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NATIONAL PERSPECTIVES

For Muslims, Loans for the Conscience



Fabrizio Costantini for the New York Times

Emaan and Ifrah Abrar with their father, Rashid Abrar, who has a loan satisfying the Islamic rule that forbids paying interest.

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DETROIT

EVERY time Subhan Khan paid his mortgage, stepped into a mosque or talked about real estate with friends, he felt the shadow of shame creeping over him.

To buy his first home, Mr. Khan had quietly but deliberately violated Islamic laws that bar Muslims from paying or receiving interest on loans. He had financed a home in Atlanta with a conventional mortgage, and was pricked by regret whenever he listened to an imam rail against the sin of money lending.

Never again, Mr. Khan told himself. When he sold the house and moved to Michigan last year, he vowed he would somehow buy a home for his family where guilt wasn't part of the purchase price.

In suburban Detroit, home to the country's most concentrated Arab-American population, thousands of other observant Muslims trying to move from renting to

owning a home face the same quandary: how can they balance their faith and finances?

"I always felt bad about purchasing a home on a mortgage," said Mr. Khan, 35, who recently bought a home in Dexter, Mich. "To a Muslim, it's haram - it's not religiously acceptable. It's the wrong thing to do."

Koranic law forbids paying or receiving interest, or *riba*. Muslims who wanted to buy a home had to save hundreds of thousands of dollars, get loans from family, or swallow their faith and take out a conventional mortgage.

Over the last few years, several Islamic-friendly lending programs have popped up across the region to help solve the problem. They offer creative loans that skirt the laws against *riba* by creating joint-owner partnerships or charging lease fees in place of interest.

The difference may seem largely semantic, but the loans are deemed *halal*, or clean, by Islamic scholars. And they are becoming a popular route for Muslims who want to buy homes, bankers said.

Michigan's large Arab-American population is growing fast, by 51 percent from 1990 to 2000, according to census data. Civic groups estimate that 490,000 Arab residents live in the state now. But census figures show that the homeownership rate for these Arab residents, many of them Muslims, remains 7 percent lower than the overall percentage of homeowners statewide.

"There are people making \$90,000 to \$100,000 a year and living in apartments," said Mushir Khwaja, an Islamic banker with University Bank, a Michigan lender. "But there are others, out of necessity, who say, 'O.K., I'm going to do what I need to for my family.' There isn't any alternative available."

Banks have noticed, and in the last few years, several have entered Michigan's Islamic market.

Borrowers do not have to be Muslim or religious to qualify for the loan, but banks market them almost exclusively to Islamic communities, printing Arabic brochures and distributing fliers outside mosques after Friday afternoon prayers.

University Bank, a small public company based in Ann Arbor, has lent \$11 million in Islamic mortgages. The California-based lender Lariba, which issues about 100 Muslim mortgages each month, expanded into Michigan in 2002. A Virginia-based

lender, the Guidance Financial Group, recently opened a satellite office in Oakland County, one of Michigan's wealthiest areas.

And in January, Devon Bank of Chicago paired with the underwriter Freddie Mac to begin offering Muslim mortgages in nine states, including Michigan.

Still, it is nearly impossible to say how many Muslim-friendly mortgages are being issued in Detroit or across the country. Banking and lending associations said they do not track these loans.

A May letter from the Federal Reserve's Chicago office called Islamic home loans a tiny corner of the \$1 trillion mortgage industry, but could not say how tiny. The Fed identified three types of Islamic loans.

In a Murabaha loan, the bank buys the house and gradually sells it to the home buyer, with an additional profit rate tacked on. In an Ijara loan, one of the most common, the bank buys the house and leases it to the buyer, who pays off the home, plus market-based rent for living there.

The third form, called Musharaka, creates a shared-equity partnership between bank and buyer to purchase the house and gradually transfer shares of its ownership.

For many buyers, Islamic loans are like second love after a bad first marriage. Some use the loans to refinance a conventional mortgage and jettison the old interest-bearing loans.

Others, like Mr. Khan, turn to Islamic financing after buying their first houses with traditional mortgages.

"At the time I bought my house, I weighed my needs over religious needs, which was wrong," Mr. Khan said. "As you grow, your priorities change. I don't want to teach my kids that I'm living under an un-Islamic loan."

One of his cousins had languished for 15 years in rental apartments before buying a house. Mr. Khan, determined not to wait that long saving money, found a loan through Lariba that would finance his newly built, 2,500-square-foot home.

After appraising the house and checking Mr. Khan's credit, Lariba bought the home and began leasing it to the family. The Khans will live there and pay rent as they gradually buy the house. Mr. Khan said he will ultimately pay a quarter percentage point more than he would under a conventional mortgage.

In a market where religion and orthodoxy mingle with money, lenders scrabble over whose loans are truly proper and in line with the Koran.

To customers, how lenders calculate their profit margins and the provenance of their Islamic scholars mean as much as the total cost of the loan.

"We feel insulted as individuals for someone to take the interest rate of the day, change its name and tell someone it's Islamic," said Yahia Abdul-Rahman, the founder and chairman of Lariba, which uses comparable market rents to calculate its lease rates. "We have the only model that complies with all the rules of Islamic and Jewish and Christian laws," he said.

Despite interest from Freddie Mac and the Federal National Mortgage Association, or Fannie Mae, Islamic loans still feel tenuous and homegrown. Several ventures in the Detroit area failed because investors would not sign on, and lenders said the partnerships and third-party nature of the loans makes them riskier and less attractive to underwriters.

The days when buyers had to put down 40 percent or 50 percent to obtain an interest-free Islamic mortgage are over, but the loans often come draped with high fees and additional closing costs, buyers said. And because the lender actually purchases the home, buyers said, getting homeowners insurance has been difficult.

But several buyers said the mortgages afford them peace of mind that overwhelms all the other concerns. Rashid Abrar, 39, said many of his Muslim friends with traditional mortgages pay them off at breakneck speed, trying to lift the spiritual burden. But Mr. Abrar financed his first home three years ago with an Islamic loan, and is paying it slowly and regularly.

"I'm satisfied," Mr. Abrar said. "I'm going along at the 30-year pace."

For Brandon Metzger, 32, a convert to Islam, the sense of ease extends far beyond the life of the loan.

Last year, Mr. Metzger and his wife, Shereen Solaiman, decided to move out of their 2,000-square-foot house in Ypsilanti and into a larger house closer to their children's school. Last winter, they found a 3,200-square-foot house with light brick, cathedral ceilings and chandeliers in a newer subdivision in Canton, and the Metzgers decided it was the one for them.

They had bought their old home conventionally and paid off two-thirds of the mortgage after seven years. Mr. Metzger's conscience urged him to take out an

Islamic loan, but he wondered whether it was really necessary. "Numbers are numbers," he told himself.

But after a long day of house-hunting, Mr. Metzger and his real estate agent, also a Muslim, sat down on the front porch of an empty home and chewed over the question. And in a moment, Mr. Metzger realized why he needed an Islamic loan this time around.

"On the day of judgment you have a scale, and if the scale is heavier on the good deeds than the bad, you're going to heaven," Mr. Metzger said. "You don't want to live your life in a house with all that mortgage and interest and wonder, 'Is this piling up or not?' You don't want that on your shoulders. To me, that's the answer I was looking for."

In March, the Metzgers moved in.