

## ISLAMIC BANKS AND CONVENTIONAL BANKS IMPORTANT ASPECTS OF BUYING A HOUSE

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### Abstract:

The article examines the services offered by Islamic banks and traditional banks, their advantages and disadvantages, the demands and needs of the population in this regard, and their level of satisfaction. The big difference between the incomes of the population and the prices in the housing market and its consequences are discussed. The issues of religious views of buyers, property rights and risk and uncertainty in the long-term payment process are analyzed and suggestions and conclusions are given.

**Keywords:** *housing, mortgage loan, Islamic banking, conventional banking, musharakah mutanaqisah, rent, mudharabah, murabahah*

### Introduction

The demand for housing has always been relevant as it is the primary need of human beings. As the population grows, this demand will increase. As a result, today there is a big difference between the income of the population and the price of housing. This reduces the purchasing power and creates the need to purchase by paying in the long term. In this regard, in our country, Uzbekistan, as in the whole world, banks offer to purchase housing through mortgage loans.

As in other areas, problems and shortcomings are visible in this direction. Examples of such issues include the increase in the cost of housing, high interest rates and fines, being not in line with the religious views of the population, and the difficulty of understanding the payment schedule. The increasing religious literacy of the population alone is causing the demand for mortgage loans to

decrease day by day and, alternatively, the need and demand for Islamic banking services, which are developing rapidly, are increasing. This shows that it is important for us to study the advantages and disadvantages of Islamic banks and traditional banks.

**Analysis of the literature on the topic :** Buying houses through Islamic banks is a current issue, and many works are being conducted in this regard. Michael JT McMillen's article *Islamic Housing Finance: A Conceptual Overview* provides a simple, general introduction and survey of transaction structures and basic principles used in Sharia-compliant housing finance. The paper summarizes the six most commonly used home purchase financing structures by banks and financial institutions that provide Shariah-compliant alternatives. They are: (a) rent (lease); (b) diminishing partnership or musharakah mutanakisah; c) cost and sale (murabahah and tawarruk); (d) deferred payment sale (bay' bithaman ajil); and (e) the two-tier construction contract financing (istisna'a - parallel istisna'a)<sup>1</sup>. Mufti I Mohammad Taqi Osmani's book "Introduction to Islamic Finance" , Norazlina Abd Wahab's article "Islamic Social Finance Initiatives: An Insight into Bank Islam Malaysia Berhad's Innovative BangKIT Microfinance Product", Oybek Akhmadjonov's "Islamic Finance and Banking" and others.

**Research methodology.** Logical analysis, cause and effect, formal statistical data summarization methods were used in research.

**Analysis and results.** Islamic banking is a financial system based on Islamic law or Shariah. It operates under the guidance of Islamic scholars and aims to promote ethical and socially responsible investment. Islamic finance prohibits charging interest on loans and paying interest on saving accounts and instead uses other mechanisms such as profit and loss sharing to financial transactions. Islamic banking is based on the teachings of the Prophet Muhammad (peace be upon him), who emphasized the importance of honesty, justice and ethical behavior in all financial transactions . Islamic finance works according to the principles of "murabahah" (profit sharing) and "wakala" (agency), which allows financing transactions without charging interest. Instead of charging interest on loans, Islamic finance uses a profit-sharing system where the lender receives a portion of the profits generated by the borrower's business. In addition, Islamic finance uses the concept of "mudarabah" (joint venture), where one partner gives money to invest in the other party's business. The parties will share in the profit according to the agreement, and if there is a loss, the investing party will bear the full loss, and the other party responsible for carrying out the work will lose for the labor and time spent. In general, Islamic banking is a financial system that operates on the basis of Shariah principles and aims to promote ethical and socially responsible investments. It focuses heavily on profit and loss sharing mechanisms and has gained popularity in recent years due to its focus on ethical and socially responsible investing.

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<sup>1</sup>[https://www.researchgate.net/publication/254941386\\_Islamic\\_Home\\_Purchase\\_Financing\\_A\\_Conceptual\\_Overview](https://www.researchgate.net/publication/254941386_Islamic_Home_Purchase_Financing_A_Conceptual_Overview)

Currently, the procedure for issuing a mortgage loan in the traditional banking system includes several stages:

1. **Application:** The borrower submits a mortgage application to the bank providing personal and financial information such as income, assets, debts, employment information and property details.
2. **Pre-Approval:** The bank evaluates the borrower's financial condition, creditworthiness and property valuation to determine the borrower's eligibility for the loan. At this stage, a pre-approval may be issued indicating the maximum loan amount that the borrower can take.
3. **Property Appraisal:** An independent appraiser evaluates the property to ensure it meets the bank's criteria and loan-to-value (LTV) requirements.
4. **Underwriting:** The bank's underwriting team reviews the borrower's application, credit history, property appraisal and other relevant documents to assess risk and make a final decision on lending .
5. **Approval and Closing:** Upon approval, the bank will provide a commitment letter outlining the terms of the loan. Both parties (borrower and lender) then proceed to closing, where legal documents are signed and the loan is funded.

The payment procedure will be as follows:

1. **Monthly Payments :** The borrower is required to make regular monthly payments that usually include principal and interest, but may also include property taxes and insurance.
2. **Amortization Schedule:** The bank provides an amortization schedule that shows how each payment is split between interest and principal. Early payments during the loan term cover interest first, and later payments gradually reduce the principal amount.
3. **Grace Period and Late Payments:** There may be a grace period for late payments, after which penalties or late fees may apply. The bank may also report late payments to the credit bureaus, which will affect the borrower's credit score.
4. **Prepayment Options:** Some mortgages allow borrowers to make additional payments or pay off the loan early without penalty. Others may have prepayment penalties for paying off the loan before a certain period.
5. **Repayment Period:** The loan is repaid over an agreed period (eg 15, 20, or 30 years), at the end of which the loan is fully repaid and the borrower has full ownership of the property.

In Islamic banking, the lending rules are based on Sharia principles and prohibit the charging of interest on loans. Instead of charging interest, Islamic finance uses a profit-sharing system where the lender receives a portion of the profits generated by the borrower's business. In Islamic banking, lending rules are based on the concept of "mudarabah", in which a lender and a borrower form a partnership to finance a project.

The rules of the competition are as follows:

1. The partnership must be established by a written contract that must be in accordance with the principles of Sharia.
2. The lender must provide capital for the partnership, while the borrower contributes management and operational skills and experience.
3. The borrower must submit a detailed business plan, which is approved by the lender and the Shariah scholar.
4. The lender and the borrower must agree on the terms of the partnership, including the ratio of profit sharing, the duration of the partnership, and the method of calculating profits and losses.
5. Lender and borrower must agree on the use of funds to be used only for partnership purposes.
6. The lender and the borrower must agree on the distribution of profits and losses, which must be based on the agreed profit sharing ratio .
7. The partnership must be regularly reviewed by a Shari'ah scholar to ensure its compliance with Shari'ah principles .

In general, lending rules in Islamic banking are based on the concept of mudarabah, which is a joint venture between the lender and the borrower. Mudoraba rules are designed to ensure that the partnership is honest, fair and ethical , and that the borrower's business is compliant with Sharia principles.

The procedure for buying a house on the basis of Islamic banking is as follows.

In Islamic banking, mortgage loans are structured in accordance with the principles of Sharia law, which prohibits the payment or receipt of interest (riba). Instead , Islamic finance relies on alternative arrangements that conform to Shariah principles.

One of the common methods used by Islamic banks for home financing is murabahah . In a murabahah transaction, the bank buys the property and then sells it to the buyer at a higher price, allowing the buyer to pay in installments. The higher price includes the bank's profit margin, and the buyer knows the total costs in advance, because there is no "gharar" (uncertainty).

Another method is a property lease agreement. The bank buys the property and leases it to the buyer for an agreed period, during which the buyer pays the rent . A portion of the rent can be used to buy the property. At the end of the lease term, ownership is transferred to the buyer .

A diminishing partnership is another model in which the bank and the buyer purchase the property together. The buyer pays the rent for the use of the bank share and gradually buys the bank share. Ultimately, the buyer becomes the sole owner of the property.

These Islamic mortgage systems ensure that financing is based on Shariah-compliant, interest-free, asset-backed transactions.

Ensure borrowers fully understand the terms of their mortgage, including the payment schedule, interest rates, fees and potential penalties, ensure that payments are made on time, and that any payments are made during the repayment period. It is very important to avoid the consequences.

**Conclusions and suggestions:** Our research has shown that it is important to provide solutions and create alternatives that are beneficial for each party to the problem of buying a house through a bank with undiminished requirements. If, as an alternative to the mortgage loans offered by traditional banks, housing purchase services are offered on the basis of Islamic banking conditions, it will be possible to cover the funds of a large group who do not use traditional banking services due to their religious views. This provides economic benefits for both parties. After all, everyone has the right to be provided with financial services according to their beliefs. No matter how much trust is placed in traditional banks, they may not withdraw the money "under their pillows". Therefore, it is necessary to look at this issue on a very broad scale.

The home buying procedures discussed in this article are common and relatively simplified forms used throughout the world, in both developed and developing economies. It is my hope that this article will encourage the reader to explore the available housing finance alternatives and apply them to relevant organizations and communities.

The points discussed in the article are general and do not include the nuances of the principles discussed or the many other principles that should be considered in the implementation of the transaction. Not all of the structures cited may be permissible under the Sharia principles practiced by a particular jurisdiction or sect. Anyone considering applying any of these structures should consult qualified Shari'ah scholars regarding the principles that may be used in a particular transaction

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