

## **ANN ARBOR NEWS**

### **Banking Islam-style - without interest**

**University Bank learns to accommodate faith's strictures on money lending**

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BY STEFANIE MURRAY

**News Business Reporter**

When University Bank transformed its Islamic banking division into a subsidiary last month, the Ann Arbor bank was stepping into territory that's fairly uncharted in this country.

There are at least 250 Islamic financial institutions around the world, managing an estimated \$200 billion, according to the Institute of Islamic Banking & Insurance.

But in the U.S., only a handful of companies offer specific products for Muslims, let alone separate Islamic-focused institutions. Federal and state regulators are still grappling with how to deal with this growing, and sometimes confusing, area of finance.

A tenet of Islamic faith prohibits paying or receiving interest, a key component of many financial markets.

"A lot of people hear 'no interest' and they think, 'How can a bank make money like that?' " said University Bank President Stephen Lange Ranzini, who is also heading the new University Islamic Financial Corp. "Just because there isn't interest doesn't mean there's not payments ... it took us a very long time, over a year, to figure out how to do this properly."

University Bank has offered Muslim home financing products since July 2003. Instead of traditional mortgages, these transactions are set up as lease-to-own or markup deals. In both cases, the bank buys the home and sells it to the customer; bank profit is built into the payments at an agreed-upon price.

Although it may sound like calling interest by another name, "it's not seen that way by Muslims," said Harvard Business School professor emeritus Samuel Hayes, author of "Islamic Law and Finance: Religion, Risk and Return."

Fifty-seven Michigan families have used these mortgage alternatives through University Bank, including the family of Dr. Ahmad Zeibo.

Three months ago, Zeibo used the lease-to-own product, called ijara, through University Bank to buy a new home in Canton. It was the only way, the physician said, that he could become a homeowner.

"Just because of my religion, I feel more close to my beliefs if I do this," said Zeibo, whose only other financial account is an interest-free checking account through Bank One.

Home financing makes up a bulk of Islamic banking business in the United States. University Bank's new subsidiary will also delve into deposit accounts and sales of mutual funds shares - a mix of products Ranzini hopes will catapult the company from a local pioneer to a national leader.

But Islamic finance scholars and experts aren't so sure the idea will catch on with other institutions.

Western markets are so rooted in the interest-paying system that it seems unlikely an entire set of banking rules - not to mention culture - could be easily changed to allow for full and complete acceptance of Muslim financial beliefs.

"If the (Islamic banking) industry just becomes a set of labels, I don't see much growth for it in the West," said Tarek Diwany, editor of Islamic-Finance.com and a partner in London's Zest Advisory LLP, an Islamic banking consulting firm. "Institutions themselves may not find it profitable to offer Islamic finance."

Interest is only one component. According to Islamic beliefs, profit and losses should be shared, with banks and customers acting more as partners than in a hierarchy, Hayes said. Investing in any activities that violate other Muslim beliefs is forbidden.

At University Bank's subsidiary, deposits are used for home financing and put into Islam-friendly investments, Ranzini said. Profits are shared among deposit clients and the bank.

University Bank owns 80 percent of its subsidiary - which it launched on Dec. 30 - and sold the other 20 percent to a group in Grand Rapids called Virtue Investors LLC.

The subsidiary - which acts as an agent for the FDIC-insured bank - was started with \$15.5 million in capital. Ranzini hopes it will grow large enough to become a bank itself one day.

According to paperwork filed for Virtue Investors with the state on Dec. 29, Donald L. Johnson is listed as the agent for the company. However, Johnson, citing attorney-client privilege, declined to comment on Virtue.

No other local banks are known to offer products specifically geared toward Muslims, but many say they're willing to work with customers who need unique financing.

"We provide specialized lending needs to the entire community, whatever their needs are," said Richard Dorner, head of Ann Arbor Commerce Bank.

Contact Stefanie Murray at [smurray@annarbornews.com](mailto:smurray@annarbornews.com) or (734) 994-6932.