



Fakulti Kewangan dan Perbankan
(Faculty of Finance and Banking)
Universiti Utara Malaysia

PERAKUAN KERJA TESIS
(Certification of Thesis Work)

Kami, yang bertandatangan di bawah, memperakukan bahawa
We, the undersigned, certify that

NOORUL HAFIZAH HASHIM (MATRIC NO: 86093)

(nama penuh/full name)

calon untuk ijazah
candidate for the degree of MASTER OF SCIENCE (BANKING)
telah mengemukakan tesisnya yang bertajuk
has presented his/her thesis with the following title:

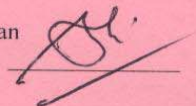
**FACTOR AFFECTING HOUSING LOAN PRICING: COMPARATIVE
EVALUATION BETWEEN CONVENTIONAL BANK AND ISLAMIC BANK.**

(seperti yang tercatat di muka surat tajuk dan kulit tesis)
as it appears on the title page and front cover of thesis

dan tesis tersebut boleh diterima dari segi bentuk serta kandungan, dan meliputi bidang ilmu
dengan memuaskan.
*the thesis is acceptable in form and content, and that a satisfactory knowledge of the field is
covered.*

AJK Tesis/Thesis Committee

(i) Nama/Name : ALI BADRON MOKHTAR
(Penyelia Utama/Principal Supervisor)

Tandatangan
Signature: 

(ii) Nama/Name : ASSOC. PROF. DR. NOR HAYATI AHMAD

Tandatangan
Signature: 
PROF. MADYATI NOR HAYATI AHMAD
Dekan
Fakulti Kewangan dan Perbankan
Universiti Utara Malaysia

(iii) Nama/Name : _____

Tandatangan
Signature: _____

Tarikh/Date: 27 MEI 2007

**FACTOR AFFECTING HOUSING LOAN/HOUSE
FINANCING PRICING; COMPARATIVE EVALUATION
BETWEEN CONVENTIONAL BANK AND ISLAMIC BANK**

A research project (WBZ 6019) submitted to the Faculty of Banking and Finance
in partial fulfilment of the requirements for the Master of Science (Banking),
University Utara Malaysia

By:

NOORUL HAFIZAH BINTI HASHIM

© Noorul Hafizah Binti Hashim, 2007 All rights reserved

PERMISSION TO USE

In presenting this thesis in partial fulfillment of the requirements for a postgraduate degree from Universiti Utara Malaysia (UUM), I agree that University Library may make it freely available for inspection. I further agree that permission for copying of this thesis in any manner, in whole or part, for scholarly purpose may be granted by my supervisors En Ali Badron Bin Mokhtar and Asst Prof. Dr. Nor Hayati Binti Ahmad or, in their absence, by the Dean of Faculty of Banking and Finance. It is understood that any copying or publication or use of this thesis or parts thereof for financial gain shall not be allowed without my written permission. It is also understood that due recognition shall be given to me and to Universiti Utara Malaysia for any scholarly use which may be made of any material from my thesis.

Request for permission to copy or to make other use of materials in this thesis, in whole or in part, should be addressed to:

Dean
Faculty of Banking and Finance
Universiti Utara Malaysia
06010 Sintok
Kedah Darul Aman

ABSTRACT (MALAY VERSION)

Kebelakangan ini, permintaan terhadap rumah kediaman meningkat sejajar dengan peningkatan taraf hidup dan peningkatan penduduk. Berikutan itu, institusi kewangan di Malaysia bersaing sesama sendiri dalam menawarkan pinjaman perumahan kepada rakyat Malaysia. Oleh kerana, sistem kewangan di Malaysia terbahagi kepada dua iaitu sistem perbankan konvensional dan sistem perbankan Islam maka produk pinjaman perumahan ini juga terbahagi kepada dua.

Oleh yang demikian, disertasi ini dibuat bertujuan untuk mengkaji faktor-faktor yang diambilkira oleh bank dalam menentukan kadar faedah bagi pinjaman perumahan di Malaysia; perbandingan antara bank konvensional dan bank Islam. Margin kadar faedah bersih digunakan sebagai wakil kepada kadar faedah bagi kedua-dua bank terbabit.

Untuk mencapai objektif kajian, kaedah temuduga tertumpu dan model regresi telah digunakan. Kajian ini telah menggunakan perisian SPSS 10 bagi tujuan menganalisa data. Hasil daripada analisa yang dibuat menunjukkan terdapat 8 faktor yang dikelaskan sebagai faktor yang diambilkira oleh bank dalam menentukan kadar faedah untuk pinjaman perumahan.

ABSTRACT (ENGLISH VERSION)

Lately, the demand for housing becomes increasing due to the increasing of their life style and increasing of the population. Due to that, financial institution in Malaysia was competing each others in offering housing loan/house financing to the customer. Financial institution in Malaysia has divided into two major systems which is Conventional system and Islamic system, so, this financing also divided into two which are housing loan for conventional and house financing in Islamic. Net interest margin is using as a proxy to housing loan/house financing interest rate.

Thus, the purpose of this study is to investigate the factors considered by banks in determining housing loan/house financing price; comparative evaluation between Conventional Bank and Islamic Bank.

To achieve the objective, this dissertation employs the convergent interview and regression of the model. This dissertation have been used a SPSS version 10 as analysis technique to analyzed data. From this analysis, the result suggested that have 8 factors considered by the bank in determining housing loan/house financing price.

DEDICATION

Special dedication is goes to my parents Hashim bin Salleh and Teh binti Hashim, who give me a lot of support, love and encouragement. They also never give up giving me a strength, dream and support to move forward to final stage to finish up my dissertation and also to get my masters.

This dissertation also I dedicate to all my sisters and brothers. Thank you to all of you who really inspire me and always give me support. Without their love, patience and ideas, this dissertation would not have been possible.

Special appreciation also goes to all my friends who never give up giving me a support, advice and help me to settle up this dissertation. Thank you very much for all and best of luck.

ACKNOWLEDGEMENTS

First of all, I would like to thank to Allah for giving me strength of mind, spirit and ability in completing this dissertation. I am also like to express my sincere gratitude to my supervisors En Ali Badron Bin Mokhtar and Assct Prof. Dr. Nor Hayati Binti Ahmad for all of their patience, guidance, professionalism, for the comments and academic support. Without their understanding, consideration and untiring advice, this dissertation would not have been completed successfully.

I must admit that it is unlikely that this dissertation would have been completed were it not for the continuous supports I received from my parents, my family, my colleagues and my entire friend.

To all those people, thank you so much.

TABLE OF CONTENTS

	Page
Permission to use	i
Abstract (Malay Version)	ii
Abstract (English Version)	iii
Dedication	iv
Acknowledgements	v
Table of contents	vi
List of tables	ix
List of figures	x
List of abbreviations	xii

1 INTRODUCTION

1.1	Background of study	1
1.2	Problem statement	6
1.3	Justification of the study	7
	1.3.1 House as a need for individual.....	7
	1.3.2 Housing and economic development policy.....	8
	1.3.3 Fulfillment of housing needs: Malaysian government policy.....	9
1.4	Objective of study.....	11
	1.4.1 Main objective.....	11
	1.4.2 Specific objective.....	11
1.5	Scope of the study.....	12
1.6	Limitations.....	14
1.7	Organizations of the study.....	15

2 LITERATURE REVIEW

2.1	Introduction	16
-----	--------------------	----

2.2	Definition of housing loan/house financing	16
2.3	Review of literature.....	17
2.4	Literature review on measuring factors affected loan pricing or net interest margin	20
2.5	Conclusion	26

3 RESEARCH METHODOLOGY

3.1	Introduction	26
3.2	Sources of data.....	26
3.3	Research design.....	28
3.3.1	Interview	28
3.3.1.1	Definition of convergent interview.....	29
3.3.1.2	Process in convergent interview	30
3.3.1.3	Step in convergent interview	32
3.3.1.4	Questions design.....	35
3.3.2	Data for Multivariate Regression.....	37
3.4	Multivariate Regression	39
3.5	Regression Model.....	40
3.6	Hypothesis testing.....	42
3.7	Conclusion	42

4 DATA ANALYSIS

4.1	Introduction	43
4.2	Trend analysis.....	43
4.3	Descriptive Analysis.....	64
4.4	Econometric Issues.....	65
4.5	Regression Result – Conventional Banks	66
4.6	Regression Result – Islamic Banks	67

4.7	Correlation Matrix.....	69
	4.7.1 Correlation Matrix for Islamic Banks.....	69
	4.7.2 Correlation Matrix for Conventional Bank	70
4.8	Interviews Results.....	71
4.9	Analysis of Result.....	75
5	CONCLUSIONS	
5.1	Introduction	80
5.2	Further research	82
	List of references	83
	Appendix	88

LIST OF TABLES

Table 4.1:	Total loan and total deposit for Maybank Berhad.....	44
Table 4.2:	Total loan and total deposit for Public Bank Berhad.....	47
Table 4.3:	Total loan and total deposit for Bumiputra-Commerce Bank Berhad.....	50
Table 4.4:	Total loan and total deposit for Bank Islam Malaysia Berhad.....	53
Table 4.5:	Total loan and total deposit for Bank Muamalat Berhad.....	56
Table 4.6:	Total loan and total deposit for Maybank Islamic Berhad.....	59
Table 4.7:	Predicting Variability of Loan Pricing; Comparison between conventional bank and Islamic bank	65
Table 4.8:	Data from interview sessions.....	73
Table 5.1:	Summary of finding.....	82

LIST OF FIGURES

Figure 1.1:	The relationship between Islamic financial systems with house financing	5
Figure 3.1:	Process of convergent interview	32
Figure 3.2:	Steps in conducting convergent interview	33
Figure 3.3:	Theoretical framework of the factor affecting loan pricing with loan pricing	42
Figure 4.1:	The movement of total loan and deposit taken by Maybank from year 1999 to year 2005.....	45
Figure 4.2:	The movement of loan to deposit ratio for Maybank from year 1999 to year 2005.....	46
Figure 4.3:	The movement of total loan and deposit for Public Bank Berhad from year 1999 to year 2005.....	48
Figure 4.4:	The movement of loan to deposit ratio for Public Bank Berhad from year 1999 to year 2005.....	50
Figure 4.5:	The movement of total loan and deposit for BCB Bank Berhad from year 1999 to year 2005.....	51
Figure 4.6:	The movement of loan to deposit ratio for BCB Bank Berhad from year 1999 to year 2005.....	52
Figure 4.7:	The movement of total loan and deposit for Bank Islam Malaysia Berhad from year 1999 to year 2005.....	54
Figure 4.8:	Movement of loan to deposit ratio for Bank Islam Malaysia Berhad from year 1999 to year 2005.....	55
Figure 4.9:	Movement of total loan and deposit for Bank Muamalat Malaysia Berhad from year 1999 to year 2005.....	57
Figure 4.10:	The movement of loan to deposit ratio for Bank Muamalat Malaysia Berhad from year 1999 to year 2005.....	58

Figure 4.11:	The movement of total loan and deposit for Maybank Islamic Bank Berhad from year 1999 to year 2005.....	60
Figure 4.12:	The movement of loan to deposit ratio for Maybank Islamic Bank Berhad from year 1999 to year 2005.....	61
Figure 4.13:	Movement loan to deposit ratio for Conventional Banking Group from year 1999 to year 2005.....	62
Figure 4.14	Movement loan to deposit ratio for Islamic Banking Group from year 1999 to year 2005.....	63
Figure 4.15:	Movement loan to deposit ratio for Conventional and Islamic Banking Group from year 1999 to year 2005.....	64

LIST OF ABBREVIATIONS

- BBCB Bumiputra Commerce Bank Berhad
- BIMB Bank Islam Malaysia Berhad
- BMMB Bank Muamalat Malaysia Berhad
- BNM Bank Negara Malaysia (lending guidelines)
- BLR Based Lending Rate
- CAR Capital Adequacy Ratio
- CPI Consumer Price Index
- GDP Gross Domestic Product
- KPKT Ministry of Housing and Local Government
- LD Loan to Deposit Ratio
- LLP Loan Loss Provision
- LNEA Log Earning Assets
- NIM Net Interest Margin/Net Income Margin
- PBB Public Bank Berhad
- RR Required Reserve
- SPSS Statistical Package for Social Science

CHAPTER 1

INTRODUCTION

1.1 Background of Study

Malaysia has developed dual financial for a long time ago (Mohamed, 1996). In the financial system bank lending is an important role as the major source of funds and liquidity for the private sector in Malaysia (Public Bank Economic Review, 2002). As the main mobilize of funds in the economy, the banking sector is able to support the increasing financing required by business and economic activities in Malaysia.

The dual banking system in Malaysia has been divided into two major system; which are conventional banking and Islamic banking. Conventional banks are the largest and the most important group of financial institutions in Malaysia. Financial services provided by the commercial banks have enabled them to mobilize idle funds and savings, as well as, effectively channel these resources for the production of goods and services.

Generally loans are channeled in 11 economic sectors. There are agriculture, mining and quarrying, manufacturing, electricity, general commerce, building and construction, real estate, housing, transport, storage and communications, financing, insurance and business services, and miscellaneous. Among these

The contents of
the thesis is for
internal user
only

List of References

- Abdul Halim Abdul Hamid & Norizatun Azmin Mohd Nordin
[*A Study on Islamic Banking Education Experience and The Strategy for the New Millenium - A Malaysian Evidence.*](#) International Journal of Islamic Financial Services Vol. 2 No.4
- Abdus Samad and M. Kabir Hassan
[*“The Performance of Malaysian Islamic Bank During 1984-1997: An Exploratory Study”*](#) -International Journal of Islamic Financial Services Vol. 1 No.3
- BBCB (Bumi-putra Commerce Bank Berhad) 1999.
BBCB Annual Report 1999, Kuala Lumpur:BBCB
- BBCB (Bumi-putra Commerce Bank Berhad) 2000.
BBCB Annual Report 1999, Kuala Lumpur:BBCB
- BBCB (Bumi-putra Commerce Bank Berhad) 2001.
BBCB Annual Report 1999, Kuala Lumpur:BBCB
- BBCB (Bumi-putra Commerce Bank Berhad) 2002.
BBCB Annual Report 1999, Kuala Lumpur:BBCB
- BBCB (Bumi-putra Commerce Bank Berhad) 2003.
BBCB Annual Report 1999, Kuala Lumpur:BBCB
- BBCB (Bumi-putra Commerce Bank Berhad) 2004.
BBCB Annual Report 1999, Kuala Lumpur:BBCB
- BBCB (Bumi-putra Commerce Bank Berhad) 2005.
BBCB Annual Report 1999, Kuala Lumpur:BBCB
- BIMB (Bank Islam Malaysia Berhad), 1999.
BIMB Annual Report 1999, Kuala Lumpur: BIMB
- BIMB (Bank Islam Malaysia Berhad), 2000.
BIMB Annual Report 2000, Kuala Lumpur: BIMB
- BIMB (Bank Islam Malaysia Berhad), 2001.
BIMB Annual Report 2001, Kuala Lumpur: BIMB
- BIMB (Bank Islam Malaysia Berhad), 2002.
BIMB Annual Report 2002, Kuala Lumpur: BIMB

- BIMB (Bank Islam Malaysia Berhad), 2003.
BIMB Annual Report 2003, Kuala Lumpur: BIMB
- BIMB (Bank Islam Malaysia Berhad), 2004.
BIMB Annual Report 2004, Kuala Lumpur: BIMB
- BIMB (Bank Islam Malaysia Berhad), 2005.
BIMB Annual Report 2005, Kuala Lumpur: BIMB
- Black Jane, Meza David and Jeffreys David (1996)
House Prices, The Supply of Collateral and the EnterprisenEconomy.
The Economic Journal
- BMMB (Bank Muamalat Malaysia Berhad)2000,
BMMB Annual Repot 2000, Kuala Lumpur BMMB
- BMMB (Bank Muamalat Malaysia Berhad)2001,
BMMB Annual Repot 2001, Kuala Lumpur: BMMB
- BMMB (Bank Muamalat Malaysia Berhad)2002,
BMMB Annual Repot 2002 Kuala Lumpur: BMMB
- BMMB (Bank Muamalat Malaysia Berhad)2003,
BMMB Annual Repot 2003, Kuala Lumpur: BMMB
- BMMB (Bank Muamalat Malaysia Berhad)2004,
BMMB Annual Repot 2004, Kuala Lumpur: BMMB
- BMMB (Bank Muamalat Malaysia Berhad)2005,
BMMB Annual Repot 2005, Kuala Lumpur: BMMB
- BNM (Bank Negara Malaysia)1999
BNM Annual Report 1999, Kuala Lumpur. BNM
- BNM (Bank Negara Malaysia)2000
BNM Annual Report 2000, Kuala Lumpur. BNM
- BNM (Bank Negara Malaysia)2001
BNM Annual Report 2001, Kuala Lumpur. BNM
- BNM (Bank Negara Malaysia)2002
BNM Annual Report 2002, Kuala Lumpur. BNM
- BNM (Bank Negara Malaysia)2003
BNM Annual Report 2003, Kuala Lumpur. BNM

- BNM (Bank Negara Malaysia)2004
BNM Annual Report 2004, Kuala Lumpur. BNM
- BNM (Bank Negara Malaysia)2005
BNM Annual Report 2005, Kuala Lumpur. BNM
- Cavana Y.R, Delahaye L.B, Sekaran (2000)
Applied Business Research: Qualitative and Quantitative Methods. John Wiley & Sons Australia. Ltd
- Dr Josef Eby Ruin (2004),
Financial and Banking Services in Malaysia. Leeds Publications
- Fadzila Azni Ahmad (2003),
Permbiayaan Perumahan Secara Islam, Antara Nilai Komersial dan Tanggungjawab Sosial. Utusan Publications and Distributors Sdn Bhd
- Mahmoud Ahmad Mahdi (1995),
Islamic Banking modes for House Building Financing. Islamic Research and Training Institute, Islamic Development Bank
- Maybank (Malayan Banking Malaysia Berhad)1999,
Maybank Annual Repot 1999, Kuala Lumpur: Maybank
- Maybank (Malayan Banking Malaysia Berhad)2001,
Maybank Annual Repot 2001, Kuala Lumpur: Maybank
- Maybank (Malayan Banking Malaysia Berhad)2002,
Maybank Annual Repot 2002, Kuala Lumpur: Maybank
- Maybank (Malayan Banking Malaysia Berhad)2003,
Maybank Annual Repot 2003, Kuala Lumpur: Maybank
- Maybank (Malayan Banking Malaysia Berhad)2004,
Maybank Annual Repot 2004, Kuala Lumpur: Maybank
- Maybank (Malayan Banking Malaysia Berhad)2005,
Maybank Annual Repot 2005, Kuala Lumpur: Maybank
- Mendes V and Abreu M
Do Macro-Financial Variables Matter For European Bank Interest Margins And Profitability?
- Mervyn K.L and Latifa M.A (2001),
Islamic Banking. Edward Elgar Publising Limited

- Mohammed Obaidullah (2005),
Islamic Financial Services. <http://siddiqi.com/mns/>
- Muhammad Nejatullah Siddiqi (1983),
Issues in Islamic Banking, Selected Papers. The Islamic Foundation
- Nor Hayati and Ariff.M (2004),
Factors Affecting Net Interest Margin Of Asean Banks
- Public Bank (Public Bank Malaysia Berhad)1999,
Public Bank Annual Repot 1999, Kuala Lumpur
- Public Bank (Public Bank Malaysia Berhad)2000,
Public Bank Annual Repot 2000, Kuala Lumpur
- Public Bank (Public Bank Malaysia Berhad)2001,
Public Bank Annual Repot 2001, Kuala Lumpur
- Public Bank (Public Bank Malaysia Berhad)2002,
Public Bank Annual Repot 2002, Kuala Lumpur
- Public Bank (Public Bank Malaysia Berhad)2003,
Public Bank Annual Repot 2003, Kuala Lumpur
- Public Bank (Public Bank Malaysia Berhad)2004,
Public Bank Annual Repot 2004, Kuala Lumpur
- Public Bank (Public Bank Malaysia Berhad)2005,
Public Bank Annual Repot 2005, Kuala Lumpur
- Rose, P.S. (1999). *Commercial Banking Management*. Singapore: Irwin McGraw-Hill International Editions.
- Sudin Haron and Bala Shanmugam (1997),
Islamic Banking System concept & Applications. Pelanduk Publication
- Saiful Azhar Rosly, Mahmood Sanusi & Norhashimah Mohd Yasin
“The Role of Khiyar Al-‘Ayb in Al-Bay’ Bithaman Ajil Financing”.
 International Journal of Islamic Financial Services Vol. 2 No.3
- Sudin Haron & Norafifah Ahmad
“The Effects of Conventional Interest Rates and Rate of Profit on Funds Deposited with Islamic Banking System in Malaysia” International Journal of Islamic Financial Services Vol. 1 No.4

Tarsila S, A.Priscilla M.and Márcio N.

The Determinants of Bank Interest Spread in Brazil Research Department,
Banco Central do Brasil

Valentine T (1990)

Pricing Financial Products. University of Western Sydney, Nepean