

Faith, finance forge new path

Unconventional loans give home-buying power to metro Muslims

By Kim Norris/ Detroit Free Press
Aug. 6, 2005

http://www.freep.com/money/business/islamic6e_20050806.htm

When Shereen Solaiman and her husband, Brandon Metzger, bought a home in Ypsilanti eight years ago, they had to make a difficult compromise.

Solaiman, who was born into Islam,

“We wanted to eliminate any question or doubt.”

SHEREEN SOLAIMAN, of Canton, talking about the Islamic Mortgage option.

and Metzger, who embraced the religion 13 years ago, took out a conventional mortgage that charged interest. By many interpretations, Koranic law forbids the

payment or receipt of interest on the theory it creates a culture of debt slavery, which begets other evils. But when Solaiman and Metzger moved to Canton earlier this year, they found a new way to finance their house that didn't compromise their principles.

They obtained an Islamic mortgage that was in Sharia -- or compliance with Islamic law. In Islamic mortgages, an intermediary such as a bank buys the property, and the homeowner eventually obtains the home through a lease-to-own arrangement.

Solaiman and Metzger were thrilled to find that University Bank in Ann Arbor had begun offering Islamic



Mandi Wright/DFP

Shereen Solaiman hugs daughter Iman Solaiman Metzger at home in Canton on Monday. When Shereen Solaiman and her husband bought the home, they went to University Bank in Ann Arbor, which has a division specializing in Islamic mortgages. The loans are structured like a lease-to-own deal arrangement.

mortgages locally and they cost only a little more than a regular loan.

It's a step toward helping the Detroit area's large and growing Muslim community obtain the American dream of home ownership without sacrificing their beliefs.

"We wanted to eliminate any question or doubt," said Solaiman, human resources director for Ann Arbor-based Borders Books Inc.

"We thought we would have to pay more with an Islamic mortgage, but it's really a small difference," she said. "Years ago, you paid a significant amount more."

Although Islamic mortgages have been around for years, they have only been offered by a couple of out-of-state banks and were considerably more expensive than traditional loans.

University Bank President Stephen Lange Ranzini said his bank has written more than 50 Islamic mortgages totaling just more than \$11 million.

When Ranzini set out to bring such financing to his area, he found little in the way of guidance because only

two other banks -- Devon Bank near Chicago and HSBC in New York -- were doing it. It took two years to develop a mortgage that met with the strictest interpretation of the Koran, as well as the financial scrutiny of U.S. regulators.

"We had to retool our systems and communications," Ranzini said.

"We spent a lot of time with banking regulators to educate them about this. We had to get legal opinions ... It's considered pretty radical.

"It's expensive and time-consuming," he said. "But ultimately, if it's the right thing to do, it's the right thing to do."

The biggest barrier to developing so-called Islamic financing in the United States is the absence of a secondary market for these products. Typically when banks loan money for houses, they sell those loans to investors who profit by collecting the principle and interest.

Ranzini said University Bank must hang onto the Islamic mortgages it writes as well as title to the homes.

That limits the volume of loans a bank can make.

When the United Bank of Kuwait first offered Islamic alternative mortgages in the 1990s, a borrower would pay the equivalent of an additional 2 percentage points more than for a conventional home mortgage.

Today, the difference is between half a percentage point and a full percentage point, according to Abdulkader Thomas, president of Shape Financial Corp., a consulting firm that specializes in Islamic banking and worked with University Bank.

At University Bank, the difference works out to about \$150 a month on a \$220,000, 5-year, adjustable-rate mortgage, which is how an Islamic mortgage is typically structured. "It's more expensive than a conventional 5-year products, but no more expensive than a 30-year, fixed-rate product, which is what many people get, even though they don't need a 30-year mortgage," Ranzini said.

There are an estimated 6 million Muslims -- 1.8 million households -- in the United States. About one-third, or 600,000, households strongly desire Islamic financing, according to survey data, with home acquisition being the leading area of interest.

Nearly \$300 million in Islamic financing was generated in 2004 and Thomas estimates it will grow to about \$450 million this year, about \$300 million of that in mortgage alternative transactions.

Solaiman and Metzger encountered some problems when they tried to buy homeowners insurance -- something necessary to obtain a mortgage. Insurers would not recognize the Islamic mortgage as a standard mortgage. Instead, they insisted that since the trust owned the house, Solaiman and Metzger were only eligible for renters' insurance.

To get the equivalent coverage they would have under a homeowner's

policy, it would cost them \$2,800 a year, Solaiman said.

"I was livid," she said. "Why am I forced to pay twice as much to keep with my religious beliefs?"

Solaiman and University Bank worked with regulators from the Michigan Office of Financial and Insurance Services to educate them about Islamic financing. Last month, OFIS issued a clarification saying that Islamic mortgages qualified for homeowners insurance just as a traditional mortgage does. Solaiman and Metzger, who had been forced to get the more-expensive coverage, have since been able to get a new policy for \$1,500. Metzger said there isn't any reason he wouldn't go through the same kind of financing the next time the couple needs a mortgage.

"Almost everything is identical. It all comes down to the process it went through that makes it halal, or truly Islamic," he said.

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Islamic mortgages Q&A

Q: What is an Islamic mortgage?

A: It's a transaction in which a buyer purchases a home through a lease-to-own agreement. A conventional mortgage -- in which a buyer repays a loan with interest -- violates the Koran, which forbids the payment or receipt of interest.

Q: Does an Islamic mortgage cost more?

A: Not significantly. There may be more up-front closing costs because it is more expensive to the bank. But the bank may offer to waive some of those costs to get your business.

Q: Can you deduct the non-principal portion of the mortgage from taxes?

A: Yes. You can deduct a portion of what would be called interest in a conventional mortgage from federal income taxes. A common Islamic mortgage is structured in two parts -- a lease payment and a promise to pay, which is similar to a land contract. The promise to pay represents the principal. The lease

payments are tax-deductible, the same as mortgage interest payments.

Q: How does the process work?

A: Very similar to a conventional mortgage loan. There may be a few more papers to sign at closing, but nothing onerous.

Q: Does having an Islamic mortgage affect your ability to sell your house?

A: No. You build equity the same way you do with a conventional mortgage. You can sell when you want, pay off what is necessary to satisfy the mortgage and take whatever profit you realize from the sale.

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