



## Risks and Features Home Purchase Plan (HPP) The Sharia Compliant mortgage alternative

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

### 1. How our HPP works

Our product uses the Islamic financial principles of co-ownership (Diminishing Musharaka) with leasing (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 Al Rayan Bank taking the title of the property in its 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. The transaction is completed by Al Rayan Bank taking the title of the property in its name.

Al Rayan Bank will then enter into a Co-ownership Agreement with you to purchase the property, 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 Lease Agreement under which Al Rayan Bank agrees to let its share in the property to you for an agreed term, during which rent will be paid by you on a monthly basis (the rent amount will be reviewed every three months). Therefore, you will make one monthly payment comprised of two elements, rent and acquisition. The amount of rent payable by you will be reduced as your share increases. In due course, after Al Rayan Bank's entire share has been bought and all the rent has been paid under the lease, Al Rayan Bank transfers the legal title of the property to you. You also sign a Service Agency Agreement, and agree to a charge on the property in favour of Al Rayan Bank to secure the outstanding payments amount due under the HPP agreements.

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.

Our HPP has been approved by our Sharia Supervisory Committee. Please ask us if you require more information in relation to our Sharia Supervisory Committee.

### 2. Who is it right for?

Our HPP 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. 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	Discount variable rent rate (DV09167)
Minimum finance amount	£30,000
Maximum finance amount	£750,000
Minimum property value	£80,000
Minimum age of applicants	21 years old
Payment term	7 – 33 years
Rental rate	2.94%
• Which is discounted from the Al Rayan Bank Variable Rental Rate by	1.30%
• Which applies until	31 December 2018
• Which reverts to the Al Rayan Bank Variable Rental Rate	Which for HPP is, Bank of England Base Rate (BBR) + a margin <sup>1</sup> of 3.99% for life
Maximum finance to value (FTV)	80%
Administration fee <sup>2</sup>	£399
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"/>
Minimum additional acquisition payment of £4,000 <sup>4</sup>	<input checked="" type="checkbox"/>
Additional acquisition payments can be made	Prior to the 20 <sup>th</sup> of the rent review month
The rent is reviewed in	March, June, September and December
The new rent rate is 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 without incurring any penalty charges <sup>5</sup>	<input checked="" type="checkbox"/>
Income from four applicants can be taken into account when assessing an 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 HPP 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.
- <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 rental rate after your current fixed or discounted variable rental 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 rental rate applies, the fee charged will be the administration fee for the product selected at the time of switching.
- <sup>4</sup> When an additional acquisition payment is made, you can choose to either reduce your monthly HPP payments, or reduce the term of your HPP. 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 must be resident in the property.

## 4. What are the risks?

The rent you pay is reviewed at three monthly intervals. If the rent rate is increased, your monthly payments will increase. The rent rate may increase, decrease or stay the same at each rent review.

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 HPP (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 HPP payment, which is made up of two elements:
  - Monthly purchase payment
  - Monthly rent 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:

- Make quarterly additional acquisition payments subject to a minimum of £4,000 and a small administration fee, which is currently £25
- Sell the property whenever you wish
- Make full payment at any time subject to an administration fee
- Once your discounted variable rental rate comes to an end, choose to switch to a new discounted variable or fixed rental rate. We will write to you in advance of the expiry of your discounted rental rate, stating the available options. If you are an existing customer and you switch your rental rate after your current fixed or discounted variable rental 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 rental 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 property, there will always be some unavoidable costs and expenses. The costs listed below are the most frequent costs you will face when purchasing or refinancing 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. To do this we will arrange for a surveyor to visit the property. The cost of the valuation depends on the property value; you can 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.**

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