

Voice of America article on University Islamic Financial.

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Financial Institutions Expand Products That Target U.S. Muslims

Some Muslims object to interest payments on religious grounds

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Washington – In the coming year, a bank subsidiary in Michigan will expand its reach by offering products targeted to Muslims in three metropolitan areas outside of that state.

The University Islamic Financial Corporation, a subsidiary of University Bank, a community bank in Ann Arbor, Michigan, will reach Muslims in the Washington metropolitan area via a suburban office in Herndon, Virginia. It plans to open in two more locations, as yet undisclosed, shortly thereafter.

The bank subsidiary's president, Stephen Lange Ranzini, estimates that Michigan is home to approximately 400,000 Muslims, "the largest community of Arab Muslims outside of the Middle East."

Locations of these new branches have been chosen for their proximity to large Muslim populations. The bank subsidiary seeks to serve a customer niche that does not want to buy a home using traditional home loans, which involve paying interest, popular in the United States. Such customers interpret Islamic law, or Shariah, as forbidding the paying or charging of interest.

Since the end of 2005, the Michigan bank subsidiary has offered its alternative home-financing products only to Michigan residents. But Ranzini said it has built products that will be compliant with the laws of other states.

The first of two home-finance products the Ranzini's institution offers in Michigan is called *ijara* – in which the bank holds ownership of a property and leases it back to a customer, who pays property taxes, insurance and maintenance, and who eventually buys the home back through the lease payments. The second is called *murabaha* – in which the bank buys the property and sells it to the customer at a profit, the total of which is divided into monthly payments.

Devon Bank, in Chicago, also offers housing finance using the *murabaha* model and has begun selling its contracts to Freddie Mac, a stockholder-owned corporation established by Congress in 1970 to support homeownership. Brad German, a spokesman for Freddie Mac, said the corporation is buying a fair number of contracts – business that has gone from nothing in March 2001, when it was the first major U.S. mortgage investor to contract to purchase Islamic homeownership products, to roughly \$200 million a year.

The Michigan bank subsidiary also offers deposit accounts in which it invests depositors' money into Islamic assets. The accounts are called *mudaraba* (or profit-sharing) contracts. After taking an administrative fee, the bank gives profit from the investment to account holders.

Finally, the bank offers mutual funds – investment in groups of stocks that are screened to eliminate companies involved in alcohol, tobacco, gambling or other products or activities that would not comply with Islamic law. The companies' whose stocks are included in the funds are screened for the amount of interest they earn (eliminating banks, insurance companies, and financial service companies). The definitions of what amount of interest a company might earn often becomes controversial, Ranzini said. UIFC offers its customers the Amana funds, managed by Saturna Capital in Bellingham Washington.

Other funds are put together by the Dow Jones Islamic Market Index Group, which also uses interest and debt screens on companies to put together some 60 different equity indexes of companies that are Shariah compliant. The indexes can be used as benchmarks or licensed as financial products, according to a spokeswoman at Dow Jones. She said they appeal to conventional investors, as well as Muslims, because they “outperform the traditional indexes they are derived from,” she said.

Other financial institutions are serving the Muslim market, including Guidance Financial Group, in Reston, Virginia, and Lariba American Finance, in Pasadena, California. These organizations normally consult with Islamic scholars in designing services and ironing out any problems with particular contracts.

Economist Mahmoud El-Gamel of Rice University in Houston said he worries that religious scholars might push people to invest in these financing products even if they are more costly than mortgages that are more traditional in the United States. He said that some sectors of the Muslim American population might be willing to pay \$500 more to “buy peace of mind. Bankers call it ‘the cost of being Muslim,’” he said.

The African Development Center of Minnesota, a nonprofit microfinance organization, helps Muslim business owners to finance the purchase of assets that they might not be able to afford, without taking out interest-charging loans. The nonprofit typically helps Muslim businesses that are considered to be in their “second stage” because they have been around for a few years but need help to grow.

According to Hussein Samatar, executive director of the center, “We want them to succeed. There is not one bottom-line profit motive. We offer technical assistance to help them make a sustainable business, make a living and send their children to school.” The week of April 9, the center will announce a program with the city of Minneapolis to help Muslim business owners. In that city, the Muslim population consists of people from Pakistan, Indonesia and the Middle East who came to study at the University of Minnesota and of refugees from Africa, many who left Somalia during the 1990s due to civil war there.

Samatar said that many of them are comfortable in dealing with interest, but about 40 percent do not want to finance businesses or homes with interest. “We don’t want to leave them behind in creating wealth in this community.”