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Major bank may offer Islamic mortgages soon - No-interest instruments comply with Shariah law

OTTAWA -- Islamic Shariah-compliant mortgages could be available in Canada through one of the major conventional banks as early as this summer, says a Toronto-based financial firm operating within the Muslim community.

"We're confident by the summertime we will have a solution in place," said Omar Kalair, chief executive officer of UM Financial Inc.

"We plan to launch with one of the Big Five banks a whole suite of products under the UM-branded name, which will be structured to be Shariah compliant."

UM Financial currently holds about 500 mortgages valued at \$120 million on its books through a financing arrangement with the Credit Union of Central Ontario.

But Kalair said following the financial crisis of last August and subsequent tightening of credit conditions, UM is no longer able to offer mortgages to clients under the previous arrangement and is negotiating to partner with a major bank.

Several banks contacted by The Canadian Press refused to say whether they were planning to offer so-called Islamic financial services. A spokesman for the Toronto-Dominion Bank, which was rumoured to be one of the financial institutions looking into Shariah mortgages, said TD "has heard from clients who are interested, but we don't have anything to announce right now."

Islamic financing, based on the principle that no interest is charged, is in its infancy in Canada, although it is widely available in the United Kingdom, and at least two U.S. banks offer Shariah mortgages.

To get around forbidden interest payments on loans, Shariah-compliant mortgages function by having the lender become an equity partner in the purchase of the home. The homeowner then pays monthly "rent" or "profit", along with principal payments, to the financial institution putting up the rest of the purchase price.

UM Financial's mortgages currently costs Muslim homeowners about 60 basis points above market, but Kalair said an arrangement with a major bank, once it comes, would likely result in a smaller mark-up or be offered at par.

Meanwhile, the Canadian Mortgage and Housing Corp., a Crown corporation that

underwrites mortgages for lenders, has issued a tender call for a research project on the issue to determine the role Shariah-compliant mortgages could play in Canada, and to what extent Islamic Canadians are staying out of the housing market because of their religious observances.

"There seems to be some worldwide interest in this," said spokeswoman Kristen Scheel.

"I don't know if it's something we could insure or we'd be looking at insuring."

She said a report from the research project would be made public by the end of the year.

Kalair said a key sticking point in Shariah mortgages for banks is that by becoming equity partners in the home and property, they would, in effect, become liable in any lawsuit brought against that property.

"We have no problem taking on that risk," he said.

"So the partnership would be between UM Financial and the client, while the bank would have a contained risk by offering the funding."

Kalair, who would not release the name of the bank he believes will be the first to offer Islamic financial services, said with about 750,000 Muslims in Canada, and growing, the market for Shariah-compliant financing is sizable.

UM Financial has 5,000 Canadian Muslim clients prepared to transfer their current conventional mortgages, worth about \$1 billion, to Shariah-compliant ones once a bank begins offering the service, he said.