



University Bank President and Chairman Stephen Lange Ranzini, standing, talks with banking consultant Nabeel Shahid at the bank in Ann Arbor, Mich., Thursday, Nov. 20, 2008. (AP Photo/Carlos Osorio)



## Finance the Islamic way at Michigan bank

By JEFF KAROUB and SEBASTIAN ABBOT – 22 hours ago

DETROIT (AP) — Big financial institutions have been battered by mortgages gone bad. But a tiny Michigan bank is getting attention in the industry by turning a profit on loans without even charging interest.

Its specialty: financial products that comply with Islamic law. That means no collecting interest, no short selling and no contracts that are considered exceedingly risky.

It also rules out some of the activity that got Western finance in trouble — subprime mortgages, credit default swaps and the like.

"When you look at the economic crisis we're in, if you were to follow Islamic or Sharia financing, you couldn't have this crisis," said John Sickler, corporate director for the bank, University Islamic Financial Corp. in Ann Arbor.

Islamic finance operations aren't prohibited from making a profit. Far from it. Instead, banks that comply with Islamic law, or Sharia, earn money from fees that are part of the cost of the loan, some paid up front and some over time.

University Islamic Financial has two types of financing, one called a marked-up installment sale and the other a lease-to-purchase sale. Fees in both cases are comparable to interest payments in traditional loans, bank officials say.

For example: A seller who bought a house for \$100,000 could sell it for \$120,000 or even \$300,000, provided the buyer agrees it's a fair deal. The home could be sold on an installment plan negotiated by buyer and seller.

The bank is a subsidiary of Michigan-based University Bank, and its leaders say they have talked recently with executives from two national banks hoping to learn more about the business.

Islamic law says money cannot grow by itself, the way it does with compounding interest. Trade is acceptable as long as the equal amounts of money are traded or two different things are swapped with a fairly negotiated price.

So a dime for an apple would be considered "halal," or religiously acceptable, while one apple for two apples would be "harem," or unacceptable.

Even at University, not everyone is on board. Some customers have closed their accounts when they learned it was engaging in Islamic finance. Some employees who objected to the move quit. The bank also stopped having a Christmas party and no longer serves alcohol at after-hours events.

The Michigan bank focuses on contracts that clearly spell out the risk and reward between lender and borrower. University Islamic Financial says it's the nation's first to offer Sharia-compliant, federally insured deposits.

Islamic banking is more common overseas, but some U.S. banks and credit card companies are exploring the idea of branching out into Sharia products to reach out to the growing Muslim population.

So Islamic banking is only expected to increase in coming years. Already, Citigroup offers Sharia products and services to clients overseas, and Visa says it has worked with banks around the world to offer Islamic-compliant products.

The conventional banking system could learn a lot from the idea, said Jawad Ali, a finance lawyer based in Dubai and London who specializes in structuring Sharia-compliant deals.

"We haven't made as much money as the conventional banks because we can't, for example, sell what we don't own," he said. "We have to own it before we sell it. We may have missed out on gains in good times ... but we haven't suffered any losses."

Of course, there's no guarantee that banks will find immunity in Islamic finance from a severe global downturn.

"I am not doing banking on Mars," said Afaq Khan, the head of Saadiq, the Islamic banking

arm of Standard Chartered Bank, based in London. "If real economic activity slows down significantly, the Islamic banking industry will also be affected."

A Sharia-compliant mortgage is like rent-to-own: There is no note, or mortgage, but typically part of each month's payment is held toward the ultimate purchase. The property is titled to an individual trust, or limited liability corporation.

Deutsche Bank estimates total assets in the Islamic finance market at \$1 trillion — a tiny fraction of global financial assets, but the bank said in a recent report that the sector been growing at a clip of 15 to 20 percent per year.

Most big international banks already have Islamic banking arms, and a November report by Moody's Investors Service shows that Islamic banks have been fairly resilient to the global economic downturn.

The U.S. banking industry has not embraced Sharia banking. Wachovia, Wells Fargo and JPMorgan Chase said they have not adopted Sharia practices and declined to comment about what they may do in the future.

"As far as the future, we are always looking for opportunities to better serve our customers, but our specific strategy is proprietary," Wells Fargo spokeswoman Lisa Westermann said.

University Bank President Stephen Ranzini declined to name the U.S. banks that University Islamic has talked to. But he said his bank soon plans to offer its services such as residential lending to other banks and credit unions nationwide.

Sharia banking is an idea "that is long overdue in this country," said Amal Berry-Brown, vice president at Comerica, a Dallas regional bank that has talked with Ranzini. "At the same time, there really is quite a bit of work to be done."

Comerica has a strong customer base around Detroit, home to the nation's most concentrated Muslim population.

One issue: There is "a big variance" within Sharia law about exactly which financial practices are considered good and bad, said Mustafa Gultekin, a finance professor at the University of North Carolina at Chapel Hill.

For University Islamic, the niche appears to be paying off. Ranzini said he expects it to generate more than 25 percent of the overall bank's revenue this year, up from about 20 percent last year.

*AP Business Writer Jeff Karoub reported from Detroit; Associated Press Writer Sebastian Abbot reported from Cairo; AP Business Writer Ieva M. Augstums reported from Charlotte, N.C.; and AP Business Writer Emma Vandore reported from Paris.*