

# LAW TIMES

Newspaper: Law Times

Date: 2007-06-11

Author: Jennifer McPhee

## **Shariah Mortgage comes without Explicit Interest**

A mortgage without interest may sound like a pea without a pod. But for many of the Muslim faith, it's the only way to buy a home with a clear conscience.

Investments also can't be in prohibited areas such as gambling, alcohol, pornography, or arms dealing. Transactions cannot be considered high-risk, because gambling or mere speculation is not allowed.

Because Sharia law-compliant mortgages are not widely available in Canada, many Muslims wait until they can plunk down a pile of cold, hard cash before purchasing a house.

"Some people [wait to do that], since there was no other option," says Omar Kalair, founder and president of UM Financial Inc. (UM is short for United Muslim).

"But, as a general point, all the [Sharia] scholars and imams state that if there is an Islamic alternative, they should avail to that."

"But if there isn't, and someone is trying to raise a family, some scholars allow it."

Kalair bought his first home in 2002 after raising enough capital through interest-free family loans. Hoping to provide members of his community with the financial support to buy homes, Kalair quantified the market, and approached 70 mainstream financial institutions.

UM Financial eventually began negotiations with the Credit Union Central of Ontario, and it agreed to provide \$4 million in financing as part of a pilot project.

"We were able to work with the credit union product development team and our own lawyers in designing a mortgage product that complied with the Bank Act and Credit Union Act, and was also Sharia-compliant, to our own Sharia advisory board for us to sell it within our community," says Kalair.

In May 2005, UM Financial launched its first mortgage product, based on a successful U.S. model. Demand for the product was high, and the credit union quickly increased financing.

Originally, UM Financial's mortgages adhered to a "Murabaha" agreement, in which a financial institution purchases a home for the client and sells it back to him or her at a markup.

But for the last year-and-a-half, it has almost exclusively used a "Musharaka" model, a risk-and-reward sharing partnership arrangement, because it's easier to facilitate and it's the model that Sharia scholars recommend.

The standard UM Financial mortgage product is structured as an equity partnership in the home. UM Financial and the homebuyer purchase the home together, while the buyer supplies the down payment. Purchasers pay a proportional rent, which is equivalent to a mortgage fee.

The rent is calculated on a declining basis over time. By making monthly payments, the client buys out the company's shares of the property.

Clients sign a legally-enforceable Musharaka contract, stating they will have title and that UM Financial will register a mortgage security against the house, but no interest is applied.

The financing agreement with the credit union is Sharia-compliant, according to a "Mudaraba" model. Profits generated from monthly rental payments are shared between UM Financial and the supplier of funds. The bulk of the profits generated go back to the credit union, and UM keeps a small management fee.

UM Financial is also working with one of the Big Five banks in Canada to launch a full-suite of Sharia-compliant financial products, including mortgages.

Currently, UM's mortgages are 60 basis points more expensive than conventional mortgages, but the hope is that the cost of these mortgage products will eventually fall in line with conventional mortgages once the financing available matches existing demand.

UM financial has provided financing for roughly 500 mortgage transactions so far.