

Status of Halal financing options in the US



THE US

By Aliredha Walji

With the US Muslim population expected to hit eight million by 2050, the demand for Shariah compliant financing for mortgages as well as business loans is expected to rise. While the dream of owning one's own home may have — only a few decades ago — seemed far-fetched for many Muslims seeking to maintain a Halal lifestyle, scholars, visionaries and financiers have since then come together to help create viable alternatives to the conventional Riba (interest)-based financing.

Previously, Muslims had to choose between either renting or — unless they had enough money to purchase a home outright — using conventional financing. While conventional methods do provide ease of access, they are rooted in interest and debt, thereby failing the test of Shariah compliance.

Nowadays, US Muslims have options when it comes to Islamic financing,

and a few different methods have been developed to address the issue, including the Musharakah, Ijarah and Murabahah models.

The Musharakah model refers to a joint enterprise where partners share in profits based on a predetermined ratio, while losses are shared based on capital investment. This model has made its way into the US Muslim space as the most popular option for home financing over the last 20 years, with Guidance Residential (which operates under this model) helping over 20,000 families and surpassing US\$5 billion in funding. Musharakah is also the model being used by Star Finance — a new social impact start-up — in its venture to address housing challenges for minorities in Minnesota.

Ijarah, on the other hand, is basically a leasing agreement. It refers to a model whereby an investor is able to earn profits by charging rent. LaRiba, another Islamic company, utilizes both the Musharakah and Ijarah models as home financing options.

The last form of financing available is termed Murabahah, which utilizes a cost-plus system. This means that money is made through the purchase and resale of an asset — such as a house — at a profit. UIF Corporation and Devon Bank both provide residential and commercial real estate financing through both Murabahah and Ijarah programs.

According to Thomson Reuters's State of the Global Islamic Economy Report 2018/19, assets in Halal financing were estimated at US\$2.4 trillion in 2017 and are expected to surge to US\$3.8 trillion by 2023. Yet there remains work to be done, with Islamic financing methods and companies being critiqued for the higher costs and bigger risks involved, as well as for a lack of cooperation with conventional systems. These issues will need to be addressed if the Halal financing sector hopes to continue expanding its growth within the US. ☺

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Revisiting House Bill No 8281: The proposed Islamic banking law



THE PHILIPPINES

By Rafael A Morales

The signing into law by President Rodrigo Roa Duterte of House Bill No 8281, previously adapted by the Senate, is almost a certainty. With this law in place, qualified foreign Islamic banks can operate in the Philippines, with the approval of the Bangko Sentral ng Pilipinas (BSP), by:

- (i) establishing a local banking subsidiary
- (ii) acquiring up to 100% of the voting stock of an existing local bank, or
- (iii) forming a local branch.

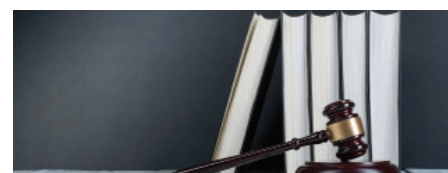
These are the modes of entry into the local banking sector authorized by the Foreign Banks Liberalization Act.

Foreign conventional banks already operating in the Philippines can opt

simply to open Islamic windows, as this is an option that the BSP will be making available to them.

Former senator Francis Escudero, the then-chairman of the Senate Committee on Banks, Financial Institutions and Currencies, remarked that the anticipated Islamic banking law will “provide all Filipinos [with the] economic opportunity for inclusive growth”, adding that “the Philippines is seen as a top source of growth in Islamic finance and now is the most opportune time that [it] taps into Islamic banking and finance to broaden the participation of Muslim Filipinos in nation-building”.

Under the proposed law, Islamic banks can, among others, carry out financing and joint investment operations by way of a Mudarabah partnership, Musharakah joint venture or decreasing participation, Murabahah purchasing on a cost-plus financing, and lease (Ijarah) as well as construction and manufacture (Istisnah) arrangements.



With prior BSP approval, Islamic banks may issue investment participation certificates, Sukuk and other Shariah compliant funding instruments for their operations. Basically, Islamic banks can exercise the general powers of a conventional universal bank, consistent with Shariah principles.

House Bill No 8281 was approved overwhelmingly by 221 members of the House of Representatives and by 21 senators. The approved bill was transmitted to President Duterte by the House of Representatives led by the speaker Gloria Macapagal Arroyo. ☺

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