



Home purchase plans



The Money Advice Service is here to help you manage your money better. We provide clear, unbiased advice to help you make informed choices.

We try to ensure that the information and advice in this guide is correct at time of print. For up-to-date information and money advice please visit our website – moneyadviceservice.org.uk.

About this guide

This guide is for you if you want to buy your home in a way that doesn't involve paying interest. For example you may want a product that complies with Islamic law.

When you read it you will know:

- how home purchase plans work
 - some of the risks involved, and
 - where to get help.
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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. They may be of interest if you are a Muslim and want to buy a home in a way a number of scholars of Islamic law consider acceptable.

See the *Jargon buster* on page 14 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.

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.

See page 4 for examples of how they work.

Key points

Home purchase plans have different features to 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:

- Firm's share – black
- Your share – blue
- Level of payments made

Key things to think about

Getting professional financial advice

Firms selling home purchase plans must be regulated by the Financial Services Authority (FSA), the UK's financial services regulator. This means they have to meet certain standards that the FSA monitors, and it 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 6. This will tell you the names of the scholars who have checked that the firm's services comply with Islamic law.

The FSA regulates the financial services provided by a firm, but it does 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, check with 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 the FSA regulates a firm – see *Useful contacts* on page 16.

In addition, you may have access to the Financial Ombudsman Service and the Financial Services Compensation Scheme if things go wrong – see page 12.

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 financial adviser – see *Useful contacts*.

FSA-regulated firms must only recommend home purchase plans that are suitable for your personal needs and 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 the FSA requires 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 – including 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.

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 and the costs of each one. For example, the rent could be fixed for a period or could be subject to reviews.

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 when taking out 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 the FSA requires firms to give you – so read them.

When choosing a home purchase plan:

Check that the firm you're dealing with is regulated by the FSA – see *Useful contacts* on page 16 and make sure you get and read the documents.

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 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* on page 16.

Your questions answered

Question:

What are the risks?

Answer:

The FSA requires 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 – see *Useful contacts* on page 16.

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 get hold of 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.

Question:

Can I make overpayments?

Answer:

Most home purchase plans allow you to make overpayments. This may be restricted to when the rent is reviewed and can either buy an additional share in the property or reduce the amount you pay each month in future. Overpayments won't reduce the term.

Question:

Can I take a payment holiday?

Answer:

Payment holidays allow you to stop making payments 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.

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* on page 16.

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 – see *Useful contacts*.

Got a question about money?

Our trained Money Advisers can help you with your questions. We provide clear, unbiased advice, which means we won't sell you anything. You can get this in print, online, over the phone and face to face.

We also provide tailored advice to help you make choices at key points throughout your life whatever your circumstances.

Take our online **health check**. Answer some straightforward questions and get your personal action plan to help you with your money must-do's and longer-term goals.

Call us on 0300 500 5000 or go online at moneyadvice.service.org.uk/healthcheck.

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

The FSA requires 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.

Jargon buster

Some key words and phrases explained.

Buildings insurance

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

Contribution/Deposit

The amount of money you put into buying a home (not including the money the home purchase plan firm is providing).

Early-repayment charge

A charge you may have to pay if you pay off your home purchase plan early (including if you move to another firm).

Energy Performance Certificate

The government requires sellers of all homes in England, Wales and Scotland to provide this. It gives a rating of how efficiently the property uses energy. In Scotland it is part of a Home Report.

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 the FSA, or be the agent of a regulated firm.

FSA Register

Firms that the FSA regulates to sell financial services in the UK are placed on its Register. You can check online or by phone to see whether a firm is on its Register – see *Useful contacts* on page 16.

Interest

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

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 to buy a property that is secured against it.

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 any type of finance 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.

Stamp duty land tax

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

Survey

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

Term

The length of your home purchase plan or mortgage.

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

Money Advice Service

For advice based on your own circumstances or to order other guides

Money Advice Line: 0300 500 5000

Typetalk: 1800 1 0300 500 5000

Calls should cost no more than 01 or 02 UK-wide calls, and are included in inclusive mobile and landline minutes. To help us maintain and improve our service, we may record or monitor calls.

Other Money Advice Service guides

- Getting financial advice
- Insurance
- Making a complaint
- Saving and investing
- Sending money safely
- Your bank account

For more titles, call us or go to **moneyadvice.service.org.uk/publications**

On our Money Advice Service website you can find:

- a **health check** to help you build up some good financial habits and reach your goals
- a **budget planner** to help you work out if you have enough money coming in to cover your bills

- a **cut-back calculator** to help you see where you can save money on items you buy regularly
- a **savings calculator** to help you work out how you can meet your savings goal
- **comparison tables** for savings accounts and mortgages
- a **mortgage calculator** to help you estimate your monthly mortgage payment.

Go to **moneyadvice.service.org.uk/interactive**

Call rates to the following organisations may vary – check with your telephone provider.

Financial Services Authority (FSA)

To check the FSA Register, or to report misleading financial adverts or other promotions.

0845 606 1234

Minicom/Textphone: 0845 730 0104

www.fsa.gov.uk

HM Land Registry

To check details of your lease – download leases and other documents relating to a property for a small fee.

www.landregistry.gov.uk

Directgov

For details about Energy Performance Certificates

www.direct.gov.uk/epc

Home Report Scotland

For details about Home Reports (Scotland)

0845 602 1315

www.homereportscotland.co.uk

Ethical Investment Research Services

Information about ethical investments

www.youethicalmoney.org

Financial advisers/ planners

Unbiased.co.uk

For independent financial advisers in your area

www.unbiased.co.uk

Institute of Financial Planning

For help in planning your finances

www.financialplanning.org.uk

MyLocalAdviser

For financial advisers in your area

www.mylocaladviser.co.uk

The Personal Finance Society

For financial advisers in your area

www.findanadviser.org

To find a solicitor

The Law Society (England & Wales)

The Law Society's Hall
113 Chancery Lane
London WC2A 1PL

020 7242 1222

www.lawsociety.org.uk

The Law Society of Northern Ireland

96 Victoria Street
Belfast BT1 3GN

028 9023 1614

www.lawsoc-ni.org

The Law Society of Scotland

26 Drumsheugh Gardens
Edinburgh EH3 7YR

0131 226 7411

www.lawscot.org.uk

Complaints and compensation

Financial Ombudsman Service

South Quay Plaza
183 Marsh Wall
London E14 9SR

0800 0234 567 or 0300 123 9123

www.financial-ombudsman.org.uk

Financial Services Compensation Scheme

7th Floor Lloyds Chambers
Portsoken Street
London E1 8BN

020 7741 4100 or 0800 678 1100

www.fscs.org.uk

This guide is part of our buying a home series.

Other titles in this series include:

- Mortgages
- You can afford your mortgage now, but what if...?
- Problems paying your mortgage

All our guides are available from:

Our website
moneyadvice.service.org.uk

Money Advice Line
0300 500 5000

If you would like this guide in Braille, large print or audio format, please call us on 0300 500 5000 or Typetalk on 1800 1 0300 500 5000.

Calls should cost no more than 01 or 02 UK-wide calls, and are included in inclusive mobile and landline minutes. To help us maintain and improve our service, we may record or monitor calls.

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