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Establishing an Interest-Free Lending Platform Applying Optimum Premium, 'Mesbah Point,' in Amortization and Time Value of Money

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Abstract

The concept of “Interest” has been viewed as a forbidden instrument in Islamic investments. This study has focused on establishing an interest-free platform, and introducing a new method of direct-to-consumer financing using the amortization and the time value of money. Based on this method, the borrower makes a pre-determined amount of upfront payment in order to receive zero percent interest rate financing and only makes monthly principal payments during the term of the loan. Using the same interest rate and the same term period as in amortization, the total amount of interest occurring during the amortized loan is replaced as future value and the discounted value is calculated as the amount of upfront payment. The relationship between the amount of upfront payment in each range of 30, 20, 15, 10 and 5 year terms and the interest rates 1%-30% shows a parabolic pattern in each term, in which the amount of upfront payment will increase to a pivotal level in each term and will decrease as the interest rate increases. The vertex point of the parabola is named “Mesbah Point” in order to distinguish this conceptual point. Therefore, Mesbah Point is the optimum amount of upfront payment collected, irrespective of the interest rate, to receive an interest free, zero percent loan. In other words, Mesbah Point is as an interest rate-proof value in which the borrower, regardless of interest rates in the market, can contribute a pre-determined amount of upfront payment to receive an interest free, zero percent interest rate loan.

Keywords: Zero-percent interest rate, Mesbah Point, Islamic Finance, Time Value of Money, Securitization**JEL Classification:** G15, G21, G23[Suggested Citation](#) >[Show Contact Information](#) >[Download This Paper \(Delivery.cfm/SSRN_ID2467917_code1694885.pdf?abstractid=2467917&mirid=1\)](#)[Open PDF in Browser \(Delivery.cfm/SSRN_ID2467917_code1694885.pdf?abstractid=2467917&mirid=1&type=2\)](#)

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