

Payment holiday in Islamic home financing

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Payment holiday in mortgage is a period an Islamic bank allows a customer defers monthly instalments of his bought house. Thanks to Bank Islam Malaysia Berhad (BIMB), [they have](#) made it more visible to mortgage in February 2008. This measure improves homebuyers' well-being who buy a house using an Islamic mortgage. Typically, it takes effect in November and December, since many house owners face heavy financial commitments owing to the year-end festive and holiday activities.

Needless to say, payment holiday practice was first coined by Maybank Group, known as disaster relief programmes to customers who were facing flood incidents (e.g. January and December 2007 December 2013) and a landslide occurred in December 2008 in Bukit Antarabangsa.

The BIMB's payment holiday is embedded in its mortgage contract officially while Maybank's is given on a case to case basis for monthly instalment payments of financing facilities, as well as waiver of certain charges for customers affected by natural disasters. The former exhibits it clearly in its Islamic home financing policy while the latter is not.

In this week, I will draw your attention on payment holiday in Islamic home financing concerning its viability in Malaysia. Three issues are explicated. Issue #1: What are the virtues of payment holiday? Issue #2: What are the roles of payment holiday in Islamic home financing? Issue #3: What are battery items that capture payment holiday to guide research in this area?

With respect to the first issue, there exists a pure need on the application of payment holiday to customers by an Islamic bank. In the *Quran*, it is prescribed apparently - Allah says: "if the debtor is in difficulty, grant him time till it is easy for him to repay. But if ye remit it by way of charity, that is best for you if ye only knew" (*Quran*, 2:280). This indicates that *muslims* are urged to deal justly and fairly with debtors. It is asserted that should the debtor finds it hard to service the repayment of loan - it may be postponed, and even the remission of debt is recommended in special extraordinary circumstances. In this vein, payment holiday is either to extend the repayment date or the duration of the financing. This practice enables Islamic banks to promote better structure of their Islamic home financing products, which in turn will help to promote the true spirit of Islam in their financial transactions. This is somewhat met *maqasid* compliancy for debts related to Islamic home financing.

In terms of the second issues, I intend to clarify three roles of the scheme but are not narrowed to: Firstly, payment holiday serves as a new **competitive weapon** for Islamic banks. Unlike conventional home loans, Islamic home financing that builds a payment holiday scheme inspired by an Islamic worldview can uphold social justice and financial well-being of the debtors. Payment holiday is thus of importance to make an Islamic home financing superior than its peer. This is out of its propensity to strengthen the public confidence to attract new or first time homebuyers. Secondly, payment holiday serves as an **advocate for family's well-being**, mainly customers who are facing financial hardship to service their mortgages monthly. With this scheme, the customers have a penchant to improve their well-being, in which the extra cash out can be used as a means to purchase any materials that balance the need of the family and the house. In short, one has suffice sustenance while servicing his mortgage monthly instalment. Thirdly, payment holiday acts as a **differentiator** of Islamic home financing products from their conventional counterparts. This scheme is built based on the primary sources (i.e. the *Quran* and the *Hadith*), where an Islamic altruism is certainly espoused. It is worth noting that it also plays a role as succour for the needy during a period mainly in December in which breadwinners face heavy financial commitments ranging from household to schooling expenses.

Relating to the third issue, there exists limited past studies examining the battery items for the scheme. In this article, however I offer five (5) items, which can capture the payment holiday's conceptualisation but are not confined to: (1) Islamic banks should offer payment holiday to qualified customers (2) Islamic banks should offer a moratorium on a case-to-case basis (3) Islamic banks should offer payment holiday for those who are facing natural disasters (4) Islamic banks should offer payment holiday during festive seasons (5) Islamic banks should give the extension of time to customer who faces financial difficulty till it is easy for him to re-service. These items are of help to mend our understanding on payment holiday on customers' financial health. These items, however warrant empirical investigations for reliability and validity. Earlier *muslim* scholars, somewhat have not designed proper batter items to capture the concept out of different paradigm of inquiry.

Payment holiday, indeed offers more merits to Islamic banks while delivering excellent customer mortgage services. On one hand, it is humanising Islamic home financing products where ethical transactions are brought into play. In the same vein, it promotes confidence and trust among customers on the Islamicity of Islamic home financing products, which in turn will strengthen the corporate social responsibility of Islamic banks. In between, payment holiday brings benefits greater than costs, balancing the two generic banking business objective of the bank, be it commercial or social objectives.

Despite these merits, however there are some flaws found in the literature apropos its applicability to Islamic banking. Firstly, there exists a limited information relating to payment holiday, making it under-researched and unexplored by scholars in Islamic banking and finance. The battery items, so far, are yet developed until this write-up proposes the operationalisation of five items. Secondly, it is proven that there are only a few banks in Malaysia offering payment holiday. For time being, BIMB and Maybank Islamic are the only banks offering payment holiday although some incongruities are found. Other banks [that claim](#) to be Islamic banks, so far, have overlooked the significance of the scheme to their mortgages. It [can be](#) argued that these banks' willingness to extend the payment holiday's concept is relatively unknown. Thus, further research is needed to address this issue effectually, which in turn will offer new contributions to theory development and knowledge advancement.

In all, payment holiday is an essential recipe of Islamic home financing success, distinguishing itself from its conventional peer. Practising payment holiday scheme, in effect, makes the mortgage more Islamic and consistent with *maqasid*, which in turn [improves](#) debtors' financial well-being and banks' Islamicity of debt policy. It is projected that in the future the scheme will come with different policies, pricing and objectives covering all types of Islamic financing products in Malaysia, at least.

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