
183 Marsh Wall
London E14 9SR
0845 080 1800
www.financial-ombudsman.org.uk

Financial Services
Compensation Scheme
7th floor
Lloyds Chambers
1 Portsoken Street
London E1 8BN
020 7892 7300
www.fscs.org.uk

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