Islamic Financing

- Alternative financing for Muslims and all those who are averse to interest.
Islam & Muslims

- Islam = Peace through Submission to Allah (God)
- Eternal Universal Message
- Revelation-Based [The Quran, Hadith]
- Complete way of life
- Muslim = One who submit to Allah (God)
- Anyone can be a Muslim, regardless of race, ethnicity, color, or language
Muslim Population

- 1.5 Billion Muslims World Wide
- More than 10 million in USA
- Demographics of American Muslims:
  - African American 42%
  - South & Southeast Asian 26%
  - Arab 12%
  - African 6%
  - Iranian 4%
  - Turk 3%
  - European & Others 7%
## Allah (God) & The Human

<table>
<thead>
<tr>
<th><strong>Allah (God)</strong></th>
<th><strong>The Human</strong></th>
</tr>
</thead>
<tbody>
<tr>
<td>Creator, Owner</td>
<td>Trustee on earth</td>
</tr>
<tr>
<td>Infinite wisdom</td>
<td>Submits to Allah</td>
</tr>
<tr>
<td>Love/concern</td>
<td>Trust/guidance</td>
</tr>
<tr>
<td>Ultimate Judge</td>
<td>Responsibility</td>
</tr>
</tbody>
</table>
Economy & Wealth In Islam

- Wealth is a favor and bounty from God.
- The human being is only a trustee for the wealth.
- Work and good earnings are a form of worship and strife.
- Prohibits earnings from evil sources.
- Recognition of the individual ownership and its protection
- Individuals can’t take possession of natural resources important to society.
- Forbids the owner of doing harm to others.
- The investment of wealth should not be at the expense of morals, values and public interest.
- The achievement of self-sufficiency for the nation
- Moderation in expenditure
- Establishment of mutual responsibility in the society
- Narrows the gap between social classes
Money & Wealth

- Not evil in itself
- Obedience to Allah
- Ethical framework/Moral filter
- Social commitment
- Maintain justice
- Shared equity, Profit/Loss
Incompatible Businesses

Certain businesses are incompatible with Islamic law such as:

- Alcohol
- Pork and pork products
- Gambling
- Lottery
- Pornography
- Adult entertainment
- Prostitution
- Illegal drugs
- Illegal activities
- Interest

Muslim scholars also do not advise investments in companies that deal with tobacco and weapons.
Why Alternative Financing
Trade vs. Interest

- { That is because they say, [Trade is just like Interest.] but Allah has permitted trade and has forbidden interest.}

The Quran 2:275
Prohibition of Interest

- {O you who believe, observe your duty to Allah (God) and give up what remains from Reba (interest, usury) from now onward, if you are truly believers}

The Quran: 2-278
Interest Is Unlawful

- Usury / Interest = Riba / Reba
  - Taking
  - Paying
- Loans & Interest
  - Fixed rate
  - Adjustable rate
  - Low rate
Interest in Islamic Financing

- All forms of financing involving interest or usury (Reba/Riba), directly or indirectly, are not allowed according to Islamic law (Share’a).
Lawful Financing Models

- Murabaha: Buy-Sell with Deferred Payment
- Leasing (Ijarah)
- Lease Purchase (Ijarah Wa-Iqtina’)
- Royalty Investment (Mudaraba Mahdoda)
- Trust Financing (Mudarabah)
- Equity participation (Musharakah)
- Decreasing Partnership (Ash-Sharikah Al-Mutanaquisah)
- General Partnership (Sharikah)
- Stock Investment (As-hum)
- Interest-Free Loan (Qard Hasan)!
Murabaha: Trade-Based Financing
Buy-Sell with deferred payment
(Bai al-ajal)

- Sale of goods on installment or deferred payment basis. Financing Co. purchases the equipment or goods (assets) on behalf of a person or a business. Then it sells the equipment or goods to the entrepreneur or the client at an agreed upon price, which includes Financier’s mark-up (profit). The business owner makes payments by installment within a pre-arranged period, or in a lump sum.
Royalty Investment (Limited Mudarabah)

This is an agreement between an investor and an entrepreneur. In this case, the entrepreneur is in business and needs to expand his/her current business or has a special project that needs financing. The investor provides either 100% or a portion of the needed capital for the expansion or project. The Mudarib (the entrepreneur) manages the project using his/her entrepreneurial skills. Both parties agree on the profit/loss share from the project. At the end of the project, the investor gets his/her principle along with the agreed upon Profit. In the case of a loss, the investor gets back his/her principle less his/her portion of the loss. The profit or the loss can be determined or shared from the gross profit/loss.
Decreasing Partnership (Ash-Sharikah Al-Mutanaqisah)

Another form of limited partnership, (Mudarabah or Musharakah) where the entrepreneur gradually purchases the financier’s shares. Similar to the permanent partnership. However, because the financier wishes not to remain a permanent partner, he/she agrees to sell their shares to the entrepreneur, either within an agreed-upon term or on full payment when the individual is financially capable. Subsequently, the entrepreneur retains full ownership of the said initiative.
Trust financing (Mudarabah)

This is an agreement between two parties. One party, the investor, provides 100% of the needed capital for the given project. The other party, known as the Mudarib (the entrepreneur), manages the project using his/her entrepreneurial skills. Profits from the project are distributed according to a pre-determined ratio. Any losses are borne only by the provider of the capital. The provider of the capital does not run the daily affairs of the project; it is the responsibility of the entrepreneur.
Banking & Personal Financing

- Checking Account
- Saving Account
- Credit Card
- Debt Card
- Certificate of deposit CD’s
- Mortgage
- Leasing
- Others
Most Needed Financial Services

- Housing
- Saving accounts
- Investment
- Cars
- Business financing
- Equipment leasing
- Rent-to-own businesses/homes
- Money orders
- International wire transfer
Non-Traditional Saving Account

- Based on partnership concept
  - Both parties share the risk and the reward
  - Bank invest in the need of the community
  - Annual performance.
  - Retirement plan
  - Cooperative Insurance (Takafu) for cars, Housing and businesses….etc
Existing Organizations & Programs

- MN Neighborhood Development Center/Reba Free LLC. = Small Business Financing
  - Reba Free LLC. = Working on housing
  - ICM = working on a credit Union
  - Hennepin County = Housing (Bai Al-ajal)
- CA La Riba (American Housing Finance) = Housing/businesses
- TX MSI, = Housing
- WA Amana/Saturna Capital, = Saving, Investment and Retirement plan
- DC Samad Group, = Real Estate, Working on community bank
- NY/NJ HSBC Mortgage Corporation (USA) = Housing
- Others
Alternative Financing, Challenges & Opportunities

- New concept
- Regulators
- Implementation
- Further development
- Test the market
Conclusion

- Untapped market ( $100 billion)
- Lack of information on both sides
- Viable alternatives
- Need for legislative action
  - Banking regulation
  - Taxes
  - State/Local rules

.....