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Author: Sharon Boase

Koran-Friendly Mortgages Now in Hamilton

A Hamilton credit union is the first financial outfit in Steeltown to join a global banking trend that's slowly making its way to Canada.

McMaster Savings and Credit Union (MSCU) has begun offering Shariah-friendly mortgages, financial arrangements that comply with the prohibition under Islamic law on the payment or collection of interest.

Working in partnership with UM Financial, a Muslim financial services company based in Scarborough, MSCU has ventured into the world of trade partnerships that generate profit rather than interest.

"We're a credit union, we need to serve the community we're in and we identified this as a community that wasn't being served," said Paul Mauthe, CEO of MSCU.

Without a wealthy relative or friend to act as a financial partner, many Muslims had a hard time purchasing homes. That changed when the Mississauga-based Islamic Society of North America (Canada) set up the Islamic Co-operative Housing Corporation (ICHC).

The ICHC became so popular, it spun off into Ansar Co-operative Housing when a capital limit on ICHC shares had been reached. The two companies together have financed more than 600 homes, 200 of which are now fully owned by their Muslim purchasers.

Community leader Javid Mirza said most of the Muslim homebuyers he knows bought with the help of ICHC. But UM Financial, short for United Muslims Financial, is giving them competition.

"We're different from ICHC," says Shuja Qureshi, manager of the UM Financial branch on the Mountain. "The property is registered in the purchaser's name, not ours, and if you sell the property, you don't have to share the profit with UM Financial."

Making a home was tricky for many Muslims, especially newcomers struggling to get established, Qureshi says. Going to regular banks, which charge interest on loans, just wasn't an option.

UM Financial founder Omar Kalair approached 17 financial institutions before Credit Union Central of Ontario (CUCO), governing body for the province's credit unions, decided to back his Shariah-friendly mortgages.

With CUCO as financier, UM Financial buys the home but the purchaser's name goes on the title to the property. The purchaser kicks in a down payment and pays a rental fee similar to a monthly mortgage payment.

UM Financial charges one-half to three-quarters of a percentage above the going mortgage rate to cover the costs of the arrangement.

Financing comes in part from Shariah-compliant credit union deposit accounts that pay dividends rather than interest. Mauthe says the deposit accounts have proved to be a tough sell.

"We have a cultural issue," Mauthe says. "It's based on trust. Potential customers want to know why we're offering this and what's in it for them. They're very cautious. They really dig and want all the ins and outs of the whole thing."

Even Qureshi, a congregant and former board member at Hamilton Mosque, says potential clients have a long list of questions before they'll consider doing business with him.

In order to be Shariah-compliant, a mortgage must be financed interest-free from start to finish. Islamic law calls this Musharakah, which translates to partnership and is used for Islamic financing throughout the Middle East and parts of Asia.