

## **SELECTION CRITERIA FOR ISLAMIC HOME FINANCING IN MALAYSIA**

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### **ABSTRACT**

Islamic home financing over the ten year period showed an increasing rate from RM6.8 billion to RM23.3 billion. It is crucial to understand what are the factors that will determine the satisfaction of both Muslims and non-Muslims customer towards Islamic home financing. Therefore, this study investigates the important factors that influence selection of Islamic home financing among working adults in Malaysia. Questionnaires were distributed to the 160 employees in one financial institution. The sampling procedure adopted in this research was stratified random sampling. The questionnaire was designed in two sections, one consisting of demographic information and the second relating to the selection determinants of Islamic home financing. The result indicates that reputation, service quality, religious, media advertisement and social influence becomes the important factors that influence selection of Islamic home financing. Reputation is the best predictor as most of customers are confident to select Islamic home financing because the Islamic bank has a good reputation and image. This research has been conducted in aggregate form. The study also refers to the employees in one financial institution. Future research could account for employees from other financial institution. The analyses presented in this research can be used by policymakers and managers as a guide to promote Islamic product and services. The study makes a contribution to the literature on Islamic banking in Malaysia. It is the first study to particularly investigate the home selection criteria in Malaysia. The findings achieved in this research will be of interest for practitioners and academics concerned with developments of the Malaysian Islamic banking industry.

**Keywords:** Personal Finance; Banking; Loans; Islam; Malaysia.

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## 1. INTRODUCTION

Home is a basic necessity for human life. Human needs a shelter for rest, sleep, comfort and protection from sun and rain. Home is a place to dwell in comfort with family. Housing has been classified by Islam as one element of needs or as human Daruriyyat needs. A definition Daruriyyat need in Islam is to protect religion (al-Deen), life (al-Nafs), property (al-Mal) and intellectual (al-Aql) for Muslims. Housing is important in the human life and its society. Housing has a tremendous social and economic impact on peoples' lives, and the way people live. It has direct and immediate influence on health, education, economy, environment, political and social life of any society (Sinha, 1978).

Owning a house is a main goal for many people as, they are willing to involve in debt to buy a house (Ismail et al., 2011). To fulfil this goal, people build a home on their own, purchasing it or renting it from others. However, it is quite difficult to buy a house in cash regarding the price of the house showing an increase trend. As a solution a home buyer can obtain financing either to purchase or secured against the property from a financial institution. Thus, the dual banking system in Malaysia has to offer two forms of home financing method, the conventional home loan and the Islamic home financing. The concept of financing in Islam differs with that of conventional financing; Islamic home financing or Islamic mortgage financing is a Shariah-based home financing and elements of interest rate are prohibited (Khir et al., 2007). Unlike conventional mortgage loans, Islamic mortgage financing based on flat rate or profit rate (Rosly, 1999).

Islamic home financing in Malaysia is based on cost-plus arrangement or known as the murabahah which is combined with payment of the price is deferred to future date contracts known as the bai-bithaman-ajil (BBA) (Yusof et al., 2011). However, Muslim's scholars in the Middle East countries reject of the implementation of the BBA- murabahah concept in home financing because it is argued to be similar to that of a conventional home financing (Yusof et al., 2011). Bank capitalizes to profit upfront in the selling price which remains fixed at the end of tenure (Razak and Taib, 2011). It is similar to conventional debt financing, which resulted in high cost and posed a burden to the customer. In addition, the bank does not take the risk of ownership and liability on the property (Rosly, 2005). BBA- murabahah home financing is based on a buying and selling the concept. In the BBA- murabahah home financing, the bank will buy the property first at the current market price, and will sell the property back to the customer at an agreed price. The price includes the total cost of the property, plus a bank's profit. Both parties would agree to a term and an instalment amount. The implementation of the BBA - murabahah concept is widely acceptable in Malaysia, Indonesia, and Brunei (Yusof et al., 2011).

Other than BBA- murabahah, recently in Malaysia, the practice of Islamic home financing has been available in the principle of Musharakah Mutanaqisah (MM). The MM model is based on the highly successful Islamic Cooperative Housing Corporation in Toronto, Canada established in 1981 (Razak and Taib, 2011). MM home financing has been practiced by international Islamic financial institutions and cooperatives in the United States, United Kingdom, Canada, Middle East, Australia and Pakistan (Razak and Taib, 2011). The MM concept was introduced to overcome the main criticisms of BBA. MM home financing is based upon a partnership

concept. In a MM home financing, the bank and the customer jointly buy and own the property. The bank then leases its share of property to the customer, and in return, the customer promises to buy the bank's ownership over the property. The customer pays rent to the bank under *ijarah* concept, of which a portion of the payment is used to gradually purchase the bank's share in the property (Razak and Taib, 2011). The objective of the MM is to earn profits through the investment. The capital contribution by the partners is not fixed and can differ from contract to contract. MM as a mode of Islamic financing is more efficient (Ka, 2009) because the period needed in the transfer of ownership is shorter (Smolo and Hassan, 2011).

Many studies related to Islamic home financing such as Jalil et al. (2010) investigated the choice criteria for home financing of Islamic and conventional banks among Malayan Banking Berhad customers. An earlier study by Amin et al. (2009) examined a customer's selection of Islamic mortgages in eastern Malaysia. Mylonakis (2007) investigated selection criteria for home loans in Greece using data collected from 200 Greece bank customers who used the services of home financing. In addition, other study also examined the choice criteria for home loan's market in Greece, and they concluded that quality service, interest rate, loan amount, previous relationship, location, lower queues, pleasure period and advice are the significant factors in choosing banks for home financing. Devlin (2002) conducted a UK study on the selection criteria for home loans using data relating to 4,200 bank customers.

In an increasingly competitive environment, banks are forced to innovate and expand the types of home loan products being offered. With more than a dozen banks in Malaysia all offering Islamic home loan products, it is not surprising that many customers struggle to select between these different types of home loans. However, lack of research into the determinants of selection criteria for Islamic home financing in Malaysia. Thus, the aim of the study is to discover the important factors that influence the selection of Islamic home financing among working adults in Malaysia. The following section considers previous studies relevant to banking selection, while section 3 considers the details of the methodology necessary to attain the study objectives. Most importantly, section 4 analyses the findings generated from the survey work. In the section 5, a further discussion of the results and study implications are highlighted in order to gain more understanding on choice criteria for Islamic banks, followed by a conclusion.

## 2. LITERATURE REVIEW

There has been little attention given to studying selection criteria for Islamic Home Financing. Hamid and Masood, (2011) found that shariah principle, fast and efficient services, price, bank reputation, and terms and conditions of product flexibility are the five most important factors considered by customers in choosing Islamic mortgages. Moreover, the five the least important factors are trending, lifestyle, and advertisement promotion, advice from the bank and advice or arrangement from the housing developer. These factors are less likely used by customers for selecting mortgage providers.

According to Dusuki and Abdullah, (2007) conducted a survey the banking selection in Peninsular of Malaysia or West-Malaysia and concentrated its sample to Kelantan, Penang, Kuala Lumpur and Johor. Two States of Malaysia, Sabah and Sarawak, remained scarce on

banking selection criteria studies. They found that reputation is the key factor affecting bank customers' decision to select banks. Additionally, Gait and Worthington (2008) studied on the perceptions and knowledge of Islamic financial products, and services shows that religion is the main factor considered by customers in Islamic finance, although further pricing, bank reputation and quality of service are also very important criteria for bank customers.

A survey study by Amin (2008) examined the relationship between service quality and customer's satisfaction among the Islamic bank in Malaysia. The research showed that the majority of dealings with Islamic bank were satisfied with the overall service qualities which are provided by the Islamic bank. Moreover, Mylonakis (2007) studied choice criteria for home loans in Greece using data collected from 200 Greece bank customers who used the services of home financing. The findings found that influence from media advertisements; flexibility and low repayment penalty are the important factors affecting the decision criteria. Media influence adults as compared to teenagers (Ismail et al., 2011) as an adult is known as the decision maker.

Mokhlis (2009) studied determinants of choice criteria in Malaysia's Retail Banking. The findings found that people influence, marketing promotion, and financial benefit were the important factors of choice criteria in respect of selecting a retail bank. According to Rosly, (2005) Islamic banking has no direct control over the marketing and promotion. This is because the marketing unit usually handles by conventional and promotion done via bank's branch by the branch manager who reports to the conventional than overseeing the whole operation of Islamic and conventional.

Amin et al. (2009) found that the factors behind the customer's selection of Islamic home loan in Sabah. There are seven factors of finding such as the service provision. Second, it relates to people influence. For a married person, they decision makers of their family are spouses (Ismail et al., 2011).

### **3. HYPOTHESES DEVELOPMENT**

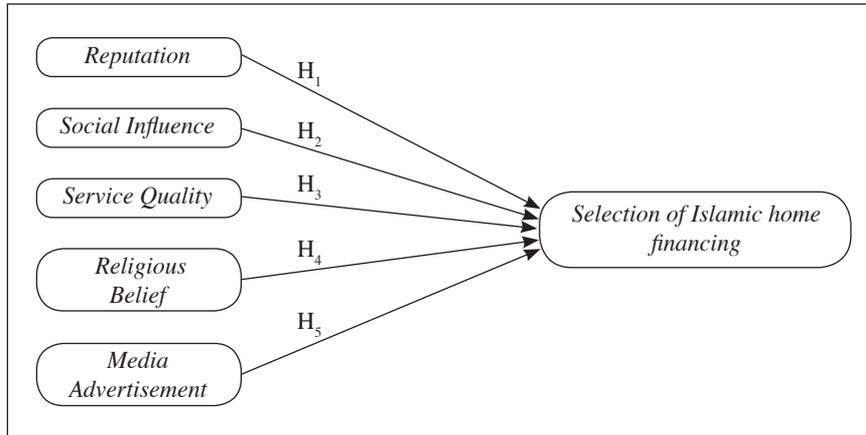
This study derives the theoretical framework from the Theory of Planned Behavior. This model developed by (Ajzen 1998) defines the theory of planned behavior as the connection between attitudes, subjective norm and perceived behavioral towards the intention of performing the behavior and in this case is the intention to purchase sustainable products.

An attitude refers to an individual's perception toward specific behaviors. Subjective norm refers to the individual's subjective judgment regarding others' preference and support for a behavior (Werner, 2004). According to Ajzen (1991) stated that Individuals' Elaborative thoughts on subjective norms are perceptions of whether they are expected by their friends, family and the society to perform the recommended behavior.

Therefore, the foregoing of literature review in this study was formed as a basis for developing a conceptual framework. Consistent with the conceptualization, this study used the Theory of Planned behavior. A model was developed specifically to study the relationship between

reputation, service quality, religion, media advertisement, and social influence. Figure 1 shows a model of the hypothesized relationships investigated in this study.

**Figure 1: Research Model**



Based on the research framework, the following hypotheses are developed:

- $H_1$ : Reputation is positively related to selection of Islamic home financing.
- $H_2$ : Social Influence is positively related to selection of Islamic home financing.
- $H_3$ : Service Quality is positively related to selection of Islamic home financing.
- $H_4$ : Religious Belief is positively related to selection of Islamic home financing.
- $H_5$ : Media Advertisement is positively related to selection of Islamic home financing.

## 4. RESEARCH METHODOLOGY

### 4.1. Sample

The participants employed in this study are employees of one financial institution in Malaysia. Such selection of sample enables the use of the probability sampling methods that is stratified random sampling method. Concerned with the sampling frame, Human Resource Department of the financial institution conveniently provides the list of employees for the purpose of data collection. We extend the disproportionate of stratified random sampling. This is owing to the fact that numbers of sample subjects chosen from various strata is not directly proportionate to the total number of elements in the respective strata (Sekaran & Bougie, 2010). Hence, the sample from each stratum or department has no specific proportionate to the total number of elements in the respective strata. The departments included in this study include “Department of credit risk management”, “Department of market risk management”, “Department of liquidity risk management” and “Department of operational risk management”. A total of 40 questionnaires was distributed for each department. Employees are chosen in this study because they are working and intended to own a house in the future.

The data of this study are generated from responses to questionnaires completed at actual survey. A total of 160 questionnaires are provided. According to Zikmund (2003), the simple size can be 30 units and more, whereas Sekaran (2003) has mentioned between 30 units to 500 units, so this study was decided to select 160 respondents. Questionnaires have been cited as useful tools which enable patterns to be investigated in the acquired data and are frequently used with success in consumer research (Easterby-Smith et al. 1993). The trained enumerators assist in the distribution of questionnaires to the employees of one financial institution in Malaysia.

#### **4.2. Measures**

Explained in more detail, the questionnaires for this research consist of seven (7) sections namely “demographics profile”, “reputation”, “social influence”, “service quality”, “religious belief”, “media advertisement”, and “Selection of Islamic home financing”. Further, reputation is measured using 6 items adapted from Dusuki and Abdullah (2007), social influence was measured using 6 items adapted from Mokhlis (2009) and Amin et al. (2009), service quality is measured using 6 items adapted from Amin (2008), religious belief is measured using 6 items adapted from Gait and Worthington (2008), whilst lastly media advertisement is measured using 6 items adapted from Mylonakis (2007) and Ismail et al. (2011). Those items of the questions are adapted from previous studies and are measured using 5 Likert scale ranging from (1) = strongly disagree, (2) = disagree, (3) = neutral, (4) = agree and (5) = strongly agree.

#### **4.3. Data analysis**

We employ SPSS 20 in order to conduct frequency analysis, descriptive analysis, reliability and multiple regression analysis. Frequency analysis is used to extract the percentile of the profiles of respondents in terms of their gender, ethics, age, religion, marital status and monthly income obtained. Mean and standard deviation are computed for descriptive analysis. The reliability test is used to examine the internal consistency of the items in their respective factors. Multiple regression analysis is particularly used to test the hypotheses proposed earlier.

## **5. RESULTS**

### **5.1. Profile of respondents**

The present study involves a total of 160 respondents. The respondents of this study are employees in one financial institution. About 31.9 percent or 51 respondents have Islamic home financing whilst 68.1 percent or 160 respondents do not have Islamic home financing. Most respondents are using Bank Islam for Islamic home financing 15.6%, followed by 6.3 per cent RHB Islamic, 4.4 per cent Maybank Islamic and 5.6 per cent others. Table I provides the profile of the respondents.

### **5.2. Descriptive statistics**

Tables II explained about descriptive statistics of selection criteria for Islamic home financing. Descriptive statistics are used for measures of central tendency and to measures of dispersion

for interval and ratio scale data which offers an index of the spread of a distribution or the variability in the data.

### 5.3. Hypotheses test

Multiple regression analysis was used to investigate the relationship between two variables. The results are presented in table III. The results of the five hypotheses tests indicate that reputation, service quality, religious belief, media advertisement and social influence positively influence selection of Islamic home financing.

**Table 2:** Descriptive Statistics

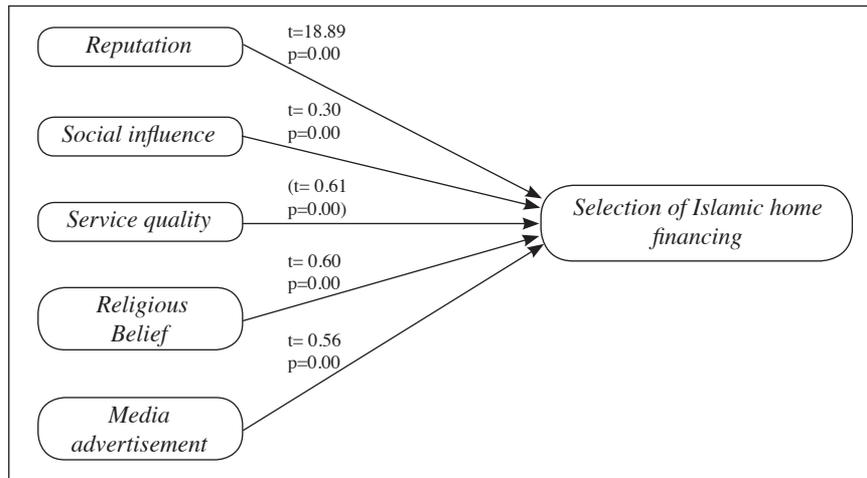
	Items	N	Percent (%)
Gender	Male	56	35.0
	Female	102	63.8
Status	Single	86	53.8
	Married	72	45.0
Age	20 – 30	62	38.8
	31 – 40	72	45.0
	> 40	23	14.4
Race	Malay	95	59.4
	Chinese	39	24.4
	Indian	17	10.6
	Others	8	5.0
Religion	Muslim	91	56.9
	Buddhist	38	23.8
	Hindu	14	8.8
	Christian	13	8.1
	Others	4	2.5
Education	Professional	2	1.3
	SPM	4	2.5
	STPM / Diploma	22	13.8
	Degree	118	73.8
	Master	13	8.1
	PhD	1	0.6
Monthly Salary	RM1000-RM3000	48	30.0
	RM3001-RM4000	55	34.4
	>RM4000	54	33.8

**Table 2:** Descriptive Statistics

	<b>Items</b>	<b>Mean</b>	<b>Standard deviation</b>
Selection criteria of Islamic home financing	B1-Thoroughness	3.83	0.67
	B2-Ability And Eligibility	3.66	0.72
	B3-Price Of House	3.33	0.70
	B4-Eligibility	3.69	0.66
	B5-Economy Condition	3.39	0.78
	B6-Free From Bias	3.01	0.74
Reputation	C1-Good Reputation And Image	3.84	0.68
	C2-Efficient & Effective performance	3.68	0.70
	C3-Management	3.69	0.66
	C4-Successful Development	3.76	0.72
	C5-High Demand	3.46	0.83
	C6-Widely Acceptable	3.90	0.73
Service Quality	D1-Good Service Quality	3.32	0.69
	D2-Satisfaction	3.23	0.76
	D3-Efficient services	3.64	0.74
	D4-Friendly	3.09	0.87
	D5-Good Knowledge	3.01	0.74
	D6-Faster application process	2.84	0.73
Religious Belief	E1-Religious Teaching And Practices	3.26	0.85
	E2-Less Burden	3.23	0.75
	E3-Charges Is Determined In Advance	3.53	0.65
	E4-Minimal Late Payment Charge	3.51	0.71
	E5-No Hidden Charges	3.58	0.76
	E6-No Compounded Interest Charged	3.61	0.75
Media Advertisement	F1-Television Programs	3.45	0.65
	F2-Newspaper	3.58	0.65
	F3-Website & Internet.	3.58	0.61
	F4-Books & Magazines	3.52	0.62
	F5-Radio	3.38	0.78
	F6-Talk/Seminars	3.48	0.61
Social Influences	G1-Spouse	2.93	0.88
	G2-Parents	3.09	0.82
	G3-Co-Workers	3.21	0.87
	G4-Friends	3.24	0.84
	G5-Children	2.56	0.82
	G6-Others	3.04	0.89

**Table 3:** Multiple Regression

Hypotheses	Beta	t-value	p-value
(H <sub>1</sub> ) Reputation with Selection of Islamic home financing	0.83	18.89	0.00
(H <sub>2</sub> ) Social Influence with Selection of Islamic home financing	0.30	3.91	0.00
(H <sub>3</sub> ) Service Quality with Selection of Islamic home financing	0.61	9.76	0.00
(H <sub>4</sub> ) Religious Belief with Selection of Islamic home financing	0.60	9.52	0.00
(H <sub>5</sub> ) Media Advertisement with Selection of Islamic home financing	0.56	8.55	0.00

**Figure 2:** Results

## 6. DISCUSSION OF RESULTS

The results of the test confirm that there is a significant relationship between reputation and selection criteria of Islamic home financing. Reputation as an important factor in the selection decision for Islamic home financing is consistent with the findings by Dusuki and Abdullah (2007) and Gait and Worthington (2008). This finding directly implies banks who operate on Shariah have a good reputation in gaining their clients confidence by conducting their operations on Shariah principles and secrecy of information. The feeling of security, safety and knowledge are the most significant reasons for bank selection.

Service quality came next in terms of relative importance considered by respondents. The importance of this criterion has been evidenced in the study conducted by Amin (2008) and Hamid and Masood (2011). The fact that they have to juggle with work commitment and other activities, they cannot spend a lot time at the bank waiting to be served at the counter.

The next important factor in selecting an Islamic home financing is a religious belief. This finding is consistent with the results of Gait and Worthington (2008). The findings showed that 73.8 % staffs are degree holders. People who have higher education would choose

religious belief as an important criterion since respondents have good knowledge of Islamic products and services. For other groups, especially those who were without any formal Islamic education, a different approach of marketing rather than showing the Islamicity of the products is necessary.

The results of the study confirm that media advertisement has influence over selection criteria for Islamic home financing. This finding is in agreement with earlier studies like Mylonakis (2007) and Mokhlis (2009). According to Rosly, (2005) Islamic banking has no direct control of the marketing and promotion aspects. This is because the marketing unit is usually handled by the conventional arm of the bank and promotion is done via bank's branch by the branch manager who reports to the conventional arm which oversees the whole operation of Islamic and conventional banking.

Social influence was found to be an important factor in selecting an Islamic home financing. The results of the survey supported the analysis made by Amin et al. (2009). This finding may be explained by the fact that young people possess greater self-confidence and therefore prefer to act independently during the selection process rather than relying on the recommendations and experiences of others. In married person, the decision makers are spouses. In addition, from the results in table II indicate that children are less important in influencing selection decisions. This may be explained by the fact that children are not important for high cost product, such as cars, furniture, home and life assurance.

## **7. CONCLUSION AND PRACTICAL IMPLICATIONS**

The Islamic banking system is expected to face strong competition not only from the Islamic banks but also from well-established conventional banks offering Islamic products and services to (Naser and Pendlebury, 1997). In a nutshell, It is crucial to understand what are the interesting factors that will influence the selection decision of both Muslims and non-Muslims customer towards Islamic home financing.

The purpose of this study was to investigate the selection determinants of Islamic home financing in Malaysia. In order to achieve this purpose, this study has two objectives, first is to investigate the important factors that influence selection of Islamic home financing and the second objective is to ascertain the best predictor that influences selection of Islamic home financing.

Firstly, the result indicates that reputation, service quality, religious, media advertisement and social influence become the important factors that influence selection of Islamic home financing. Therefore the research objective one is successfully answered.

Secondly, to answer the research objective two, reputation is becoming the best predictor of independent variables. Therefore the research objective two is also successfully answered. This is supported by a research done by Ford and Jones, (2001) where they found that reputation is the important criteria in selecting a mortgage provider in London. Most of the customers are confident in selecting an Islamic home financing because the Islamic bank has a good reputation and image.

Islamic banks should provide fast and efficient services in order to compete with conventional banks. Managers should formulate strategies and develop appropriate actions to improve service provided to customers such as the waiting time, the smile, quick application process and friendliness. Moreover, managers need to train their employees in order to increase their efficiency of completing banking transactions and developing interpersonal communication skills. This recommendation is also supported by Amin, (2008) that Islamic bank managers should provide an indoor training workshop to their staffs. The purpose is to ensure the staffs are able to fully understand good practice for Islamic home financing and the staffs are able to serve customers with a good level of satisfaction by stressing that both the Islamic and the cost of the scheme are suitable for Islamic home financing.

From the result, Reputation is the most important criteria in selecting an Islamic home financing. Therefore, Islamic bank managers and bankers should establish good reputation and image of Islamic banks in order to attract Muslim and non Muslim customers to choose Islamic home financing. This recommendation supports by Hamid and Masood, (2011), Islamic banks bankers in Pakistan need have a good image and reputation so that, their customers feel confident and comfortable to deal with them. The bank should also establish the client's confidence in conducting its operations and disclosing information.

Managers of Islamic banks need to put more effort in marketing their product and services and educating their customers. Ahmad and Haron (2002) in their study highlighted that the bank need to put more effort into marketing their products and services and educating their customers. This is because; corporate banking customers have very limited knowledge of Islamic banking. According to Asari et al (2011) consumers need to focus on knowledge towards Islamic financial products. Bankers should educate the public regarding the variety of financing options, profits and principles of Shariah.

This study advances current knowledge by shedding light on some important factors related to selection of Islamic home financing. This study explains the effects of Reputation, Social Influence, Service Quality, Religious Belief and Media Advertisement. Needless to say, this study is one of the first to investigate the determinants of selection of Islamic home financing. It is worth noting that this study proposes a conceptual model as a framework to understand one's selection of Islamic home financing. This study demonstrates that Reputation, Social Influence, Service Quality, Religious Belief and Media Advertisement have the significant effects on selection of Islamic home financing.

The present study has two limitations. Firstly, the sample of this study is relatively small. Only 160 respondents involved in this study. Although this sample size meets the minimum requirement for multivariate analysis (Hair et al., 2010), larger samples are able to inflate the statistical power. Secondly, we choose only employees at one financial institution which may explain that our findings may not generalize to employees in other sectors. Future studies thus are encouraged to include different samples to increase the generalizability of findings. Despite the mentioned limitations, this study offers with an improved understanding of factors influencing selection of Islamic home financing.

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