

Bank forms subsidiary for Muslims

Firm to comply with Islamic law

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More than two years after it began offering Islamic-friendly banking products, Ann Arbor-based University Bank said it has formed a subsidiary to focus solely on serving Muslims.

University Islamic Financial Corp. raised \$15.5 million in capital to get off the ground by selling 40,000 shares of private stock, bank president and chairman Stephen Lange Ranzini said Friday.

University Bank owns 80 percent of its new subsidiary; the other 20 percent is held by Virtue Investors LLC, which Ranzini said was a group of private Grand Rapids investors.

"The formation of the subsidiary allows us to have a financial institution which is 100 percent in compliance with the Muslim Shariah, the legal code of the Islamic religion," Ranzini said.

The other purpose of setting up the subsidiary was to expand the bank's capital base, he said.

The subsidiary will initially focus on home financing, deposit accounts and selling Islamic mutual fund shares. All are products already offered by University Bank, which has been a local leader in Islamic banking.

What makes banking Islamic-friendly is mainly how products are structured: For example, Islamic law prohibits payment or receipt of interest. Traditional loans typically charge interest.

To facilitate Islamic loans, University Bank has offered mortgage-alternative loan transactions, dubbed MALTs, since July 2003. Essentially, these types of mortgages are structured without interest payments.

Similarly, deposit accounts are set up to share any profits rather than pay them into individual accounts as interest.

Ranzini said the bank plans to offer the mortgage products nationwide. Currently, it offers them statewide; 57 families have the home loans in southeastern Michigan.

Tracey Mills, a spokeswoman for the trade group American Bankers Association, said that in general, banks - especially larger banks - are turning toward these kinds of products to target certain markets.

"I do know that there have been other banks that have formed relationships with the Islamic community, developing lending products that aren't in violation with Islamic law," Mills said.

There are more than 250 Islamic banks around the world, managing more than \$200 billion, according to the London-based Institute of Islamic Banking & Insurance, an independent Islamic finance academic and research group.

Ranzini said turning the subsidiary - which he says is the first of its kind in the United States - into its own bank could be a possibility down the road.

He expects the venture will allow University Bank to double its assets, which were listed at \$56.5 million on Sept. 30.

University Bank is a subsidiary of the financial holding company University Bancorp, also based in Ann Arbor. Shares of the publicly traded company (Nasdaq: UNIB) closed Friday at \$1.81.

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