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ON FOCUS AND IN DEPTH

Islamic Finance Unit Takes Bank Beyond Michigan Roots

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By [Robert Barba](#)

It took four years for [University Bancorp](#) in Ann Arbor, Mich., to develop a home loan product that both complied with the strict laws of Islamic financing and satisfied its regulators, but it was time well spent.

Last year its University Islamic Financial Corp. subsidiary generated roughly 20% of the company's revenue, and that number is expected to rise significantly over the next few years as University expands its Islamic lending into new markets.

This year the \$90 million-asset University has opened Islamic finance offices in East Brunswick, N.J., and McLean, Va., and received regulatory approval to write its Islamic-law-compliant loans in eight other states. It plans to open at least five more offices in markets outside its home state over the next year.

"Our thought is to go big or stay at home," said [Stephen Lange Ranzini](#), University's president and chief executive. "If we aren't going outside of Michigan, there is really no point in having an Islamic finance company. Our goal is to have people on the ground in the major markets."

The laws of Islam forbid adherent Muslims from charging or paying interest, meaning many of those in the United States are either paying rent or compromising their beliefs to get into homes. Companies such as University and its competitors, including the \$287 million-asset Devon Bank in Chicago and the mortgage company Guidance Residential LLC in Reston, Va., have carved a niche by offering products such as lease-back and co-ownership agreements that comply with Islamic rules but still net a profit.

A 2007 study by the Pew Forum on Religion and Public Life estimated there were 2.4 million Muslims in the United States. But Islam, like most religions, is not monolithic, and not all sects observe the principles of Islamic finance, so the actual market size is not quite known.

However, many Muslims would prefer products that adhere to Sharia, or Islamic law, said Rod Taylor, the president of the Atlanta executive recruiting firm Taylor & Co.

"Most" Muslim investors, particularly those in the Middle East, "will choose a Sharia-compliant product if all other things are equal," Mr. Taylor said. "This is a trend that is also going to grow in the United States with homebuying."

Mr. Ranzini said University became interested in Islamic finance in June 2002, when it won an award for its community redevelopment efforts. Shortly after it won the award, he said, a Muslim man asked him, "If you are so great, why aren't you serving our community?" University began offering the loans on a small scale in 2003, and after working out all the kinks, it began actively marketing them in 2006.

Mr. Ranzini has become something of an authority on the topic of Islamic finance. In May he was one of the speakers at the Islamic Finance World North America 2008 conference in New York, an event designed to familiarize financial professionals with Islamic finance and the importance of Sharia-compliant products. (Mr. Taylor, who heard Mr. Ranzini speak at the conference, called him "a pioneer in this category.")

Though the Muslim population is relatively small, Mr. Ranzini said he expects demand for Sharia-compliant loans to grow because homeownership is low among Muslims.

University's Islamic finance home loans increased 36% last year, to \$20 million, while its conventional community banking lending was essentially flat. Mr. Ranzini said it originated \$5 million of the loans in May, its most successful month to date for Islamic finance.

Mr. Ranzini said he expects Islamic finance to generate more than 25% of University's revenue this year and "trend toward 40% to 50%" over the next five to 10 years.

University has a ways to go to catch up to its competitors, which are mainly nonbanks. American Finance House Lariba of Pasadena, Calif., is able to write loans in 49 states, Guidance Residential (a subsidiary of Guidance Financial Group LLC) does business in 24 states, and Devon Bank is in 36 states.

Still, University is the only lender in the group that is opening loan offices in growth markets, which the company hopes will boost its visibility. And it is the only institution offering Sharia-compliant deposit products backed by the Federal Deposit Insurance Corp.

Mr. Ranzini would not say where University plans to open loan offices in the future. Beyond Michigan and the Washington and New York areas the highest population of Muslims can be found in cities such as Chicago, Dallas, Houston, Minneapolis, and Orlando, as well as Southern and Northern California, according to Karen Hunt-Ahmed, a professor of Islamic finance at DePaul University in Chicago.

Prof. Hunt-Ahmed said many Muslims may not know that Sharia-compliant loan and deposit products are available in the United States because the most active lenders are not household names,

Still, demand for Islamic finance products is strong, Prof. Hunt-Ahmed said. "It's nice to know that Muslims can follow the rules of their religion while living in this country," she said.

Though the Islamic finance loans made up about 30% of University's total in the first quarter, they accounted for only 10% of its delinquencies.

That does not surprise David Loundy, a Devon vice president who heads its Islamic finance division. He said Muslim borrowers tend to repay promptly.

"I think the mentality is 'We worked too hard to get to this country and we don't want to screw it up,' " Mr. Loundy said.

Mr. Ranzini said University's Islamic Finance unit has three problem credits. Devon Bank, which has been making the loans for five years, has no problem credits but may get its first, because a customer lost his job, Mr. Loundy said.

Guidance Residential reported just one foreclosure out of its more than \$1 billion portfolio, according to spokesman Hussam Qutub.