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Lending Trend: Islamic Financing – No Interest Allowed

By Dana Turner

The Chicago Association of Realtors (CAR) recently held a program about Islamic Financing for its members. The program introduced Chicago Realtors to emerging information on the topic.

Islamic Financing is a program that allows observers of Islam to become home or business owners in a manner that is consistent with their faith. Currently, some U.S. banks are not compliant with Islamic law, Shariah. CAR and Devon Bank, located on North Western Avenue, are working hard to change that.

"Islamic Financing is an additional tool that can help Realtors serve their clients and customers," says Delores Shull, chief programs officer for CAR, which strives to keep its members abreast of new and emerging information. "CAR is particularly interested in identifying and developing tools that help our Realtors work with culturally diverse communities and be

respectful of their cultures and their needs." When Shull became aware of the program, she sat down with a representative from Devon Bank to learn more.

"We are the only lender in the United States who has their documentation approved by the highest Shariah," says Laureen Huffman, VP of lending at Devon Bank. The Shariah prohibits paying or receiving interest for the use of money. In addition to compliance with Shariah, the banking practices must make good business sense.

"To accommodate those special religious restrictions, we offered a restructured program with special arrangement," says Huffman. "With these arrangements, residential and commercial properties can be financed as well as business equipment and trade goods in a manner that is consistent with their faith," Huffman says. Devon Bank is respected in the Islamic community, because all documents and products are Shariah compliant and approved by the highest Islamic authority.

Islamic Financing is a way to allow Islamic observers to realize their home or business ownership dreams.

Devon Bank currently offers two Islamic financing models, with more in the works. According to David Loundy, VP of corporate counsel for Devon Bank, "There are a lot of people who we deal with who have been renting for 20 years, because they assume that they will never be able to buy a house. They won't be able to save up the money to buy it with cash.

Loundy continues, "It's done on a marked-up sale price, called a Murabaha transaction: We step in to buy the property, and then turn around and sell it to the customer at a higher price over time, but with no interest. Technically speaking, it isn't a loan, because we never gave our customer any money in the first place. We bought a piece of property and sold it to them on an installment sale."

The second model is called ijara transaction, meaning rent-to-own acquisition. The products are designed to be the economic equivalent of a conventional mortgage, but the transaction treatments are different. For instance, the program allows late payments, prepayments, default, real estate taxes and insurance. Devon Bank buys the property, and

then the customer buys it from the bank at cost; however, the bank still owns the property. The customer is leasing the property from the bank and, eventually, will have ownership. Loundy says, "With the right schedules, payments and credit, you can make it look like an amortization table."

"Any additional cost over those not in the Islamic financing agreement must be kept as low as possible because, going back in history, [Islamic] people were taken advantage of by paying interest that was compounded," Huffman says. "When the note came due, there was absolutely no way the individual or the family could repay the debt, and the rate doubled." The historical significance of low interest rates makes it imperative for Realtors to understand the Islamic Financing principles.

The Islamic Financing program is one of a variety of programs in an on going series offered at CAR's four branch locations. For more information visit www.chicagorealtor.com or www.devonbank.com.