



Islam and Business

Muslim leader calls sharia loans a 'con job'¹

A controversial study looking at Islamic banking by the Canada Mortgage and Housing Corp. has ignited protest from some sectors of the Muslim community.

But despite opposition from the Muslim Canadian Congress, the federal housing authority said yesterday it is going forward with the study looking at banking that adheres to Islam's guiding body of rules, or sharia.

Tarek Fatah, founder of the Muslim Canadian Congress, which bills itself as a progressive Muslim group, said in an interview he was "shocked" to learn that "a Crown corporation is using taxpayers' money" for faith-based banking.

Fatah calls sharia banking the "biggest con job ever. What are we going to have next, Buddhist banking?" he asked.

The congress released a letter yesterday written to CMHC chief executive officer Karen Kinsley, urging the housing authority to abandon the \$100,000 study.

"Religion has no place in the banking or mortgage industry," the letter said.

The group says the vast majority of Canadian Muslims already use conventional mortgages.

However there is a growing market in Canada for sharia-compliant mortgages.

Under sharia rules, it is not permissible for institutions to charge interest on loans. However, the deal is usually structured so that the homeowner ends up leasing to own the property, essentially paying rent instead of interest. As a result, those mortgages end up costing the homeowner the equivalent of an extra one percentage point or more. That is what concerns the congress.

"You are taking advantage of the most disadvantaged people. You are telling them that we will charge you more for your total mortgage and when you die you will go to heaven," Fatah said. "They are using the holy books to prey on a vulnerable market."

Sharia-based banking is already available in Canada, but not through major banks. Sharia banking is widely available in the United Kingdom and is offered by some U.S. banks that see a major financial opportunity.

The global market for Islamic finance has grown more than 20 per cent annually since 2001, and is currently the fastest growing segment of the financial services industry, said a report this month by the law firm Stikeman Elliott LLP.

How an Islamic loan works

IN THE QUR'AN

Islamic law, or sharia, permits commerce but prohibits riba – the collection and payment of interest.

SHARIA MORTGAGES

Banks that follow Islamic law do not pay or charge interest and cannot assess penalties for late payment.

But they can earn profit by renting and leasing, or by applying service charges.

Instead of lending money and earning interest over time on a home mortgage, an Islamic bank might arrange to purchase the home and resell it to its customer at a profit – a rent-to-own arrangement, with payments made in instalments.

¹ Toronto Star, January 30, 2008

By 2017, Muslims are expected to make up between 3.7 and 4.9 per cent of Canada's population, which should provide a "tremendous opportunity for financial firms prepared to serve the growing market."

In response to the criticism by the Muslim groups, Douglas Stewart, the CMHC's vice-president of policy and planning, said in an interview that the agency was not trying to promote Islamic banking in Canada.

"It is not our intention to introduce a mortgage instrument for sharia lending," Stewart said. "We simply want to gather information to better understand sharia banking. It is part of our mandate to understand all aspects of the Canadian housing system."

Monte Solberg, the federal minister responsible for human resources and skills development, said in an interview with the Toronto Star that the market for Islamic mortgages in Canada was already "well served" and there was no reason for the CMHC to introduce a new financial product.

(Apart from research, the national agency also has a mortgage loan insurance division.)

"If private institutions are already serving that market, then we don't need to be involved," Solberg said. "There's no public policy reason."

As for the research proposal, the CMHC says it has had about 10 applications from academics and consultants in response to a proposal call in December.

Meanwhile, one executive at a financial institution that deals with sharia lending said the controversy was unwarranted since it was a matter of religious choice.

"When you purchase halal or kosher meat, you understand that you may be paying a higher price for the same meat that's not kosher. And some people are willing to do that, because religion is important to them. It's as simple as that," he said.