Implementation of Moratorium by Islamic Banks During the Covid-19 Pandemic: Maqasid Shariah Perspective

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Abstract

The Covid-19 pandemic has caused unprecedented health and economic crisis. The significant measures adopted by most countries to contain the virus by implementing movement control order (MCO) led to an economic downturn. Currently in Malaysia is under the third movement control order (MCO 3.0), will be placed under a full lockdown for two weeks from June 1 to June 14, 2021; where the decision to uplift the MCO much dependent on the number of Covid-19 cases. The decision to implement the lockdown follows the rising number of Covid-19 cases in the country where 8,290 new Covid-19 cases reported on 28th May 2021. The lockdown will definitely cause hardship for the economic wellbeing of the people. Hence, this paper examines the central bank policy implication on the practice of moratorium after the first MCO on 18th March 2020 to support the people and company that badly affected by the lockdown for them to pay their loan and financing. The paper highlight the issue and challenges in the implementation of moratorium by Islamic banks. Firstly, this paper will shed lights on the application of moratorium from both accounting and Shariah point of views. Secondly, this paper provides the implications of moratorium for both customers and Islamic banks and its impact on the financial sustainability and financial performance respectively to cope with the ongoing pandemic and economic crisis. Furthermore, the study will provide policy implications and importantly to support the value-based intermediation (VBI) for Islamic banks to fulfil the Maqasid Shariah.

Keywords: Covid-19, policy implication, moratorium, Islamic banks, Shariah

1.0 Introduction

The world nowadays is living with Covid-19 outbreak. The occurrence of this pandemic left the government with no choice except to implement the Movement Control Order (MCO) in many countries all over the world including Malaysia to curb the spread of this virus. On 16th March 2020, the Malaysian's Prime Minister, had made an announcement on the total lockdown that induced the closure of all houses of worship, government and private premises, kindergarten, schools, higher education, business premises and many others except those involved in essential services started 18 March 2020. The economic activities were all shut down. Some companies were started to terminate their employees due to inability to cover the operation cost as the income was badly impacted. The closure of all business premises gave huge impact to not only the individuals but the companies' cash flow especially those involved in micro and small and medium enterprises (SMEs) which subsequently affecting their capability to fulfil the monthly obligations towards the financial institutions. The financing account will be classified as non-performing (i.e. should there was no payment received by the bank for three consecutive months).

Based on the aforementioned, significant financial measures have been implemented by the government with the support from the financial institutions to ease the cash flows of the borrowers and customers such as the deferment of loan or financing payment or moratorium for the first phase from 1st April 2020 till 30th September 2020; and the targeted repayment assistance for the second phase which covers the period after the moratorium ends (The Association of Banks in Malaysia, 2021) Based on this backdrop, the objectives of this paper are two folds. Firstly, this paper will shed lights on the application of moratorium from both accounting and Shariah point of views. Secondly, this paper provides the implications of moratorium for both customers and Islamic banks and its impact on the financial sustainability and financial performance respectively to cope with the ongoing pandemic and economic crisis.

2.0 Literature Review

2.1 The Impact of Covid-19 on Malaysia's Economic Conditions

The Prime Minister of Malaysia declares the country has lost RM63 billion since the lockdown was enforced in March 2020 (Povera et al., 2020). Also, the World Bank on June 2020, reported in Surviving the Storm, the latest edition of the World Bank's Malaysia Economic Monitor that Malaysia's economy is expected to contract by 3.1 percent in 2020 due to a significant slowdown in economic activity caused by Covid-19 and measures taken to prevent its spread (World Bank, 2020a). Nevertheless, The World Bank expects growth to resume in 2021 at 6.9 percent as the outbreak eases (The World Bank, 2020a). In Q1 2020, gross investment contracted by 4.6 percent compared to a contraction of 0.7 percent in Q4 2019 for the fifth consecutive quarter, with broad-based vulnerabilities in both private and public investment. Due to very low external demand, Malaysia's goods and services exports activities sharply declined by 7.1 percent in Q1 2020 for the third consecutive quarter (Q4 2019: -3.4 percent), connotes the biggest decline since the 2009 global financial crisis (The World Bank, 2020b). The decline represented the unexpected impact of the tight containment measures to monitor the Covid-19 pandemic globally and domestically including the closure of the international border and restricted interstate travel that caused sharp declined in tourism activities as well as resulted in the deterioration of the demand and supply (Bank Negara Malaysia, 2021). Hence, if it is not properly managing, the country might plunge into the abyss of economic recession.

2.2 Impact of Moratorium on Financial Institutions

Adilla (2020) found that the four banks with the highest impact of modification loss due to higher exposure in HP loan or financing and fixed rate financing are Public Bank Berhad, Malayan Banking Berhad, AMMB Holdings Berhad and Hong Leong Bank Berhad as reported by Affin Hwang Capital. Public Bank were listed as having the highest exposure of hire purchase loans making up 15.7 per cent or RM51.77 billion of its total outstanding loans as at end-2019. Meanwhile, Malayan Banking Berhad has estimated that it has incurred approximately RM1 billion worth of day-one modification loss from the six-month moratorium of hire purchase loans, which will be reflected in the second quarter ending on 30 June 2020 (Cheong, 2020). According to CGS-CIMB as reported in the Edge market, it estimated that banks' financial year 2020 (FY20) net profit will be reduced by 14.4% due to the modification loss. It also estimated that Affin Bank Berhad would be the bank most impacted in its coverage universe by the modification loss, with its FY20 net profit forecast to be lowered by 45.7%. The lowest proportion of HP loans/financing is Alliance Bank thus its impact would be expected to be the lowest at 4.2% FY3/21F net profit (forecast for the financial year ending March 31, 2021) (Syed Jaafar, 2020).

As aforementioned, a part of facing the financial losses, the banks are also exposed to credit default risk due to significant upsurge of unemployment rate and business closure that might affect the payment ability of the customers. The cash flows of the companies may badly have impacted due to closure of business activities. To further assist the bank's in managing their liquidity, BNM has further reduced its Statutory Reserve Requirement ratio by 100 basis points to supply approximately RM30 billions of liquidity into the banking system. (BNM, 2020).

2.3 Financial Measures Implemented by The Government

Banking institutions play significant roles in supporting the economic development worldwide during this unprecedented health crisis. In Malaysia, the government with the support from banking institutions had announced on 25 March 2020 on the measures taken by providing financial assistance to ease the cash flows of individuals, SMEs and corporations (Bank Negara Malaysia, 2020a). Those measures taken can be classified into three (3) categories. First, the deferment of all loan or financing payments for a period of 6 months, with effect from 1 April 2020 to all performing loans or financing, denominated in Malaysian Ringgit, that have not been in arrears for more than 90 days as at 1 April 2020 as well as conversion of the outstanding balances of credit card facilities, into a 3-years term loan or financing with reduction in interest or profit rates to help the credit card holder to better manage their debt (The Edge Market, 2020)

During the deferment period, the eligible customers may not need to honour their scheduled payment obligations to the bank and no late payment charges will be imposed. The loan or financing deferred due to acceptance of moratorium will also not be recorded in Bank Negara Central Credit Reference Information System (CCRIS) report. The profit on the other hand will continue to accrue that may have resulted in slight increased to the customers' existing monthly instalment after the payment resumes. Finance Minister Tengku Datuk Seri Zafrul Abdul Aziz said in his speech on "*Pelaksanaan Pakej Prihatin Rakyat*" (LAKSANA) entitled Implementation of The Prihatin Rakyat Economic Stimulus Package (PRIHATIN) and National Economic Recovery Plan (PENJANA), the value of the moratorium as of 25 September 2020 is estimated at RM97.26 billion (LAKSANA, 2020). Out of this figure, a total of RM34.04 billion was utilised by the business sector while RM63.22 billion was utilised by the Rakyat (LAKSANA, 2020). However, there is an exception for the hire purchase financing whereby the profit will not to be accrued for the period of moratorium. Thus, the hire purchase customers i.e. both Islamic and conventional hire purchase may continue to pay the same monthly instalment until the end of the maturity period of the financing. With reference to 20th LAKSANA report, the Finance Minister said that a total of 732,000 borrowers who took the automatic moratorium have resumed their monthly loan repayment instalments compared to 336,000 borrowers in April 2020.

Second is the targeted payment or repayment assistance scheme. This is referring to the continuous financial assistance provide by the banks for the second phase after the moratorium ends in 30 September 2020. The bank will continue to reach to the badly affected customers by the outbreaks even after the period of moratorium. Hence, the government has provided additional financial assistance (The Association of Banks in Malaysia, 2021) as follows:

1. Individual customers who has been terminated from their job in 2020 and have yet to find a position will apply for an extension of the loan moratorium for another 3 months from their banks;
2. Individual customers who are still employed but whose income has been impacted by the Covid-19 pandemic, for example, shortened operating hours and changes in pay may contact their respective banking institutions so that the monthly instalment can be decreased proportionately for at least 6 months from 1 October 2020 depending on the existing terms and conditions of the financing facility.
3. For hire purchase customers, revised monthly instalment may be provided to the affected customers to fulfil the requirement outlined in the Hire Purchase Act 1967.
4. The documentation and application process will be simplified for restructuring and rescheduling process.

The third financial measure is the enhanced targeted repayment or payment assistance scheme Under this program, additional financing facilities is to be offered by the banking institutions to provide relief and support recovery for SMEs i.e. RM2 billion Targeted Relief and Recovery Facility (TRRF), RM500 million High Tech Facility (HTF) and RM110 million increase in allocation for the Micro Enterprises Facility (The Association of Banks in Malaysia, 2021). The Association of Banks in Malaysia also announced that the offering of enhanced targeted repayment or payment assistance are specially designed for B40 customers especially those who are listed under *Bantuan Sara Hidup* or *Bantuan Prihatin Rakyat* and microenterprises which their original loan or financing amounting up to RM150,000 with conditions the loans or financing is approved before 1 October 2020 and are not in arrears exceeding 90 days as at date of request by the borrower or customers (The Association of Banks in Malaysia, 2021).

If the candidate meets the requirement, they will eligible for finance assistance either a 3-months deferment of instalment or a 6-months reduction in instalments by 50% from 1 December 2020 until 30 June 2021.

3.0 Research Methodology

The study will analyse the application of moratorium by Islamic banks especially on the 1st moratorium on the deferment of loan or financing payment for the period of 6 month starting 1 April 2020 until 30 September 2020. The analysis is made based on the public documentation provided by Bank Negara Malaysia (BNM), Islamic banks in Malaysia and other relevant documents related to moratorium applications. The documents are as follows:

1. Frequently asked questions (FAQs) on Hire-Purchase and Fixed Rate Islamic Financing Products by Bank Negara Malaysia.
2. The Shariah Advisory Council of Bank Negara Malaysia (SAC) Ruling on Restructuring of Islamic Financing Facility during Covid-19 Crisis.
3. Illustration/Scenario on Accrued Interest/Profit Calculation by Hong Leong Bank and Hong Leong Islamic Bank.

4.0 Findings and Discussion

4.1 The Chronicle of Moratorium and other Financial Measures

The following are the summary of the chronology events on the number of measures taken by the government in support with the banking institutions since the government announced the first MCO on 18 March 2020 to ease the financial burden and cash flows of the individuals, SMEs as well as corporations. On 25th March 2020**,** the BNM had made an announcement on the deferment of loan/financing payment for the period of 6 month starting 1 April 2020 until 30 September 2020 as well as conversion of the outstanding balance of credit cards into term loans or financing of three years with lower interest or profit rate (The Edgemarkets,2020).

Subsequent to that, the FAQs have been issued by BNM on 27th March 2020 to all banks. Among the significant points to highlight in this FAQs are for those financing did not in arrears exceeding 90 days starting 1 April 2020 and denominated in Malaysian ringgit will be eligible for 6 months' payment holiday and no late payment charges will be imposed. The moratorium will be granted automatically and for the Islamic financing portfolio, the profit will continue to accrue on the principal amount and will not be compounded. Nevertheless, the illustration in the FAQs differentiate between the treatment of hire purchase financing which the profit or interest is calculated based on the flat rate basis and housing financing portfolio which interest or profit is calculated based on reducing balance method. The summary of FAQs is in Appendix 1. Interestingly, the FAQs are being updated few times from the first announcement on moratorium being made. The FAQs have been updated four times which are on 27th March 2020, 21st April 2020, 1st May 2020 and 7th May 2020. This may be due to the issues on the application of moratorium are not straight forward. The first issues can be seen based on the FAQs on 27th March 2020, where it looks like there is no imposition of additional accrued interest or profit for the hire purchase financing meanwhile as for the housing loan or financing, the interest or profit is continuing to accrue during the moratorium period that resulting to the changes in the existing monthly instalment of the customers (i.e. FAQs no. 16). On the contrary, only general statements were provided that for all Islamic financing, the profit will continue to accrue (i.e. FAQs no 17). This has sparked confusion among the public and the media started to urge the BNM to provide greater clarity on this matter.

On 7th April 2020, the BNM issued another Supplementary FAQs on Deferment Package and Conversion Package to give heads up to the banking institutions to not to increase the interest or profit rate during the deferment period. The banking institutions are also allowed to extend the tenure of personal, home and hire purchase financing beyond the maximum tenure for by no more than 6 months. On 21st April 2020, the BNM issued another revised FAQs to the version issued on 27th March 2020. Nevertheless, the revision was mainly focusing on the details of credit card balance conversion while maintaining the other details of financing deferment package. It is also reiterated that the moratorium will be granted automatically to those eligible.

On 30th April 2020, BNM issued a press release on operationalisation of moratorium for hire-purchase or financing and fixed rate Islamic financing (Bank Negara Malaysia, 2020b). This is due to the requirement in Hire Purchase Act 1967 whereby banks need to obtain customers consent prior to exercising any changes to the monthly instalment or the lease tenure can be made. This requirement on the other hand is also in line with the requirement of Shariah principle of Ijarah and in conformity with Policy Document of Ijarah para 14.5 issued by BNM (BNM, 2018). Therefore, on 1st May 2020**,** BNM issued another FAQs on hire purchase and fixed rate Islamic financing products. The FAQs highlighted that the payment deferment is still automatic for HP and fixed rate Islamic financing. Nevertheless, additional step is required to comply with procedural requirements under the Hire-Purchase Act 1967 and Shariah requirement. This additional step is required to imitate the changes to the payment schedule and/or amounts as a result of the six-month payment deferment in the loan or financing agreements. For other loans, the profit or interest will continue to accrue and need to be repaid once payment resumes.

In realising this issue, the banks will issue notification via SMS, email or registered mail starting from 1st May 2020 to their respective customers on the necessary steps that they need to take to complete the process of deferring their loan/financing payments under the moratorium. The banks also need to provide each of their customers on the details of changes to the terms of his or her hire purchase loan or fixed rate Islamic financing agreement that contain revised payment schedule or any changes to the monthly instalment. The Association of Banks in Malaysia (ABM) also issued a press release highlighting that Hire Purchase customers who choose to take up the moratorium will have an option in terms of their repayment. They can either choose to:

(i) pay the accumulated 6 months' deferred instalments together with their October 2020 instalment without being charged any additional interest or profit; or

(ii) continue the repayment of these instalments post October 2020 through an extension of 6 months in repayment period after the original maturity date. In this case, interest or profit based on the contractual rate will be charged on the amount of the deferred instalments that remains outstanding until these instalments are fully repaid, which should be by the end of the extended 6-month tenure.

However, in the same FAQ no 6 dated 1st May 2020, has created misperception amongst the public which the example given reflected the accrued profit imposed on the HP financing that resulted in the changes of customers' monthly instalment. This illustration is totally in contradict with the one issued on 27th March 2020.

Due to the confusion and after getting public backlash (Jalil, 2020), the Ministry of Finance announced on 6th May 2020 that after consultations with the banking sector, it has been decided that the six-month moratorium for hire-purchase loans for both conventional and Islamic will not result in additional interest or profit (Ying Yi, 2020). The total sum of the monthly hire-purchase instalments would remain the same for the borrower during the entire loan or financing period, and the instalment will not be revised higher to incorporate the additional interest or profit charges.

Due to the announcement above, BNM has issued another FAQs on Hire-Purchase and Fixed Rate Islamic Financing Products on 7th May 2020 to reflect the announcement made by the

Ministry of Finance which the revised clause has been made. This has reflected all the previous issues and interestingly one of the FAQs include the explanation on the confusion and concern arise from the public at large on the previous FAQs as in **Table 1.**

Table 1: Extract of FAQs on Hire-Purchase and Fixed Rate Islamic Financing Products

No.	Question	Answer
10	Following this announcement by BNM, I feel short-changed. I thought the repayment terms on HP and fixed-rate Islamic financing after the payment deferment period ends are not supposed to change. Will I now lose out from benefitting from the six-month payment holiday?	We sincerely regret any confusion and anxiety that this announcement may have caused. The deferment package is meant to ease cash flows for borrowers/customers who are affected by the COVID-19 pandemic. This intent remains the same. The confusion arises because of the perception that under the HP loan, the amount repaid cannot be changed. This misperception also arose to some extent from our earlier illustration where we made certain assumptions and caveats. We removed this example from BNM's FAQs when banks provided their own illustrations in their FAQs. BNM's illustration was not intended to preclude interest/profit rates to accrue over the deferment period. Borrowers/customers whose HP loans and fixed-rate Islamic financing accounts that have been automatically deferred since 1 April 2020 will continue to benefit from the payment deferment until 30 September 2020. Borrowers/customers can still change their earlier decision to take up the deferment if they do not wish to pay any additional interest/profit. See also responses to Questions 7 and 8 above.

In conjunction with the announcement made by the government on the moratorium granted on the financing instalment for the period of six months, it has intrigued the attention of individuals as well as the companies and business entities as this were seen as a golden opportunity for them to rearrange their cash flows and as a great relief from financial burden during this difficult time. Million people were jubilant to receive this great news. The excitement however transformed into a confusion whenever one after another FAQ's issued by the regulators made the confusion even worst. The Islamic banks that supposed to be seen as a helping hand and played an important role in providing cash flow support to the needy, were blamed and labelled to be as good as the conventional counterpart (Shaharuddin, 2020)

The 6 months' payment holidays may be interpreted by the public as free of charge, nonetheless, from accounting perspectives, additional payment is needed to cover the modification loss due to changes in the net present value (NPV) of the financial asset. (Deloitte, 2017) The question is, who are going to bear all the losses? Additional payment if imposed to the customers will tarnish the image of Islamic banks for being merely profit oriented organizations, injustice and unfair. On the other hands, if the banks absorb all the losses, it might cause huge losses to the banks that may trigger liquidity issues.

To diminish the negative perception, the government with the supports from all banking institutions has agreed to absorb the modification loss for hire purchase financing whereby the customers will enjoy 6 months' payment holidays without any additional charge (The Star, 2020). The payment of monthly instalment will continue to be the same until the end of the financing period. The banks with higher portion of HP financing may suffer a big loss. In the meantime, there are people whom actually not affected by the disease, may leverage on this opportunity to invest in other profitable business ventures by utilising the money resulting from the moratorium granted.

There is a legal maxim states that "preventing evil is better than attracting benefit" (Zaidan, 2001). Therefore, do the Islamic banks have no right to impose the additional payment even though it will cause great harm to the institutions? How will the Islamic banks are can continue to serve the betterment of the society if everything is expected to be free of charge? The public on the other hands need to better understanding on how Islamic banks work. They are intermediaries between the group of people who are deficit and need access towards fund and the group of people who are in access of money to support the deficit. Are the banks really not play their roles and benefitting from the moratorium at the expense of the depositors and customers?

4.2 The Impact of Moratorium on Cash Flows of Customers

The accounting process is crucial as it is a process of recording financial transactions of the business nature of the companies. When moratorium was implemented, the banks were required by the government to waive the imposition of accrued profit on hire purchase and fixed rate financing that led to banks to suffer one off day one modification loss.

The following are the calculations examples illustrates by Hong Leong Islamic Banks on the method of instalment payment offered to the customers after the moratorium ended by taking into consideration the additional profit imposed to cover the modification loss. They are given three (3) scenarios on auto financing customers to settle their deferred monthly instalment during moratorium. By giving the illustration, the customers will be able to make comparisons on the best way to settle their debt obligation that best suit their financial capability.

Table 2: Scenario 1 for Auto Financing- i

Scenario 1 for Auto Financing-i : You repay in one lump sum (deferred installments) on 30th September 2020. After that you continue with your monthly fixed instalment until Balance Outstanding is settled.

Original Loan Amount (RM)	75,000	Number of Instalments Paid from April 2017 to March 2020	36
Total Outstanding	83,250	Remaining Instalments before Moratorium	24
Prescribed Profit Rate (Flat % p.a.)	2.20%	Number of Instalments Deferred from April 2020 to September 2020	6
- Annual Percentage Rate (% p.a.)	*4.50%*	Next Instalment Due Date	1 October, 2020
Term (months)	60	New Contract Maturity Date	1 September, 2022
Contract Start Date	1 March, 2017		
Original Contract Maturity Date	1 March, 2022		
Monthly Instalment (RM)	1,388		

		Due Date	Monthly Instalment Paid (RM)	Balance Outstanding (RM)	Instalment Deferred / (Repaid) (RM)	Total Instalment Amount Deferred (RM)	Principal Portion of Deferred / (Repaid) (RM)	Total Principal Portion of Deferred (RM)	Deferred Profit Rate (%)	Deferred Profit Charged / (Repaid) (RM)	Accumulated Deferred Profit Charged (RM)
	Original Outstanding Amount	01-Mar-17		83,250							
	1st monthly instalment	01-Apr-17	1,388	81,862							
	2nd monthly installment	01-May-17	1,388	80,474							
	3rd monthly instalment	01-Jun-17	1,388	79,086							
	4th monthly installment	01-Jul-17	1,388	77,698							
	5th monthly instalment	01-Aug-17	1,388	76,310							
	6th monthly installment	01-Sep-17	1,388	74,922							
	32nd monthly instalment	01-Nov-19	1,388	38,834							
	33rd monthly instalment	01-Dec-19	1,388	37,446							
	34th monthly instalment	01-Jan-20	1,388	36,058							
	35th monthly instalment	01-Feb-20	1,388	34,670							
	36th monthly instalment	01-Mar-20	1,388	33,282							
6 months deferment period	37th monthly instalment - Moratorium	01-Apr-20	0	33,282	1,388	1,388	1,280	1,280			
	38th monthly instalment - Moratorium	01-May-20	0	33,282	1,388	2,776	1,284	2,564			
	39th monthly instalment - Moratorium	01-Jun-20	0	33,282	1,388	4,164	1,289	3,853			
	40th monthly instalment - Moratorium	01-Jul-20	0	33,282	1,388	5,552	1,293	5,146			
	41st monthly instalment - Moratorium	01-Aug-20	0	33,282	1,388	6,940	1,298	6,444			
	42nd monthly instalment - Moratorium	01-Sep-20	0	33,282	1,388	8,328	1,302	7,746			
Repayment of Deferred Installments	lump sum payment (deferred installments)	30-Sep-20	**8,328** ^	24,954	**-8,328**	0	-7,746	0			
	43rd monthly instalment	01-Oct-20	1,388	23,566		0		0	4.50%	0	0
	44th monthly instalment	01-Nov-20	1,388	22,178		0		0	4.50%	0	0
	45th monthly instalment	01-Dec-20	1,388	20,790		0		0	4.50%	0	0
	46th monthly instalment	01-Jan-21	1,388	19,402		0		0	4.50%	0	0
	47th monthly instalment	01-Feb-21	1,388	18,014		0		0	4.50%	0	0
	48th monthly instalment	01-Mar-21	1,388	16,626		0		0	4.50%	0	0
	49th monthly instalment	01-Apr-21	1,388	15,238		0		0	4.50%	0	0
	50th monthly instalment	01-May-21	1,388	13,850		0		0	4.50%	0	0
	51st monthly instalment	01-Jun-21	1,388	12,462		0		0	4.50%	0	0
	52nd monthly instalment	01-Jul-21	1,388	11,074		0		0	4.50%	0	0
	57th monthly instalment	01-Dec-21	1,388	4,134		0		0	4.50%	0	0
	58th monthly instalment	01-Jan-22	1,388	2,746		0		0	4.50%	0	0
	59th monthly instalment	01-Feb-22	1,388	1,358		0		0	4.50%	0	0
	60th monthly instalment	01-Mar-22	1,358	0		0		0	4.50%	0	0

^ Lump sum payment(deferred installments) = RM1,388 * 6 = RM8,328
*Deferred profit isn't charged as Total Deferred Instalments has been paid off

Based on **Table 1** on the Scenario 1, at the end of the 6th month of moratorium, the customers pay lump sum amount of 6 months deferred instalment amounting RM8328 (i.e. RM1388 x 6 months). In this scenario, there is no extension of financing period and no deferred profit is charged as all deferred instalment has been paid off. If the customers opt on this method, they need to have enough cash flow at the end of the month 6 after the moratorium ends. The benefit of this method is that the customers need not to bear any additional profit charged on the deferred instalment amount.

Table 3: Scenario 2 for Auto Financing - i

Scenario 2 for Auto Financing-i: You repay your total deferred installments in 6 equal instalments from October 2020 to March 2021. After that you continue with your monthly fixed instalment until Deferred Installments and Accumulated Deferred Profit is settled

Original Loan Amount (RM)	75,000
Total Outstanding	83,250
Prescribed Profit Rate (Flat % p.a.)	2.20%
- Annual Percentage Rate (% p.a.)	*4.50%*
Term (months)	60
Contract Start Date	1 March, 2017
Original Contract Maturity Date	1 March, 2022
Monthly Instalment (RM)	1,388

Number of Instalments Paid from April 2017 to March 2020	36
Remaining Instalments before Moratorium	24
Number of Instalments Deferred from April 2020 to September 2020	6
Next Instalment Due Date	1 October, 2020
New Contract Maturity Date	1 September, 2022

		Due Date	Monthly Instalment Paid (RM)	Balance Outstanding (RM)	Instalment Deferred / (Repaid) (RM)	Total Instalment Amount Deferred (RM)	Principal Portion of Deferred / (Repaid) (RM)	Total Principal Portion of Deferred (RM)	Deferred Profit Rate (%)	Deferred Profit Charged / (Repaid) (RM)	Accumulated Deferred Profit Charged (RM)
	Original Outstanding Amount	01-Mar-17		83,250							
	1st monthly instalment	01-Apr-17	1,388	81,862							
	2nd monthly installment	01-May-17	1,388	80,474							
	3rd monthly instalment	01-Jun-17	1,388	79,086							
	4th monthly installment	01-Jul-17	1,388	77,698							
	5th monthly instalment	01-Aug-17	1,388	76,310							
	6th monthly installment	01-Sep-17	1,388	74,922							
	32nd monthly instalment	01-Nov-19	1,388	38,834							
	33rd monthly instalment	01-Dec-19	1,388	37,446							
	34th monthly instalment	01-Jan-20	1,388	36,058							
	35th monthly instalment	01-Feb-20	1,388	34,670							
	36th monthly instalment	01-Mar-20	1,388	33,282							
6 months deferment period	37th monthly instalment - Moratorium	01-Apr-20	0	33,282	1,388	1,388	1,280	1,280			
	38th monthly instalment - Moratorium	01-May-20	0	33,282	1,388	2,776	1,284	2,564			
	39th monthly instalment - Moratorium	01-Jun-20	0	33,282	1,388	4,164	1,290	3,854			
	40th monthly instalment - Moratorium	01-Jul-20	0	33,282	1,388	5,552	1,294	5,148			
	41st monthly instalment - Moratorium	01-Aug-20	0	33,282	1,388	6,940	1,299	6,447			
	42nd monthly instalment - Moratorium	01-Sep-20	0	33,282	1,388	8,328	1,302	7,749			
Repayment of Deferred Installments	43rd monthly instalment + extra payment	01-Oct-20	**2,776**	30,506	-1,388	6,940	-809 +	6,940	4.50%	26 *	26
	44th monthly instalment + extra payment	01-Nov-20	**2,776**	27,730	-1,388	5,552	-1,388	5,552	4.50%	21	47
	45th monthly instalment + extra payment	01-Dec-20	**2,776**	24,954	-1,388	4,164	-1,388	4,164	4.50%	15	62
	46th monthly instalment + extra payment	01-Jan-21	**2,776**	22,178	-1,388	2,776	-1,388	2,776	4.50%	11	73
	47th monthly instalment + extra payment	01-Feb-21	**2,776**	19,402	-1,388	1,388	-1,388	1,388	4.50%	5	78 ++
	48th monthly instalment + extra payment	01-Mar-21	**2,776**	16,626	-1,388	0	-1,388	0	4.50%	0 **	78
	49th monthly instalment paid	01-Apr-21	1,388	15,238		0		0	4.50%	0	78
	50th monthly instalment paid	01-May-21	1,388	13,850		0		0	4.50%	0	78
	51st monthly instalment paid	01-Jun-21	1,388	12,462		0		0	4.50%	0	78
	57th monthly instalment	01-Dec-21	1,388	4,134		0		0	4.50%	0	78
	58th monthly instalment	01-Jan-22	1,388	2,746		0		0	4.50%	0	78
	59th monthly instalment	01-Feb-22	1,388	1,358		0		0	4.50%	0	78
	60th monthly instalment	01-Mar-22	1,358	0		0		0	4.50%	0	**78**
Maturity extended by 1 months	61st monthly instalment	01-Apr-22	**78**	0		0		0	4.50%	**-78** ^	0

* Deferred Profit Accrued for the month is RM6,940 x 4.50% x 30/365 days = RM26
+ Repayment will go towards reducing the Profit Portion of the Total Deferred Instalment first before reducing the Principal Portion
**Deferred Profit isn't charged as Total Deferred Instalments has been paid off
++ Customer has incurred a Total of RM78 in Deferred Profit under this scenario.
^ Monthly payment goes towards settling Accumulated Deferred Profit

With reference to **Table 3**, customers opt to pay the deferred monthly instalment during moratorium period during the six months after the moratorium ended. Therefore, the monthly instalment for six months after the moratorium end will be double as it consists of monthly payment of the current and the month deferred. The profit will be charged on the balance of outstanding deferred principal amount accumulated during moratorium. The accumulated profit is paid by extending another one month of financing tenure.

Table 4: Scenario 3 for Auto Financing- i

Scenario 3 for Auto Financing-i : You continue with your monthly fixed instalment throughout the extended maturity period of 6 months and and Accumulated Deferred Profit is settled together with the final instalment

Original Loan Amount (RM)	75,000
Total Outstanding	83,250
Prescribed Profit Rate (Flat % p.a.)	2.20%
- Annual Percentage Rate(% p.a.)	*4.5%*
Term (months)	60
Contract Start Date	1 March, 2017
Original Contract Maturity Date	1 March, 2022
Monthly Instalment (RM)	1,388

Number of Instalments Paid from April 2017 to March 2020	36
Remaining Instalments before Moratorium	24
Number of Instalments Deferred from April 2020 to September 2020	6
Next Instalment Due Date	1 October, 2020
New Contract Maturity Date	1 September, 2022

		Due Date	Monthly Instalment Paid (RM)	Balance Outstanding (RM)	Instalment Deferred / (Repaid) (RM)	Total Instalment Amount Deferred (RM)	Principal Portion of Deferred / (Repaid) (RM)	Total Principal Portion of Deferred (RM)	Deferred Profit Rate (%)	Deferred Profit Charged / (Repaid) (RM)	Accumulated Deferred Profit Charged (RM)
	Original Outstanding Amount	01-Mar-17		83,250							
	1st monthly instalment	01-Apr-17	1,388	81,862							
	2nd monthly installment	01-May-17	1,388	80,474							
	3rd monthly instalment	01-Jun-17	1,388	79,086							
	4th monthly installment	01-Jul-17	1,388	77,698							
	5th monthly instalment	01-Aug-17	1,388	76,310							
	6th monthly installment	01-Sep-17	1,388	74,922							
	↓	↓	↓	↓							
	32nd monthly instalment	01-Nov-19	1,388	38,834							
	33rd monthly instalment	01-Dec-19	1,388	37,446							
	34th monthly instalment	01-Jan-20	1,388	36,058							
	35th monthly instalment	01-Feb-20	1,388	34,670							
	36th monthly instalment	01-Mar-20	1,388	33,282							
6 months deferment period	37th monthly instalment - Moratorium	01-Apr-20	0	33,282	1,388	1,388	1,280	1,280			
	38th monthly instalment - Moratorium	01-May-20	0	33,282	1,388	2,776	1,284	2,564			
	39th monthly instalment - Moratorium	01-Jun-20	0	33,282	1,388	4,164	1,290	3,854			
	40th monthly instalment - Moratorium	01-Jul-20	0	33,282	1,388	5,552	1,294	5,148			
	41st monthly instalment - Moratorium	01-Aug-20	0	33,282	1,388	6,940	1,299	6,447			
	42nd monthly instalment - Moratorium	01-Sep-20	0	33,282	1,388	8,328	1,302	7,749			
	43rd monthly instalment	01-Oct-20	1,388	31,894		8,328		7,749	4.50%	29 *	29
	44th monthly instalment	01-Nov-20	1,388	30,506		8,328		7,749	4.50%	30	58
	45th monthly instalment	01-Dec-20	1,388	29,118		8,328		7,749	4.50%	29	87
	↓	↓	↓	↓		↓		↓	↓	↓	↓
	57th monthly instalment	01-Dec-21	1,388	12,462		8,328		7,749	4.50%	29	440
	58th monthly instalment	01-Jan-22	1,388	11,074		8,328		7,749	4.50%	30	469
	59th monthly instalment	01-Feb-22	1,388	9,686		8,328		7,749	4.50%	30	499
	60th monthly instalment	01-Mar-22	1,388	8,298	-30	8,298	-30	+ 7,719	4.50%	27	525
Maturity extended by 6 months	61st monthly instalment	01-Apr-22	1,388	6,910	-1,388	6,910	-810	6,909	4.50%	26	552
	62nd monthly instalment	01-May-22	1,388	5,522	-1,388	5,522	-1,388	5,521	4.50%	20	572
	63rd monthly instalment	01-Jun-22	1,388	4,134	-1,388	4,134	-1,388	4,133	4.50%	16	588
	64th monthly instalment	01-Jul-22	1,388	2,746	-1,388	2,746	-1,388	2,745	4.50%	10	598
	65th monthly instalment	01-Aug-22	1,388	1,358	-1,388	1,358	-1,388	**1,358**	4.50%	5	**603**
	66th monthly instalment	01-Sep-22	**1,961** ^	**0**	**-1,358**	**0**	**-1,358**	**0**	4.50%	**-603** **	**0** ++

* Deferred Profit Charge for the month is RM7,746 x 4.50% x 30/365 days = RM29
+ Repayment will go towards reducing the Profit Portion of the Total Deferred Instalment first before reducing the Principal Portion
**Deferred Profit isn't charged as Total Deferred Instalments has been paid off
++ Customer has incurred a Total of RM603 in Deferred Profit under this scenario.
^ Final instalment includes total Accumulated Deferred Profit of RM603 = RM1,358 + RM603 = RM1,961

On the third scenario in **Table 4**, financing period is extending to another 6 months from the original financing tenure. After the moratorium ended, the customers only need to pay the same amount as existing monthly instalment except for the last instalment, the customers need to pay more to serve the bigger accumulated profit amount charged on the deferred amount of principle. The calculation on the above illustration is a bit different from the above two due to the profit charge is higher since the total deferred principal of RM7746 was carried from the 43rd month until 60th month. Therefore, the current profit was charged on the total deferred instalment every month until it is fully settled. The amount of total accumulated profit is paid on the last instalment together with the final instalment amount.

In brief, from the aforementioned three scenarios for Islamic auto financing, it can be concluded as follows:

i. For the customers who have financial ability to pay a large sum of money after the moratorium period, they can opt for the first option as it is considered as the best and the cheapest option as no extra profit will be charged on the accumulated deferred instalment.
ii. On the contrary, for the customers who does not have excess to extra cash, they may opt for the last choice. Even though the imposition of profit is quite high compared to the other two options, but, it will ease the burden of the customers as they may continue to pay the same monthly instalment as previous. The tenure of the financing may need to be lengthened to compensate the same instalment amount paid until the end of the financing tenure. As time goes by, the customers are expected to have ample time to pay the amount of profit together with the final instalment amount to the bank.
iii. The second option is also a bit tough especially for those who are short in cash as they need to maintain in paying higher instalment amount for 6 consecutive months.

To sum up, it is expected that the last scenario would be the most preferred option by the customers as they will prefer their monthly instalment remains and while waiting for the financing period to ends, they would have ample time to save more money to pay at the end of the tenure. Obviously, any of the above method opt by the customers, it is still having impact either the customers need to pay a large sum of money (the whole instalment amount for 6 months) after the moratorium end, if they do not want any profit to be imposed on the amount of principal deferred or they need to pay additional amount of profit to be spread over the extended tenure of financing. Even though the government had announced that for the hire purchase and Ijarah Vehicle Financing, there will be no additional charges of profit imposed after the moratorium, the issues remain the same for floating rate financing.

4.3 Shariah Perspectives on Moratorium

This is the time for Islamic banks to proof that their objectives are not merely towards profit maximization but to assist the community and the society to achieve a better standard of living by focusing on greater consideration to the social obligation especially through the recently engaged on Value Based Intermediation (VBI) for Islamic financial institution in Malaysia. From Islamic perspectives, the customers and the banks had entered into whether a sale contract, partnership contract, Ijarah or any other suitable Islamic contract that bind both parties with specific terms and conditions upon application of the financing contract. Undoubtedly, almost all Islamic banks in Malaysia are in favour of the sale-based contract when offering their financing products. Indebtedness created whenever the banks sell the commodity or any other Shariah compliant assets to the customers on deferred basis. Therefore, the banks as sellers are entitled towards all the selling price at the first place. The customers as a debtor, must not avoid from paying all of his debt. It is obligatory to a solvent debtor to pay their monthly instalment as scheduled to avoid any imposition of late payment charges. As for the insolvent debtors, the banks as creditors or sellers on the other hand must provide certain leniency to ease their financial burdens especially during this critical time. They should be given ample time to recover their financial capability to pay back their debt obligation and to forgo their debt is the best option if it is premised on the basis of Ihsan but of course by taking into considerations many factors especially when the decision may cause harm to the banks. If the financing contract is structured based on Musharakah contract, it is obligatory for the customers to be together with the banks to consume all risk associated to the ventures.

Shaharuddin, (2020) opined the critics towards Islamic banks credibility during the pandemic emerged due to public expectations that the moratorium granted is free of charged because it is a government's order. They were assuming that the banks will absorb all the losses as part and parcel of their corporate social responsibility (CSR) activities or VBI initiatives. Bear in mind, the CSR activities were performed not during the economic downturn, furthermore, the CSR's fund were taken from the profit generated by the banks during their prosperous time. The current pandemic really tested the decision of Islamic banks whether they are ready to sacrifice their profit for the interest of the customers? However, it can be argued that a uniform policy could damage some banks hence there are variegated scenario of the borrowers and every individual is affected differently. Since the government had classified the society into three main categories for instant B40, M40 and T20, thus, the moratorium policy should be established by the banks to give priority to B40 or selected M40 that financially affected by the current outbreak. The banks may need to sacrifice a portion of their profit to assist the insolvent debtor or the B40 group, but for the one who have excess to extra money, they will strongly encourage to be together to contribute to the wellbeing of the society and they are advised to not to take this opportunity for their own benefit. This is how Maqasid Shariah can be practicality adopted. It is the roles of everybody in the society, not to pointing finger to certain organizations or individual. The ultimate Maqasid of Shariah is to protect everybody's interest (maslahah) not focusing to selected individual or group of people only.

4.4 The Issue of Imposition of Accrued Interest or Profit

Despite of the relief on the moratorium announced by the government with the aim to assist the individuals, SME's and corporates to cope with the challenges during Covid-19 pandemic, the public were also anxious on the additional monthly instalment they may incur after the moratorium ends. Perhaps, the public anticipate that the moratorium granted will not affect their monthly instalment afterwards as the banks will absorbs all the financial implications. With regards to this matter, the Islamic banks had received many critics on the imposition of additional charges on customers' monthly instalment especially after they had been declared as part of VBI that supposed to creates values and contributes more towards the wellbeing of the society. Hence, the Islamic banks should focus to operate their activities beyond profit and not as sole profit making organizations. To top it off, the Islamic banks has been seen as no different with the conventional banking due to actively accumulate profit rather than serving the society especially in the current pandemic situation.

In Islam, it is a responsibility of the debtor to pay his debt within a specific period of time as agreed with the creditor or financier. According to (Ali, 2020), failure to adhere a timely payment by a solvent debtor is deemed a breach of terms and conditions of the contract and may result to penalties or court orders. However, if a debtor is facing genuine difficulty in paying his obligation in due time, the creditor should grant the debtor a time extension for payment. This opinion is based on the evidence of the Quran: "And if someone is in hardship, then [let there be] postponement until [a time of] ease (2:280)". This so in line with the spirit of moratorium granted and no imposition of accrued profit or extra charge on hire purchase and fixed rate financing. The Islamic banks on the other hands, cannot avoid from charging additional monthly instalment to the customers especially for the floating rates financing portfolio in order to cover the modification loss required in the new IFRS 9 guidelines as mentioned previously. Technically the changing in monthly instalment of the customers is due to the changing in the net present value (NPV) of the future cash flow since the bank will not receive the cash flow of the instalment for the six months' period. The banks normally have two types of method in charging profit which is fixed rate and the other one is floating rate. Fixed rate financing is referring to the financing with certain fixed rate of profit charged to customers. The rate will remain the same and cannot be change throughout the entire period of financing regardless of the changing of Overnight Policy Rate (OPR) that effect the changes in the bank's Base Rate (BR).

As opposed to fixed rate, the contracted selling price on the floating rate financing will be executed at the ceiling rate, but the customers will only be charged at the specific effective rate which is lower than the ceiling rate. This effective rate is fluctuate depending on the movement of OPR. The lower the OPR, the lower become the effective rate. Therefore, from Shariah perspective of *akad*, the bank can impose additional amount to the existing monthly instalment of the customers as long as it does not exceed the contractual ceiling price. Even though if the effective rate goes beyond the ceiling rate, the banks are only allowed to charge customers at the rate of the ceiling rate only. Of course the bank will not simply add to the monthly instalment but the additional charges maybe due to certain circumstances such as the changes in OPR, default after three consecutive months, as well as the issue of rescheduling of the financing amount by taking into account the accrued profit.

Based on the above backdrop, for all fixed rate financing, any changes to the monthly instalment that lead to the changes in the customers' contractual selling price, the new akad need to be executed. Nevertheless, for floating rate financing, as long as the charges imposed does not exceed the contractual selling price, therefore no new akad need to be executed. The banks in fact are entitle to the whole contractual amount based on the akad executed between both parties. From the point of view of Maqasid Shariah on *Hifz Al-Maal* (i.e. protection of the property) and the legal maxim of *La Dharar Wa La Dhirar* (i.e. not to harm and not to be harmed), the Islamic banks has to provide the financial comfort to the customers for the 6 months' period and they need to suffer the modification loss for hire purchase and fixed rate financing portfolio. After the moratorium period, the customers are expected to have ample time to recover their financial portfolio therefore, this is the time for the customers to assist the bank to recover their losses, hence it is fair to the both parties i.e. customers and banks. However, it is much dependent on the unpredictable Covid-19 scenario that may affect the economic conditions.

The banks profit also is badly impacted with all the moratorium and financial assistance given, therefore, in this case, the customers cannot expect the banks to absorb all the losses as the amount is significant in numbers. It will cause harm to the banks if they absorb all the losses. Harm to the banks means harm to the economic and financial sectors as the banks are the main entity to generate the economic activities of the country. In fact, it is the bank's right to the accrued profit hence it is part and parcel of the contractual price. Therefore, by not charging the accrued profit is an act of *Ihsan* from the bank to the customers especially for the insolvent debtors, they should be given sufficient extension of time to pay their indebtedness and to charge the accrued profit, it is the bank's right to do so to recover the bad impact on their profit and loss statement which they need to adhere to certain rules and regulations.

5.0 Conclusion

The banks are inevitably need to bear the modification loss due to the government order that the banks are not allowed to impose any additional profit to the Hire Purchase or Ijarah vehicle financing. How the banks cope with the modification loss is left to the individual bank to manage their account reporting? There is no choice left to the banks unless to follow the government directions as well as the regulator. Nevertheless, the elimination of compounding profit is in line with the principle and Maqasid of Shariah as it reduces the burden of the effected customers that is economically and financially impacted.

As for the deferment package or commonly known as moratorium, it is better to offer to the affected customers that having genuine financial difficulty in paying off their monthly obligations, guided by certain criteria that may be decided by the respective Shariah Committee at the individual bank. It shall not be offered open ended to all types of debtors as some people may take advantage on the deferment as they have access to extra cash by investing in other profitable business ventures to get more cash. Shaharuddin, (2020) opines, based on the hadith of delay in debt payment , the group of people that are benefiting from the moratorium at the expense of banks' profit and purposely delayed in payment their debt, as unacceptable and injustice act to creditor.

The banks are proposed to classify their customers into solvent and insolvent debtors as solvent debtors shall be exempted from the deferment package and pay their monthly instalment as per schedule. On the other hand, since the moratorium was already offered, the banks has the right to imposed additional profit to the solvent debtors as they can be classified as delayed in paying the monthly obligation by intention since they were not facing any financial difficulties. For the insolvent debtors, more financial assistance should be offered to ease their burden in managing their cash flows.

To summarise, the Islamic banks already did their part by scarifying their profit in assisting the public during their tough time. In fact, it is not merely about scarifying the profit but the operational difficulties that matters including putting up the updated announcement to the customers, preparing supplemental documentations, frequently asked questions (FAQ), new terms and conditions, system enhancement and many other things. Imposition of additional profit does not mean the banks are being cruel but it is the banks' right towards the amount of the selling price. To reiterate, Maqasid Shariah of the Islamic banks as well as the customers are both need to be protected. As for the customers, the 6 months' payment holiday had passed. Most of the individuals and business entities had enjoyed the moratorium granted. The banks had generously provided a helping hand to ensure the continuity of the economic ecosystem and at the same time to reduce the burden of the people.

On top of that, the banks are continuously providing financial assistance subsequent to the post moratorium period for those who are still having financial difficulties in managing their cash flows. It is important to note that the Islamic banks' profitability is crucial in order to generate higher rate of return to their depositors. In this dual banking system, depositors are free to withdraw their money from the Islamic Banks to be place at the conventional banks that manage to provide higher returns. Therefore, other than facing the credit default risk, the Islamic banks are also facing unique risk such as the displace commercial risk whenever the Islamic banks need to forgo part or all of their profit portion in order to maintain high return to the depositors.

The banks generally and the Islamic banks specifically encountered critical challenge in positioning their branding as Islamic banks in uplifting the ultimate objective of Shariah. The banks want to protect the interest of the customers by not to impose the additional profit, nonetheless, the modification loss suffered by the banks is huge, therefore in the case of conflicting interest, the rule applied is the lesser of the two evil is preferred. This is because the effects and aftermath of the Covid-19 pandemic to the banks are expected to be felt far beyond the end of the MCO period (Kwang Jing, 2020). The banks especially are the institutions that are directly impacted by the current pandemic from every angle. They may lose their depositors and customers, thus, affected the liquidity of the banks. The floating rate financing portfolio may be affected as the rate of OPR is getting lower while they need to pay higher returns to the depositors. As for the Islamic Banks, they are also facing numbers of unique risk that may not be the case for the conventional counterpart.

The new banking 4.0 must take into consideration the new normal and the customers' behavioural for instant the introduction of social distancing and other compliance functions but at the same time maintaining customer's satisfaction especially in delivering the excellent turnaround time. More convenient banking channelled need to be introduced as the customers' preference might change in this new norm. Due to the continues financial measures provided, the banks should rethink on the better restructuring and refinancing plans in order to improve the liquidity and raising new funding to support the vulnerable societies.

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Appendix 1 – FAQs on Hire-Purchase and Fixed Rate Islamic Financing Products

No	Issuance Date	Content	FAQ's
1.	**27th March 2020**	1st issuance of FAQ after the announcement on moratorium by the government. FAQ no. 16 mentioned on no changes in monthly instalment for Hire Purchase financing after moratorium period. The same FAQ no. 17, on the other hand shown that all fixed rate financing (including Hire Purchase), the profit will continue to accrue thus will cause the increased in monthly instalment FAQ no. 24 illustrated the monthly instalment calculation for other fixed rate financing i.e. House Financing, is slightly higher after moratorium period due to recognition of accrual profit.	(see FAQ extracts below)

16.	What would my HP financing monthly payments look like before and after the 6 months moratorium period?	Monthly instalment **before** deferment: RM1,133 / Monthly instalment **after** deferment: RM1,133 – no change; ***If tenure post-deferment extended 6 more months*** This illustration is based on a fixed rate HP loan, with these assumptions:

3

Revised (27 March 2020)

No.	Question	Answer
		• Loan/financing amount - RM90,000, flat interest/profit rate - 4% • Original tenure - 9 years, borrower/customer has repaid for 3 years • Outstanding loan/financing amount before and after deferment period – RM81,600 • No additional interest/profit charged during deferment

17.	What happens to my loan/financing payments after the deferment period? How does being in the deferment package affect my interest payments after the 6-month period? Is there an increase in monthly payments, or longer tenure?	For conventional loans, interest will continue to be charged on the outstanding balance comprising of both principal and interest portion (i.e. compounded) during the deferment period. However, some FIs may decide not to compound interest during the deferment period. For Islamic financing, profit will continue to accrue on the outstanding principal amount. Such profit, however will not be compounded in line with Shariah principles. Borrowers/customers are advised to look out for notices from their FIs on the implementation of the deferment package. Borrowers/customers are reminded to carefully consider the payment options proposed by their FI, in particular on how to resume payments after the deferment period. This may include higher subsequent instalment amount while preserving the original loan/financing tenure, or an extension of the loan/financing tenure after the 6 month moratorium period. Borrowers/customers should make sure they understand the overall financial implications and their ability to meet these and should reach out to their FIs via calls/emails if more information is required.

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<td>24.</td>
<td>What would my housing loan/financing monthly payment look like after the 6 months moratorium period?</td>
<td>
<table>
<tr><th>Monthly instalment before deferment</th><th>Monthly instalment after deferment</th></tr>
<tr><td>RM1,438</td><td>RM1,483
(RM45 increase)</td></tr>
</table>
The above illustration of a conventional housing loan is based on these assumptions:

No extension of tenure after deferment period
Loan amount - RM300,000
Interest rate - 4.6% p.a. (interest not compounded during deferment period)
Original tenure - 35 years, and borrower has repaid for 5 years
Principal and interest payments suspended during deferment period
Outstanding principal before deferment period - RM280,585
Outstanding amount post-deferment to be repaid within 29.5 years = RM287,038

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<tr>
<td>25.</td>
<td>I want to continue with my loan/financing payments. How do I opt-out of the automatic deferment package?</td>
<td>Please respond to the notification sent by the FI and inform that you wish to opt-out of the automatic deferment package. You must continue to make timely and full payment of your loan/financing.</td>
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<td>2.</td>
<td>21st April 2020</td>
<td>FAQ no. 7 Focusing on the details of credit card balance conversion while maintaining the other details of financing deferment package. It is also reiterated that the moratorium will be granted automatically to those eligible. Meaning, there is no need for any moratorium application from the customers to the bank.</td>
<td>
<table>
<tr>
<td>7.</td>
<td>Do I need to apply?</td>
<td>No. All individual and SME loans/financing that meet the criteria will automatically qualify for the deferment.</td>
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<tr>
<td>3.</td>
<td>1st May 2020</td>
<td>The FAQ no. 1 and 2 highlighted that the payment deferment is still automatic for HP and fixed rate Islamic financing . Nevertheless, additional step is required to comply with procedural requirements under the Hire-Purchase Act 1967 (HP Act) and Shariah. For other loans, the profit/interest will continue to accrue and need to be repaid once payment resumes.</td>
<td>
<table>
<tr><th>No.</th><th>Question</th><th>Answer</th></tr>
<tr>
<td>1.</td>
<td>It was previously announced that the 6-month payment deferment for Hire-Purchase (HP) and fixed rate Islamic financing is automatic. Has there been a reversal in this decision?</td>
<td>The payment deferment is still automatic for HP and fixed rate Islamic financing.

What is required now is an additional step to comply with procedural requirements under the Hire-Purchase Act 1967 (HP Act) and Shariah. This additional step is required to incorporate the changes to the payment schedule and/or amounts as a result of the six-month payment deferment in the loan/financing agreements.</td>
</tr>
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<td>2.</td>
<td>Why are other loans/financing (e.g. mortgages, personal loans, business loans etc) not similarly affected?</td>
<td>Other loans/financing are not subject to HP Act or similar Shariah requirements. However, interest/profit will also accrue over the deferment period for these loans and will also need to be repaid once payments resume post-deferment.</td>
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<tr><td>4.</td><td>1st May 2020</td><td>The FAQ No. 6, mentioned clearly that there will be an increase in monthly instalment due to the accrual profit charged for Hire Purchase (HP) or fixed rate financing. This can be seen through the illustration table given in the FAQ as shown.

It is in contradict with FAQ no 16 issued on 27th March 2020.</td><td>
<table>
<tr><th>No.</th><th>Question</th><th>Answer</th></tr>
<tr><td>6.</td><td>How would my HP or fixed rate Islamic financing monthly instalments change after the deferment period?</td><td>FIs will inform each borrower/customer of the changes to his/her HP loan or fixed rate Islamic financing payment schedule and instalment amounts.

Borrowers/customers should weigh for themselves the pros and cons of defering the payment, and pay particular attention to their ability to meet these payments after the moratorium.

You should call or e-mail your FI if you need more information, or if you need to discuss alternative payment arrangements.

Here is an example to help you better understand the financial impact post deferment.

This illustration relates to a RM50,000 HP loan with a remaining tenure of 5 years and a fixed interest of 2.71% (or an effective rate of 5.36%) per annum:
<table>
<tr><th></th><th>Before deferment</th><th>After deferment</th></tr>
<tr><td>Monthly instalment</td><td>RM712</td><td>RM731</td></tr>
<tr><td>Increase in monthly instalment</td><td></td><td>RM19</td></tr>
<tr><td>Increase in total interest (RM)</td><td></td><td>RM1,130</td></tr>
</table>
In this example the instalment amount increases by 2%, or RM19 a month.</td></tr>
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<tr><td>5.</td><td>7th May 2020</td><td>Another FAQ no. 6 was issued to reflect the announcement made by the Ministry of Finance which no additional profit will be charged to HP financing. The revised clause is referred to as shown in red.</td><td>
<table>
<tr><th>No.</th><th>Question</th><th>Answer</th></tr>
<tr><td>6.</td><td>How would my HP or fixed rate Islamic financing monthly instalments change after the deferment period?

** Please refer to details from your bank following the announcement by YBM Minister of Finance on 6 May 2020.</td><td>FIs will inform each borrower/customer of the changes to his/her HP loan or fixed rate Islamic financing payment schedule and instalment amounts.

Borrowers/customers should weigh for themselves the pros and cons of defering the payment, and pay particular attention to their ability to meet these payments after the moratorium.

You should call or e-mail your FI if you need more information, or if you need to discuss alternative payment arrangements.

Here is an example to help you better understand the financial impact post deferment.

In this example, the change to the monthly instalment is not as large as expected. This illustration relates to a RM50,000 HP loan with a remaining tenure of 5 years and a flat rate of 2.71% per annum (or an effective interest rate of 5.36% per annum).
<table>
<tr><th></th><th>Before deferment</th><th>After deferment</th></tr>
<tr><td>Monthly instalment</td><td>RM712</td><td>RM731</td></tr>
<tr><td>Increase in monthly instalment</td><td></td><td>RM19</td></tr>
<tr><td>Increase in total interest charges</td><td></td><td>RM1,130</td></tr>
</table>
In this example the monthly instalment amount increases by about 2%, or RM19 a month.</td></tr>
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