



Islamic Co-operative Finance
Australia Ltd

Finance

Frequently Asked Questions



How do I obtain ICFAL finance?



Due to our limited funds, there is a wait time to obtain finance from ICFAL.

Currently the process to obtain finance from ICFAL takes approximately 9-12 months from a new membership.

To obtain finance from ICFAL, first you need to become a member, the membership fee is \$100.

You then need to hold a minimum of 5 shares, equivalent to \$500 in your account for 6 months, 1 share is \$100.

After the 6 months you will then be eligible to apply for finance.

Once the finance application is approved, a member needs to have approximately 10% of the value of the estimated purchase price of their property along with a completed application form.

Following approval and 10% deposit, you will be placed in the queue to wait for funding availability. Currently the queue wait time is between 12 - 24 months.

When we have the funds ready to approve your application, you will be requested to bring a further 10% of the estimated purchase price to ICFAL account bringing the total minimum deposit to 20% of the property price.

After this, we will issue you with a pre-approval where we will explain to you how our contracts work and your potential repayments to ensure that we are clear and transparent with our finance process.

Upon your agreement and understanding of our finance process, we will then grant you a final approval where you can then purchase your home in sha Allah.

How does ICFAL house finance work?

Our finance contracts are based on a diminishing partnership principles (musharakah mutanaqisah) (المشاركة المتناقصة).

We offer house finance to a maximum amount of \$700,000 over a maximum period of 30 years if, at the time of application, the member is under the age of 40. The time period allowed is reduced by 1 year for each year the member is above 40 years of age.

The process of our house finance is as follows:

- 1) The member selects the house to purchase (assuming the member has 20% of estimated purchase price with ICFAL already).
- 2) We obtain a valuation of the property price and rent. From PR Data we take the growth rate.
- 3) ICFAL and the member will negotiate on a rental price, rental price increase and property price increase over a period of 3, 5 or 10 years. This is a regulatory requirement to ensure ICFAL is clear and transparent to the member about the potential amount of payments they will be making over the entire term of the contract. Please note, ICFAL does take into account significant and fair movements in market prices if required.
- 4) We purchase the house in partnership with the member.
- 5) The contribution made by both ICFAL and the member will then be considered the respective musharakah shares in the property by each party. For example, if ICFAL contributed \$400,000 and the member contributed \$100,000 on a \$500,000 property, ICFAL will then hold 400,000 musharakah shares on a total of 500,000 musharakah shares on the property. These will be then used to determine profit or loss sharing, rental contribution and fixed cost contribution on the property.
- 6) Overtime, the member pays rent on ICFALs share of the property. This rent amount will reduce with each additional share purchase the member makes.
- 7) The member will also purchase ICFALs share over time.

What happens to my money whilst I'm waiting for my finance application to be processed?

You will be entitled to receive any dividends declared at the end of the financial year up until your finance application has been approved.

For example, if the dividend declared at the Annual General Meeting is \$5.0 per share (each share is \$100 in value) and you have held \$100,000 worth of shares whilst waiting for your finance application to be processed from the 1st Jan of that year. You will be entitled to receive 181 days of the dividend declared. Therefore you will receive a dividend of

$$(\$5.0 \times \$100,000 \times 181) / (\$100 \times 365) = \$24.79.$$

Can I withdraw my application at any time?

Yes. If you would also like to withdraw your funds you simply need to complete a share redemption form and your money will be returned back into your nominated bank account.

Alternatively, you may choose to leave your funds in your ICFAL account and we will use these funds to help other members purchase their property.

Where does ICFAL source its funds?

We are a 100% member funded. We don't receive any other source of external funding.

What is the maximum amount of finance ICFAL provides?

Currently \$750,000 over 30 years.

Are there penalty fees associated with purchasing additional shares during the term of the contract?

No. Only a \$100 administration fee is charged with each additional share purchase. Earlier payments are encouraged from our members as this reduces the overall cost for the member in the long term.

Can I purchase all the shares on the property and complete the contract early?

Yes. Currently only a discharge fee of \$450 will apply. This is a standard fee that will apply regardless of whether you finalise your contract earlier or on time.

The amount you will need to pay to finalise your contract on any given month is stated on your financial schedule under the heading ***"ICFA Equity Sell Price (a)"***.

Will I receive regularly statements to show me my account balance and payments?

Yes. We currently issue quarterly statements.

Does ICFAL offer construction finance?

Yes. It works by ICFAL purchasing the labour and building materials needed to build the property and then re-selling these assets back to the member.

If the member does not currently hold the land, the member must contribute the minimum 20% of the estimated value of the building project.

Does ICFAL offer finance for land and house packages?

Yes. ICFAL will assist the member in paying for the various stages of the building project. At the completion of the project, the property will then be valued and the contribution ICFAL made to build the property will then form ICFALs share in the property.

The member will then pay rent for ICFALs share of the property and will purchase ICFALs share in the property over time.

Does ICFAL offer finance for the purchase of a land only?

Yes. However, the purpose of the land should be, either to build an income generating project such as home or rentable property, agriculture or for farming. The Musharakah process can still be applied by allowing a process of leasing to build or leasing for farming for example. The land will be mortgaged to ICFAL.

Does ICFAL offer finance to build a home only on a pre-purchased land?

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 based on the remaining balances of all stages and valuation report. 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.

Can I borrow on my home?

No. We do not have such a facility as this is considered bay al eenah in Islam which is not permissible. Such a transaction is considered a disguise for an interest based transaction.

Bay al eenah occurs where one party (party A) will buy an asset from party B, then immediately, party A will sell the same asset at a high price to party B.

Does ICFAL offer re-finance from another organisation?

Yes. We will obtain a valuation of the property. Then the amount ICFAL refinances the member for will become ICFALs share in the property.

The member will then pay rent for ICFALs share of the property and will purchase ICFALs share in the property over time.

When are statements issued?

Statements are issued once a quarter. In between, members may contract ICFAL to ask for their current share balance.

How are the payments made to ICFAL different payment that is made to a Bank?

The payments made to a bank in a conventional finance system is based on a repayment of money with no relationship to the potential rise or fall in rental and house prices. The bank lends a customer a certain amount of money and expects a certain amount of money in return for the money they lent out.

The payments made to ICFAL are based on the concept of trading and reflects the real world return on a property investment. The monthly payments made to ICFAL consists of 3 components:

- 1) Rent - The rental fees paid to ICFAL are taken from a market valuation at the beginning of the contract. A pre-determined rental increase is negotiated and applied at the beginning of the contract.
- 2) Share purchase – This is the original contribution ICFAL made to purchase the property. ICFAL then offers these shares for sale to the member on a monthly basis.
- 3) Profit on share purchase – This is the profit ICFAL makes from selling its shares back to the member on a monthly basis.

Over time, the rent and profit on share purchase that are made to ICFAL can change depending on market forces on the real estate market. These rates are reviewed every 3, 5 or 10 years depending on a member's request.

If there is no interest, why am I paying additional to the amount ICFAL initially invested by the end of the contract?

Paying more does not mean you are paying interest. The money that ICFAL makes is derived from rental payments and profit made on ICFALs shareholding.

How are my monthly payments determined?

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Although we can provide approximate monthly payment figures depending on the amount of finance required from ICFAL, exact figures will be determined after a valuation of the property is made and further research is conducted by our staff on the rental and property price growth rates in the particular suburb a member wishes to purchase a property.

These rates are reviewed every 3, 5 or 10 years depending on a member's request.

How are the rental and property price growth rates determined?

At the time of purchase – We obtain an independent valuation of the property and rental price. Along with this, we conduct our own research based on historical property price and rental growth data of the relevant suburb. These growth rates will then be presented to the member for their agreement.

If the member disagrees, they may obtain their own valuation at their own cost to renegotiate an appropriate growth rate.

Why do you need to apply a 3, 5 or 10 year growth review period?

In an ideal situation we will like to re-assess the property house price and rental prices on a yearly basis. However, due to resource constraints, this is not practical for us at this stage.

These periodic reviews are opportunities for both ICFAL and the member to re-assess the market situation and make the relevant adjustments to property and rental prices.

Do you share in the fixed costs of the property?

Yes. During the term of our mushaarakah agreement, ICFAL shares in the costs for strata rates (if applicable), council rates, fixed water charges and building insurance.

The member is expected to pay for the invoices and submit them to ICFAL in order for us to process their request.

If the property was purchased at \$400,000 and the property value declines to \$350,000, will ICFAL accept a loss for their shares rather than a profit as the shares represent the value of the underlying asset?

Yes, ICFAL will share a loss when an unavoidable loss situation occurs which is out of control of both of the parties. This is the unique aspect of our Mushaarakah financing system.

However it must be noted that over time, although there is short term volatility in the house prices, it is rare to see a long term decline in property prices. ICFAL takes a long term view when it comes to assessing the pricing of its mushaarakah units. ICFAL will review the pricing on its mushaarakah shares should a significant shift in the market occur.

If, on the other hand, a sale at loss is driven by the member, then the initiative is carefully investigated by ICFAL and genuine need to sell is established to avoid any unfair passing of member's interest to a loss to all the general cooperative members.

What happens if I wish to sell the property?

ICFAL will share the profit and loss of selling the property net of any costs involved to sell the property.

Loss of selling at a loss is answered in the previous question.