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### **Problem Solved - Putting faith in Islamic mortgages**

Wearing a black tunic that falls below his knees, head covered by a kufi (a small hat, worn for modesty), cheeks concealed by a neatly groomed beard, Omar Kalair, 31, founder of UM Financial Inc., is the very picture of a traditional Muslim man.

But he has been criticized by fundamentalists in his community for working with mainstream financial institutions – even though his purpose is applauded by all.

"There were people who said we shouldn't get involved (with banks)," Kalair says, "but Muslims want to buy houses. They need access to financial support."

At issue is Shariah, the legal and ethical code of Islam as revealed in the Koran and the life of the prophet Muhammad. Shariah lays out three main prohibitions related to finances: no interest, speculation or gambling is allowed.

Kalair is neither gambling nor speculating when he helps Muslims buy houses, and he has figured out how to provide financial support – what we call a mortgage – with no interest charges attached.

Which doesn't mean UM's product is cheaper than a conventional mortgage. In fact, it's slightly more expensive, because of the added complexity of the process.

But let's start at the beginning.

In his submission to the Challenge, Kalair wrote that he'd established Usuryfree Money (UM) Financial Inc. in 2004.

"As a start up financial company serving a mainly immigrant community, we are faced with many challenges. For the conventional financial industry, our concepts and products are foreign and difficult to understand."

Kalair was undeterred.

Born in Mississauga, the son of Pakistani Muslims, his family is observant, but not overly strict. His father worked for Nortel for 25 years, his mother for Air Canada. (She didn't wear hijab or head scarf on the job.) He has two brothers and one sister who regard him as quite traditional, though he lives a modern life in terms of technology, whipping out his BlackBerry

during our interview.

He's married with two children. His wife has a psychology degree and helps him with UM Financial. He believes that second-generation Muslims like himself want to integrate into Canadian society and be good Canadians while maintaining their Muslim identity.

In 1996, Kalair graduated from Wilfrid Laurier University with a degree in business economics and a desire to help his community. With post-graduate studies in business administration under his belt, and the support of three other people, he established the non-profit United Muslim charity, with the goal of bringing Muslims together, on a non-religious basis.

"There was a lot of division among different sects and ethnic backgrounds. Muslims come from all over the world, from different cultures. We organized the first Muslim Day at Ontario Place and close to 6,000 people showed up. We co-ordinated an inter-faith session on World Youth Day when the Pope came to Toronto, with 400 youth, including 200 Muslims."

Kalair doesn't believe in withdrawing from society. On the topic of "extremist elements," he says that most societies have small groups of malcontents who are extremist in one direction or another. "You can't say all Irish people belonged to the IRA. In the same way, most Muslims are peaceful."

Kalair lives in Brampton, where there is "a sizable Muslim community," but his client base can largely be found at the Islamic Foundation, for Friday prayers – when close to 3,000 men fill the foundation's Markham Road mosque for the hour-long congregation.

"About half are Indo-Pakistani, including Bangladesh and Afghanistan, speaking Urdu or Hindi," he says. "Another half are Somalis and Arabs, with Bosnians and small groups of Malaysians and Turkish Muslims."

As we talk, young boys kneel on the floor at benches, rocking back and forth in the main prayer hall, chanting, memorizing the Koran, learning Arabic. The class will go on for 75 minutes.

Restless children are made to stand in the corner, or isolated on the carpet. They're part of the Islamic Foundation's school, which has 500 full-time and 600 part-time students from junior kindergarten to grade 12.

The foundation is also a centre for social services, and provides a free lunch every Saturday to 500 people, including non-Muslims.

The school's administrator, Shakil Akhter, is a personal client of UM Financial. Delighted that he was able to purchase a home in accordance with Shariah requirements, he says it's important to him that his monthly mortgage payment, as it would be deemed by a mainstream bank, is a "rental payment."

Few of Kalair's clients understand how difficult it was to devise such a seemingly simple approach. While working at Hewlett-Packard and Airmiles Loyalty Group, he put together a business plan and spent two years knocking on doors at 70 financial institutions before finding an interested potential partner at Credit Union Central of Ontario.

That was in the summer of 2003, when the door opened a crack at CUCO, followed by a full welcome with the arrival of Jens Lohmueller in December that year. CUCO's manager of product development and commercial lending, Lohmueller had left his native Germany in 1991 to continue a degree in economics at the University of Western Ontario – in pursuit, actually, of the Canadian woman who would become his wife.

He went on to do a masters degree at the University of Guelph in environmental and resource economics and was ready to do emissions (carbon) trading, already widely practised in Europe but lagging in North America. He ended up at Deutsche Bank, working in corporate finance for seven years, and became a vice president.

By the end of 2003, he'd landed at CUCO, and was open to Kalair's approach.

"I came here as an immigrant and I know what it's like to feel that you're stuck," Lohmueller says. "I thought, *we'll try*. Credit unions are here to be more involved in the community." As well, he knew that HSBC was doing Islamic banking in the U.K.

He grappled with Kalair's challenge, to provide financial products without interest. Which meant structuring the process in a different way – that would in the end deliver the same rate of return to the Credit Union.

Says Kalair: "We told CUCO we'd bring them the clients. We knew there was a demand, we had hundreds of people ..."

"But the challenge was the ownership of the house," Lohmueller says. "It took a long time to figure out how to structure the deal and comply with the regulatory requirements."

"So that it was acceptable to our community and scholars," Kalair says.

Eventually, after many months of figuring – "it was like an obstacle course," Lohmueller says – they structured the deal as an equity investment in each house. UM Financial buys the property, with funds from CUCO; the purchaser's name goes on the title to the property. The purchaser contributes a down payment and pays a monthly rental fee equivalent to a mortgage fee. (If the mortgage interest rate is 5.5 per cent, the UM Financial/CUCO rental rate is 6.1 per cent.)

The rental profit is split between CUCO and UM Financial, which has received close to \$100 million from CUCO to finance about 400 home purchases. Each transaction is done with the full documentation typical of any real estate deal. (There are strict new regulations in place preventing money laundering; UM Financial does not accept deposits or investments.)

The credit union network has attracted thousands of new customers, with the McMaster Savings & Credit Union in Hamilton providing an additional \$3.5 million for UM Financial mortgages; they're partially funded by more than 60 Muslim accounts opened specifically to contribute to Shariah-compliant mortgages.

"The goal is to get more deposits from the (Muslim) community and recycle this money into UM mortgages," Kalair says.

Eager to expand UM Financial's range of offerings and source of funds – the firm has eight branches throughout Ontario – he announced a breakthrough last week: "We got the green light (from a major bank). It has agreed to distribute Shariah-compliant products across Canada. Their plan is 90 days to finalize everything and launch in April."

Hopefully, we'll be able to reveal the name of the bank before the Challenge concludes at the end of April.

Kalair is on a roll. He's embarked on a PhD in Islamic Economics Finance, is becoming known in international circles and recently spoke at an Islamic Finance Forum in Istanbul.

This week, he's in London attending a conference organized by Harvard Law School (Islamic Legal Studies) and London School of Economics, on "Tawarruq: A Methodological

Issue in Shariah Compliant Finance." He's promised to send a dispatch from the frontlines; you'll be able to read it on the blog.

The only (minor) disappointment is that he tried to advertise UM Financial on CBC-TV's hit new sitcom, *Little Mosque on the Prairie*, but the show's so popular "the initial slots were all sold out."