

COMPLIANCE OF HOUSING FINANCE PRACTICES WITH AAOIFI STANDARDS - A CASE OF SRI LANKA

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Abstract: House financing is one of the major financial services offering by the financial institutions in Sri Lanka. In conventional side, it is provided based on the interest based-loan while Islamic financial institutions practiced both (BBA) bay'bi Thaman Aajil which is sale on a deferred payment and (MM) Musharakah Muthanaqisah which means diminishing partnership. Some scholars claim that it is similar to interest as the primary purpose of MM is to give loan to the clients and to derive extra money from the amount of loan. The objective of this study is, to examine how Islamic financial institutions in Sri Lanka provide housing loan facilities & to analyze the housing loan practices of Islamic financial institutions comply with the AAOIFI standards. This study will be a qualitative study. There will be chosen three selected Islamic financial institutions as the sample for this study. The study will be used both primary & secondary sources. Primary data will be collected through the interview with the selected financial institution's managers, loan officers & other related employers. Secondary data will be also used in this study such as relevant articles, related text books, annual reports, websites and journal articles are referred to get information. AAOIFI has been issued some necessary standards about the diminishing Musharakah on housing finance. In this study, the selected. Islamic financial institution's housing finance service will be examined according to AAOIFI standards with some particular features of diminishing Musharakah such as partnership, liabilities, sale, ijarah, promise.

Keywords: Housing loan, Diminishing Musharakah, AAOIFI standards, Islamic financial institutions