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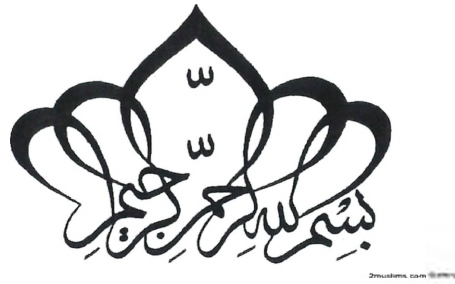
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ABSTRACT

This research paper analyzes the practice of Islamic Banks in Malaysia in home financing. While conventional banks deal with interest in financing home, car or other appliances, the Islamic banks limit to transactions that are free from interest, usury, ambiguity, cheating etc. Islamic Banks in Malaysia implement certain well known systems in home financing. The most popular ones are *Bay` bi Thaman 'Aajil* (BBA), which is sale on a deferred payment; and *Musyarakah Mutanaqisah* (MM), which means, diminishing partnership. The research would deal specifically on his MM home financing as it is implemented in Malaysian Islamic banking systems. Many Islamic banks today accept MM home financing as an alternative to BBA or *Murabaha* sale, which was in existence since the inception of Islamic Banks in Malaysia. The research would look into MM from Jurisprudential point of view to see if it could be adopted as it is practiced today, or needs some modifications. It will highlight the characteristics of MM and related issues like ownership and liabilities, shares and ownership transfer, *Ijarah* and rentals etc. The factors determine the total volume of MM is Consumer Price Index (CPI), Based Financing Rate (BFR), and Gross Domestic Products (GDP). This variable are cater to examine the relationship with MM itself. This research studies the performance of MM for the period 3years (2008-20101) by taking monthly data.