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Faith-based mortgages court Muslims

A growing number of North Americans Muslims are willing to pay more for their mortgages, so long as the deal complies with their religious beliefs.

It is estimated that at least one third of Muslims will refuse conventional mortgages because they violate shariah law, Islam's guiding body of rules, by charging interest. But it's also believed that these potential home owners will pay more to make their mortgages religiously sound.

"They are very loyal to the faith-based products," said Akram Sheikh, senior vice-president of Anchor Finance Group LLC, in an interview at the Islamic Finance World North America conference in Toronto yesterday. "Their own inner conviction will lead them," Mr. Shiekh said.

A shariah-approved mortgage could be structured as a co-ownership between the buyer and the lender in which the buyer leases to own so as to avoid interest payments.

But the rules about what constitutes a shariah-approved deal can be fuzzy and religious scholars are constantly debating the rules.

At least another third of Muslims who are comfortable with conventional mortgages can be convinced to choose one closer aligned to their faith, further adding to the market potential, Mr. Sheikh said.

In addition to fat margins, there is huge potential for growth. About 40% of the 7.5 million Muslims in the United States do not own a house. The market could be immediately worth about US\$1.7-billion if financial institutions can convince only 1.25% of these potential home owners to take out a mortgage, Anchor's Mr. Sheikh said.

The Islamic Co-operative Housing Corporation Ltd. and UM Financial Inc. are the two main players in the Canadian Muslim-mortgage market.