

Purpose of this document is to summarise the core principles of ICFAL SER financing model and lists some frequently asked questions and their answers. It is only valid at the time of publication and not considered as a legally binding contract. For latest full terms and conditions of the finance or further clarification, the reader is welcome to contact ICFAL office. However legal documents are not handed to public until they become member of ICFAL

Al Quran: Surah Al-Baqara, Verse 275:

"Those who swallow down usury (Riba) cannot arise except as one whom Shaitan has prostrated by (his) touch does rise. That is because they say, trading is only like usury; and Allah has allowed trading and forbidden usury..."

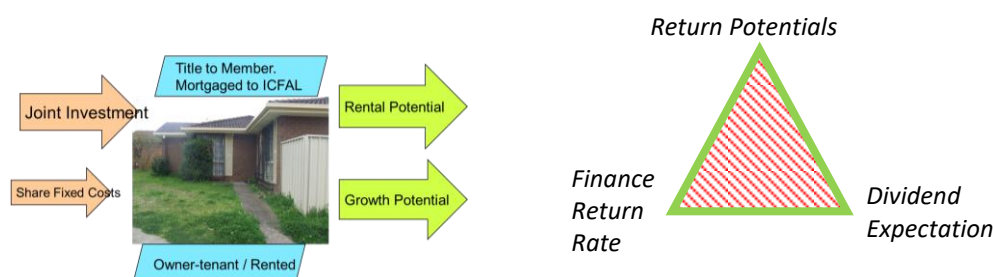
1. A Real World Investment Model for Islamic Property Finance:

ICFAL property finance is purely based on the concept of *Trading*. The model of trading reflects the real world return on a property investment. A property investment has two **return potentials**,

- Net *rental income* and
- Long term *capital gain*.

ICFAL seriously assesses these return potentials before engaging into the investment. Naturally, like any trading, when an investment is found to have un-viable return, the investment is possibly avoided. However, after engaged with the investment, if natural and unavoidable loss occurs then the loss is shared in compliance to *Sharia* practice.

In financing such an investment, ICFAL also considers the other two market forces namely the *Dividend Expectation* of the investing members and the competitive *Finance Return Rate*. The connection between *Return Potentials*, *Dividend Expectation* and *Finance Return Rate* are demonstrated in the triangle below. The actual return on this investment thus can sit inside the triangle, *negotiated* and set prior to the contract. It must be *affordability, reasonable* and *sustainable* purely depending upon the actual living condition of the property making it trustworthy trading for both the parties.



2. The Share and Equity Rental (SER) Process:

The term **SER** stands for Share Equity Rental. It is a partnership between ICFAL and the applicant member to co-own a property on shared equity basis. In Islamic term it is called **Musharaka**. Member contributes a minimum 20% of the property value at the time of purchase and ICFAL contributes the rest, but maximum \$A700,000¹. Legitimate costs, including stamp duty (if any) of initial purchase are included in the project then the total project investment is allocated to equities of the parties decided prior to the settlement of purchase. As the member is intended to be the final owner, the property title is registered in member's name. In return and to give a security, member mortgages the property to ICFAL.

¹ Current value may be different. Please contact ICFAL for latest values.

2.1 The Capital Gain and Equity Sell Price

Intention of the parties is that the member purchases ICFA's equity over a *term period* and becomes the full owner at the end. This makes the process a *diminishing partnership*. Maximum term is 30¹ years. A *profit* based on agreed *property value growth rate* is pre-set for each unit sale of ICFA equity which normally occurs monthly. Member may be entitled to purchase additional equities at pre-set "*Equity Sell Price*" shown in the contract.

2.2 The Net Rental Income and Tenancy Provisions

Objective of ICFA is to help it's members acquire property for living in halal way, therefore, the SER is prioritised for members who are the first home buyer and who intend to live in the property. Member pays ICFA's share of agreed *Weekly Rental* as a tenant. The rental, which reasonably represents the market and negotiated based on location, size and condition of the property and the term etc., is pre-set with a *Starting Rental* and a *Rental Growth Rate*. The rental growth rate represents change of rental over time due to economic inflation or specific to rental market trend of the region concerned.

During the co-ownership, both parties share the actual fixed costs of ownership. Shared fixed costs are council rates, fixed service fees, mandatory insurances and strata fees. Thus the *Net Rental* is the rental minus the refund of fixed cost.

ICFA is not being a property manager, it relies on the member, as the final owner and a tenant, to manage and pays for the ordinary property maintenance. In any unavoidable circumstances, when co-owner cum tenant has to move out of the property, the member can rent it out to a third party with pre-agreement of ICFA.

2.3 The Review Process

The return potential is reviewed based on potential of rental and value growth over time at an interval of 3, 5 or 10 years as agreed in the contract. This allows fair adjustment of the entire investment process reflecting real world impact on property market and economy. Shorter the review interval, this finance represents more accurately to the real world. However, there is no perfection in the real world thus ICFA relies on reasonable effort and resources available to agreed review interval. Additional share purchase can be made after the first year of contract.

2.4 The Financial Contract and Terms and Conditions

In complying with the Islamic Sharia and rules of the co-operative in accordance with the Co-operative Act 1992, both parties will sign *financial accommodation contract* and a *Terms and Conditions*. A typical financial plan is shown below as an example only. Actual values of a plan are dependent on evaluated *rental*, *rental growth*, *value growth rate* and *terms*. Plan can be revised at pre-agreed *review interval*.

Financial Plan (Share and Equity Rental financing schedule)

	ICFA Ltd	Vs.	SERnn_Sample		Latest plan	
Contract Term	10.0 years	Total Price of Purchase (including on cost):				\$125,000.00
Negotiated weekly Rental to be shared by ICFA and member						\$130.00
Estimated range of monthly payment to ICFA for Rental portion and share purchase is \$1287.02 to \$1129.28 with an average of						\$1,220.57
First Regular Payment:	26-Jul-14	Last Regular Payment:		26-Jun-24		
Administrative charges to be deducted from Member's a/c with 1st regular payment.						\$600.00
Agreed that the Rental and growth can be reviewed by mutual agreement at an interval of 3.00 years						

Date	Member Actual payment	Members share purchase	Share of Rental		ICFA Profit on share sell	Equity Balance		ICFA Equity Sell Price (a)	Member Equity Sell Price (b)	Property Net Sell Price (a+b)
M - Y			ICFA	Member		ICFA	Member			
26-Jun-14		Property Settlement		-		100,000.00	25,000.00			
26-Jul-14	1287.02	833.33	451.61	112.90	2.08	99,166.67	25,833.33	99,414.58	25,897.92	125,312.50
26-Aug-14	1286.28	833.33	448.78	116.91	4.17	98,333.33	26,666.67	98,825.61	26,800.17	125,625.78
26-Sep-14	1285.53	833.33	445.93	120.93	6.27	97,500.00	27,500.00	98,233.08	27,706.77	125,939.85
26-Oct-14	1284.77	833.33	443.07	124.97	8.36	96,666.67	28,333.33	97,636.96	28,617.73	126,254.70
26-Nov-14	1284.00	833.33	440.20	129.02	10.47	95,833.33	29,166.67	97,037.25	29,533.08	126,570.33
26-Dec-14	1283.23	833.33	437.32	133.10	12.58	95,000.00	30,000.00	96,433.94	30,452.82	126,886.76
26-Jan-15	1282.44	833.33	434.42	137.18	14.69	94,166.67	30,833.33	95,826.99	31,376.98	127,203.97

Total	146,468.1	100,000.0	29,725.8	47,144.2	16,742.3		-	-	-	
Date		Members share purchase	Share of Rental		ICFA Profit on share sell	Equity Balance		ICFA Equity Sell Price (a)	Member Equity Sell Price (b)	Property Net Sell Price (a+b)
M - Y			ICFA	Member		ICFA	Member			

Note - 1 Unless otherwise reviewed upon request from any party after the completion of the 1st year from the date of this contract, this financial plan will remain firm for the full term.

Note - 2 The Equity Balance amounts shown above represent value at the original purchase price. If any change such as early termination or purchase of share more than schedule has to occur, the sell price of ICFA equity will be as per the column "ICFA Equity Sell Price". If a sell has to occur prior to the contract term is complete, the sell price of the property is to be determined by the value listed as "Target Total Net Sell Price" after all selling expenses.

Note - 3 Member agreed to buy ICFA share at nominal annual property value growth rate of 3.00%. Agreed annual average Rental growth rate is 2.50%.

Note - 4 An estimated average monthly fixed cost of \$183.33 covering council rates, water and sewerage service and insurance will be shared in proportion to the equity at the middle of billing period by ICFA. This may equate to approximately \$8,873 over the entire contract period during when ICFA share diminishes from 80.00% to 0.00%. Actual amount may differ from this estimate based on actual bills.

In the financial contract, the *Member Actual Payment* of a month is the sum of the Members Share Purchase, *ICFA share of rental* and the *ICFA Profit on share sell* as listed in the row of that month

2.5 Contract Non-compliance

The contract includes terms to protect the rights of and execute the responsibilities of ICFA (actually representing all its member) and the applicant member in a fair and just basis. When a member is at fault of not paying regular payments or breaches other terms, the contract allows ICFA to consider the case in lenient manner as much as possible for a genuine case of natural hardship and difficulties. Hardships are determined on the basis of immediate family and financial situation. A member requires presenting such situation may be undertaken asset test and income test. Member at fault will be notified in advance before any action is taken. Maximum three short of payment is allowed in difficult situations. A maximum 6 months is allowed for paying the rental component and not purchasing any equity. After this period, subject to further consideration by the board of directors, ICFA may choose to take over the property and member may be asked to leave the property for renting outside or sale the property in the open market.

When member initiates a sell of the property outside market, naturally when the property can be sold at the possible best market price with profit same or more than the *target sell price*, it is assumed to be a good sale. If member initiate a sell at market downturn or at loss, the interest of sell at loss is **questioned severely**. This is to protect the rights of ICFA investing members from any unfair distribution of financial or family situation of the concerned member. When all parties find selling at loss is the best option or the loss is due to any unavoidable natural situations, parties will share the loss as per the equity.

2.6 Property Improvements

Any improvement or changes in the property must be informed to and approval is taken from ICFA. Minor improvements those do not increase property value will not be included in the equity calculation when the property is sold. Equity adjustment for major improvements is considered after industry standard de-rating factors.

3. Application Processing

In application processing, member must wait for at least 6 months after becoming member. When there is shortage of funds, normally applications are processed on the "first come first serve" basis for only valid applications. Further factors such as length of membership, type of investment, social and legal factors are also considered at the discretion of the board of directors for the best outcome for the co-operative and member. Member must bring his/her part of property share to ICFA account, at least 10% of the property price kept for minimum 6 months and remaining of the minimum 20% as soon as the *preparatory notice* is served to member for getting ready. This money does not earn dividend for the period it is held inactive from the date the member advises his/her readiness. At this point ICFA will engage a coordinator to take care of the project. Coordinator will collect latest documents, conduct credit check, assess the full application and offer a pre-approval. The final approval for finance and investment is only given after a target property is evaluated for price and security qualification. From the date of pre-approval, typically up to 8 weeks is allocated for settlement of the property purchase.

For further details, applicant member may contact ICFAL and obtain a copy of the terms and conditions. Contract documents are not handed to public until they become member of ICFAL.

FAQ on ICFAL Property SER Finance:

Q: Is the monthly repayment changes in existing finance contract like banks or other institution when market rate changes?

A: ICFA is unable to compare others' product because ICFAL may not have detail and accurate knowledge of those products.

We call *payment* instead of *repayment* as the term "*repayment*" represents a cash return on borrowings typically used in traditional banking system. The monthly payment does not change over the term unless it is reviewed at the agreed review interval. After the 1st year of contract, member is allowed to purchase additional shares and renegotiate the monthly payment to reduce contract period if wanted.

Q: What would be my monthly repayment for SER finance and how it is determined?

A: We call *payment* instead of *repayment* as the term "*repayment*" represents a cash return on borrowings typically used in traditional banking system. A fixed monthly payment is taken to cover the payment of the rental of the ICFAL share of the property and a sell price of ICFAL share purchased by the member. We cannot generate a payment schedule until a property rental value and a schedule of share purchase with a negotiated price is determined. Determination of rental value and share sell price will depend upon the type, quality and location of the property and their rental and growth potentials and based on independent valuation. Cost of competitive and equivalent market finance also considered so that Islamic finance does not become an unreasonable method that may potentially hinder the promotion of Islamic values. However, based on the experiences, following table gives a *net payment potential* for a scaled finance amount of \$100,000 as an example. This includes an estimated return of ICFAL fixed cost share to the member.

Finance amount \$100K, property price \$125K, NSW Torense Title Experience: Dec 14. *Indicative only.*

Term of finance (years)	10	15	20
Monthly net payment(after fixed cost refund)	\$1150-1200	\$820-\$950	\$700-\$820
Expected starting weekly rental	\$130	\$130	\$130
Potential growth rate	3.00%/annum	3.00%/annum	3.00%/annum
Potential rental growth rate	2.5%/annum	2.5%/annum	2.5%/annum

Q: What is the maximum term of contract?

A: Maximum of 30 years of term but actual term is determined case to case basis.

Q: If the property was purchased at \$400k for instance, and the property value declines to \$350k, can the share buyback be negotiated at a loss i.e would ICFAL accept a loss for their shares rather than a profit as the shares represent the value of the underlying asset?

A: We do not call "buyback". Buyback is not applicable in Musharaka process. Member is not buying back from ICFAL. ICFAL paid for ICFAL equity and member is purchasing ICFAL equity at a negotiated sell price. At time of settlement an agreed sale and profit is negotiated with the member based on anticipated growth of the property value over the term. Over a longer term it is rare to see property price drops. There are short term rises and falls. If we know at the beginning that we have to sell this at loss over the entire period, then we would not get engaged in a loss concerning business, which is natural. We will share a loss when an unavoidable loss situation occurs which is out of control of both of the parties. If we are to sell at loss, instead of selling we would rather hold the property until when the price turn back to normal. And we are not selling to the open market. We cannot assess and make a selling price every month to determine sale price for that month. Not possible. There will be negotiation and argument in every month in settling a price for that month. If one takes a market evaluation, the evaluations are always generic and reflect average of variations. A particular property is only good for its own price when sold. At downturn, any particular property may be sold at profit if some attractive minor changes occur to the property or to its neighbourhood. And vice-versa a particular property may be sold at loss despite good market average due to fall of its quality or damage or neighbouring living environment. However, if a selling at loss is driven by the member then the initiative is ***questioned severely*** and genuine need for sell is established to avoid any unfair passing of member's interest to a loss to all the general cooperative members.

Q: If the member decides to sell at a loss or profit, with ICFAL's consent, does ICFAL share the loss or profit with the member?

A: We will definitely agree to take loss, if and only if the sale at loss is due to a genuine need and there are no other alternatives to avoid a loss. If member wants to sell at a time when it becomes a loss, we may buy from the member and hold until it becomes a profitable to sell. Unless there is a negative motive, no member would like to sell at loss in normal circumstances. We will also assess if member is intending to sell at loss due to his personal or commercial gain somewhere else. This would not be justified to convert one's personal gain into a loss to the members of the cooperative at any time. At ICFAL we would try to ensure fairness in our dealing with all the parties at all times.

Q: Can I purchase a land only with ICFA finance?

A: Yes. The purpose of the land should be, either to build an income generating project such as home or rentable property, agriculture or farming etc. So that the Musharaka process can be applied by allowing a process of *leasing to build* or *leasing for farming* etc. The land must be mortgaged to ICFAL.

Q: Can I build a home only on a pre-purchased land with ICFA finance?

A: Yes. The building will be financed under Istisna-Musharaka process. Construction must be supervised by ICFA representative. Project can be broken into few stages. Every stage can be maximum one month long so all expenses for that stage is captured and a stage financial schedule is signed off. Once building is complete a combined full SER will be prepared including all stages. The land must be mortgaged to ICFA. If the land is pre-purchased using ICFA finance under Musharaka SER then the land SER can also be combined with building.

Q: Will ICFA share stamp duty?

A: We expect the stamp duty is fully borne by the purchasing member. However, when member is unable to bear part or full of this cost, the amounts paid by each party are included in the equities.