



## Risks and Features Home Purchase Plan The Sharia Compliant Mortgage Alternative



The Financial Conduct Authority (FCA) is the independent regulator of financial services. It requires Al Rayan Bank PLC to give you this important information to help you decide whether a Home Purchase Plan in Scotland (HPS) is right for you.

### 1. How our HPS works

Our product uses the Islamic financial principles of co-ownership (Diminishing Musharaka) with a Co-beneficiaries Agreement (Ijara). For purchases, this is where you choose the property in the normal way and apply to Al Rayan Bank to buy the property. Al Rayan Bank undertakes the usual enquiries and valuation, and then purchases the property from the seller at the price agreed between the seller and you. Both you and Al Rayan Bank contribute towards the purchase of the house as partners (e.g. 60% from Al Rayan Bank and 40% from you). The transaction is completed by you taking the title of the property in your name.

For refinances, Al Rayan Bank undertakes the usual enquiries and valuation, and then purchases the relevant share of the property. Your contribution to the transaction is the equity in the property.

Al Rayan Bank will then enter into a Co-ownership Agreement with you, whereby Al Rayan Bank agrees to sell its share of the property to you at the same purchase price for an agreed monthly amount. Your share in the property increases with every payment made towards acquiring Al Rayan Bank's share. Both you and Al Rayan Bank enter into a Co-beneficiaries Agreement under which Al Rayan Bank agrees that you have the right to occupy our beneficial share in the property for an agreed term. During this term occupancy payments will be paid by you on a monthly basis (the occupancy payment amount will be reviewed every three months). Therefore, you will make one monthly payment comprised of two elements, an occupancy payment and an acquisition payment. The amount of occupancy payment payable by you will be reduced as your share increases. You also sign a Trust Deed which constitutes the beneficial interest in the property in favour of Al Rayan Bank and you jointly, and a Standard Security which provides Al Rayan Bank with security for the occupancy payments, the acquisition payments and any other amounts that become due under the agreements. Finally, you sign a Service Agency Agreement whereby you agree to act as our service agent to maintain the property during the term of the Co-beneficiaries Agreement.

In due course, after Al Rayan Bank's entire share has been bought and all the occupancy payments have been paid under the Co-beneficiaries Agreement, Al Rayan Bank executes a discharge of the Standard Security of the property to you.

Al Rayan Bank has a dedicated Sharia Compliance Officer and a panel of respected Sharia Scholars, called the Sharia Supervisory Committee, which acts as an independent body to ensure that all of Al Rayan Bank's products and business activities are Sharia compliant.

### 2. The Help to Buy HPP guarantee scheme

The Government offers the option for finance providers to purchase a guarantee on the finance that they provide. Because of this support, Al Rayan Bank are able to offer you a HPS that requires a smaller deposit. This means that if you can afford the finance payments but don't have a large deposit, you won't have to necessarily wait to save up for a large deposit to buy or move home.

The Help to Buy HPP guarantee scheme has been approved by our Sharia Supervisory Committee.

### 3. Who is it right for?

Our HPS could be right for you, if you want to buy a home in a way acceptable under Islamic law. Interest based mortgages are available in the market but do not normally comply with Islamic law.

There are also a number of requirements that you need to satisfy to ensure that you qualify for finance that is backed by the Help to Buy HPP guarantee scheme. You will need to be able to confirm that:

- The property you want to buy is a UK property
- The price or value of the property is no more than £600,000
- The property should be your only home and not a second home or property
- You are not intending to rent the property
- You will not be benefiting from any other government subsidies such as shared equity, shared ownership and no part of your deposit is funded by a Local Authority

You should consider carefully whether this product is appropriate for your needs and is right for you in light of your financial position. If you are in any doubt, you should speak to someone who can give you independent professional advice.

### 3. What are the features?

Features	Fixed rent rate (FIXH09164S)
Minimum finance amount	£30,000
Maximum finance amount	£540,000
Minimum property value	£80,000
Maximum property value	£600,000
Occupancy payment rate	3.69%
• Which is fixed until	31 December 2019
• Which reverts to	Al Rayan Bank Home Finance Occupancy Rate = Bank Base Rate + a margin <sup>1</sup> of 3.99% for life
Maximum finance to value (FTV)	90%

Features	Fixed rent rate (FIXH09164S)
Minimum age of applicants	21 years old
Payment term	7 – 33 years
Administration fee <sup>2</sup>	£999
Product switch administration fee (existing customers) <sup>3</sup>	£199
Available for:	
• New purchases	<input checked="" type="checkbox"/>
• Refinancing	<input checked="" type="checkbox"/>
• Releasing additional capital	<input checked="" type="checkbox"/>
<b>Whilst a fixed occupancy payment rate applies, you cannot make any additional acquisition payments. Once the fixed occupancy payment rate expires:</b>	
Additional acquisition payments can be made in	March, June, September and December <sup>4</sup>
Minimum additional acquisition payment of £4,000 <sup>4</sup>	<input checked="" type="checkbox"/>
Occupancy payment reviewed in	March, June, September and December
New occupancy payment rate effective from	April, July, October and January
The property can be sold at any time	<input checked="" type="checkbox"/>
Full payment can be made at any time <sup>5</sup>	<input checked="" type="checkbox"/>
Income from four applicants can be taken into account when assessing the application <sup>6</sup>	<input checked="" type="checkbox"/>

#### Notes:

- <sup>1</sup> Al Rayan Bank reserves the right to change the margin on its products; however, a cap applies of 2%. This means that Al Rayan Bank cannot increase the margin on its HPS products by more than 2% over the margin that applied at the outset. Customers will be given at least 30 days' advance notice of any changes in the pricing structure. Al Rayan Bank cannot change the margin whilst a fixed rate applies.
- <sup>2</sup> A full refund of the administration fee that has been paid will be made where the decision to decline is made by Al Rayan Bank through no fault of yours. Where the decline decision is taken because you have misrepresented yourself in the application, no refund of the administration fee will be due.
- <sup>3</sup> If you are an existing customer and you switch your occupancy payment rate after your current fixed or discounted variable occupancy payment rate has come to an end, the fee that applies will be the product switch administration fee, which is currently £199. Where the Bank agrees to a product switch whilst a fixed or discounted occupancy payment rate applies, the fee charged will be the administration fee for the product selected at the time of switching.
- <sup>4</sup> Where an additional acquisition payment is made, you can choose to either reduce your monthly HPS payments, or reduce the term of your HPS. **You cannot make an additional acquisition payment whilst a fixed rate applies.** Additional acquisition payments are subject to a small administration fee, currently £25. Please refer to the HPP Tariff List for details of charges.
- <sup>5</sup> An administration fee applies to all full payments. Please refer to the HPP Tariff List for details of charges.
- <sup>6</sup> All applicants need to be resident in the property.

## 4. What are the risks?

The occupancy payment you pay is reviewed at three monthly intervals. If the occupancy payment rate is increased, your monthly payments will increase. The occupancy payment rate may increase, decrease or stay the same at each occupancy payment rate review. Your occupancy payment rate will not be reviewed whilst a fixed occupancy payment rate applies.

If you lose your job, or become ill and are prevented from working, you will still have to pay your monthly payments. As a responsible finance provider, it is important that Al Rayan Bank works with you to ensure that you can afford the monthly payments. Unfortunately if circumstances occur where you do not keep up your monthly payments, ultimately you may lose your home.

We have taken all reasonable steps to ensure that your interests, including your right to occupy the property throughout the term of the plan are protected. This includes ensuring that:

- The agreements between us are legally enforceable; and
- Your increasing share in the property is properly recorded

Therefore, in the unlikely event that we sell any of our obligations or rights under HPS (including our legal interest in the property) to a third party, you will not lose any payments you have made, your share of the property or your right to buy the property at the end of the term.

## 5. What are your commitments?

- You must pay a minimum deposit as required by the product you have chosen
- You must ensure that the building is insured at all times, provide us with a valid copy of the policy each year and our interest must be noted in the policy
- You must make your monthly HPS payment, which is made up of two elements:
  - Monthly purchase payment
  - Monthly occupancy payment

Details of the payments you must make will be provided to you in a Financial Information Statement.

## 6. How flexible is it?

- You can sell the property whenever you wish
- You can make quarterly additional acquisition payments subject to a minimum of £4,000 and a small administration fee of £25 although; you cannot make an additional acquisition payment whilst a fixed rate applies.
- Once your fixed occupancy payment rate comes to an end, choose to switch to a new discounted or fixed occupancy payment rate. We will write to you in advance of the expiry of your fixed occupancy payment, stating the available options. If you are an existing customer and you switch your occupancy payment rate after your current fixed or discounted variable occupancy payment rate has come to an end, the fee that applies will be the product switch administration fee, which is currently £199. Where the Bank agrees to a product switch whilst a fixed or discounted variable occupancy payment rate applies, the fee charged will be the administration fee for the product selected at the time of switching.

However, you cannot:

- Have further money advanced on the plan
- Take payment holidays/breaks

## 7. What are the additional costs/charges?

No matter how you choose to finance the purchase of the property, there will always be some unavoidable costs and expenses. The costs listed below are the most frequent costs you will face when purchasing a property. Depending on your circumstances you may incur additional charges. For details of all charges that apply with an Al Rayan Bank Home Purchase Plan please refer to our HPP Tariff List.

- Valuation fee – Al Rayan Bank needs to establish the value of the property, and that the property is suitable security for the transaction. Where you are purchasing the property, the valuation may have already taken place. If the surveyor is on the Al Rayan Bank panel, we can use this valuation, although the surveyor may make a small charge to you to issue a copy of the valuation to us. If the surveyor is not on the Al Rayan Bank panel, or where you are refinancing, we will arrange for a surveyor to visit the property. The cost of the valuation depends on the property value; please refer to our Tariff List to find out the cost of the valuation.
- Solicitor's fee – For Islamic finance, the Law Society suggests that both you and the provider should obtain separate legal advice. You will be responsible for the cost of your solicitor. You will also be responsible for the full cost of our solicitor unless it is otherwise indicated in your offer letter. For details of the charges that apply for our solicitor please refer to our Tariff List.
- Clearing House Automated Payment System (CHAPS) fee – Our solicitor uses CHAPS to transfer the finance amount to your solicitor. This incurs a small administration fee that on completion, you will be required to pay to our solicitor.
- Buildings insurance – It will be your responsibility to insure the buildings. The finance will not be released until proof of cover is provided. It will be mandatory to note the interest of Al Rayan Bank (Al Rayan Bank PLC) on the buildings insurance. Should Al Rayan Bank be notified that the cover has ceased, Al Rayan Bank will purchase the cover and charge this to you.

## 8. What do I do now?

If you would like any further information on this product, please contact us on **0800 4086 407**.

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

**Finance is subject to status and valuation.**

**Applicants must be 21 or over or as otherwise specified.**



## Frequently asked questions

### Home Purchase Plan (HPP) backed by the Help to Buy HPP guarantee scheme



Al Rayan Bank PLC provides you with this important information to help you understand the key points associated with Home Purchase Plan products that are back by the Help to Buy HPP guarantee scheme. If you would like any further information on this product, please contact us on 0800 4086 407.

#### How does the Help to Buy: HPP guarantee scheme work?

Under the Help to Buy: HPP guarantee scheme (the Scheme), the Government offers HPP providers the option to purchase a guarantee on Home Purchase Plans where a customer has a deposit of between 10% and 20%. Because of this support, participating providers, such as Al Rayan Bank, are able to offer HPP products to customers with small deposits.

#### How does the Help to Buy: HPP guarantee scheme benefit me?

If you can afford the payments on a HPP on a new build or an existing property but don't have a large deposit, this Scheme will benefit you by giving you access to low deposit Home Purchase Plans. This means you won't have to wait and save up for a large deposit to buy or move home.

#### Does the Scheme guarantee my payments?

The Scheme does not guarantee your payments – the guarantee protects your finance provider (i.e. Al Rayan Bank) rather than you against losses. The benefit of Help to Buy to the customer is the ability to get a Home Purchase Plan with a lower deposit. You are responsible for paying your Home Purchase Plan under this Scheme. Customers could lose their home if they do not keep up their Home Purchase Plan payments on a Help to Buy supported Home Purchase Plan in exactly the same way as any other Home Purchase Plan.

#### Am I eligible for the Scheme?

Any customer seeking to benefit from the Help to Buy: HPP guarantee scheme will need to meet the participating providers' (i.e. Al Rayan Bank's) affordability and other criteria in the normal way.

In addition there are some further eligibility requirements which you will need to meet in order to get a Help to Buy supported Home Purchase Plan. In particular:

- The Home Purchase Plan must have a finance to value (FTV) of between 80-90% (i.e. a deposit between 10% and 20% is needed)
- The Home Purchase Plan must be a residential Home Purchase Plan not a Buy To Let Purchase Plan (BTLPP), so you will be planning to live in your house and not rent it out
- The property you want to buy must be in the UK and the purchase value must be £600,000 or less
- The customer must pass the provider's credit tests and must be able to verify income
- The Home Purchase Plan must be used to buy your only property, so you cannot use it to buy a second or further home. Customers will be asked to declare that they have no interest in any other property, or will have no interest in any other property once the Home Purchase Plan completes, as part of the application process
- The Scheme can be used for refinancing
- An applicant cannot take out a Home Purchase Plan in conjunction with a guarantor
- The Home Purchase Plan must be taken out by an individual or individuals – it cannot be taken out by a company
- The Scheme cannot be used in conjunction with any other Government schemes, such as Shared Equity or Shared Ownership. The deposit for the property can also not come from Publically-Assisted loans

#### Do I have to be a First Time Buyer to benefit from the Scheme?

The Help to Buy: Home Purchase Plan guarantee scheme is available to all customers, so first time buyers and existing home owners can access Home Purchase Plans that will be supported by the Scheme. In addition, the Scheme is available for home purchases and refinancing.

#### Can joint customers apply for a Help to Buy: HPP guarantee scheme supported Home Purchase Plan?

Yes. However, all customers will have to meet all the eligibility criteria for the Help to Buy: HPP guarantee scheme, including declaring that none of the customers will have an interest in any other property once the sale is completed.

#### Can I buy a new build property under the Scheme?

The Help to Buy: HPP guarantee scheme can help you buy a newly built home or an existing property with a deposit of as little as 10%.

#### Are there any additional risks associated with a product backed by the Help to Buy: HPP guarantee scheme?

Providing a smaller deposit can put you at greater risk of negative equity. If house prices fall and this situation arises, you may not have enough equity in the property to clear your finance. This may leave you with a shortfall that you would need to meet from your savings or other sources. However, this is a risk associated with higher finance products and not the Help to Buy: HPP guarantee scheme itself.

## **What is the difference between HPPs guaranteed by the Help to Buy: HPP guarantee scheme and those not in the Scheme? Do I get preferential treatment as a result of my HPP being in the Scheme?**

The relationship between you and your HPP provider (i.e. Al Rayan Bank) remains exactly the same as it would with any other HPP. You and your HPP provider's rights and responsibilities do not change as a result of the existence of the guarantee. The inclusion of HPPs in the guarantee scheme does not mean that you will be treated preferentially by your HPP provider.

The only difference between an HPP under the guarantee scheme, and any other similar product offered by an HPP provider outside of the scheme, is the existence of the guarantee from Government to the HPP provider. This is completely separate to the relationship that you have with the HPP provider.

## **What happens if my circumstances change after I have taken out the HPP?**

As with all HPPs, you should talk to your HPP provider as soon as your circumstances change. If you fall into financial difficulties, you should speak to your HPP provider. You may also wish to seek independent advice as soon as possible.

You are able to get free and impartial information and advice on money matters from the Money Advice Service. Their advice is available online at [www.moneyadviceservice.org.uk](http://www.moneyadviceservice.org.uk), face-to-face, or by calling the Money Advice Service helpline on 0300 500 5000.

You will not be treated differently by your HPP provider if you have a HPP which is included in the HPP guarantee scheme. If the HPP provider has to take full ownership of the property, you will be responsible for paying any shortfall between the amount outstanding on the HPP and the amount recovered once the property is sold.

## **Will the Government have access to my personal information and how will it be used?**

Your HPP provider (Al Rayan Bank) will need to provide your personal information to the Scheme administrator, acting on behalf of the Government. However, this is subject to strict controls and will only be used for specific purposes. This will include ensuring that your HPP is, and remains, eligible for the guarantee scheme and to assess, from time to time, the current status of your HPP, and the potential exposure for the Government under the guarantee.

The Government may also use your personal information for the following purposes:

- Complying with any present or future law, rule, regulation, guidance or directive
- Establishing, exercising or defending legal rights
- Complying with demands or requests made by domestic regulators and law enforcement authorities (whether or not having the force of law)
- Complying with any subpoena or court process or in connection with any litigation.

## **Where can I find further information about how my personal information will be used?**

For further details about how your personal information will be used by or on behalf of the Government, please visit [www.helptobuy.org.uk](http://www.helptobuy.org.uk).