Islamic Housing Finance

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Glossary

*Ijara* An Islamic (mortgage) contract that involves a lease-to-own transaction.

*Murabaha* An Islamic (mortgage) contract that involves a cost-plus or mark-up transaction.

*Musharaka* (diminishing musharaka) An Islamic (mortgage) contract that involves a partnership that relies on a declining utility fee or profit payment over time for the home buyer.

*Riba* This literally means ‘increase’ in Arabic, but is generally translated as ‘interest’ in the context of Islamic finance.

*Sukuk* The plural of *saak* (meaning certificate or legal document). *Sukuk* are commonly understood as Islamic bonds and are heavily used in securitising Islamic ‘mortgages’.

Introduction

In the wake of the subprime mortgage crisis that erupted in the United States in 2007, it is difficult to exaggerate the significance of what is broadly called Islamic home finance (IHF). That is, given the importance of fluctuating interest rates to the evolution of the global economic crisis that ensued, and in light of the Islamic prohibition against interest, Islamic home financing has become an intriguing alternative to the problems and hardships associated with interest-based (or what industry analysts and practitioners call ‘conventional’) mortgages. Yet IHF should not be seen simply as an alternative, but as an essentially religion-based approach to owning a home that is rooted in Islamic law. In that sense, IHF is one dimension of the practice of Islamic banking and finance (IBF) and the philosophy of Islamic economics more generally. The more or less vigorous growth of IHF since 2000 in both Muslim-majority and non-Muslim-majority countries alike impels us to examine this phenomenon more closely.

It is in this context that this article explores the characteristics, evolution, and implications of IHF during the first decade of the twenty-first century. For reasons of space, my discussion will concentrate primarily on the nature and development of IHF in the United Kingdom and the United States, two of the largest markets for IHF outside Muslim-majority countries.

The Basic Mechanics of IHF

IHF is based on *Shari’a* law, and it rests primarily on the prohibition of interest in the Qur’an and the *Sunnah* (the explanation of the Qur’an as condensed into ways of acting). Interest is the translation of the Arabic word *riba* in the Qur’an. Some interpretations of Islamic texts do question whether *riba* (literally meaning ‘increase’) can be translated as interest, and there are different types of *riba*. Nonetheless, a number of other prohibitions are also central to IBF and IHF. First, *gharar* or excessive speculation is *haram* (forbidden). In Islamic economics, the creation of money must be tied to an underlying asset and thus currency trading, for example, is considered *haram*. A second set of prohibitions includes investments in companies that trade in alcohol, pork, tobacco, and certain forms of entertainment, such as gambling (*maysir*) and pornography. Investments in financial instruments that are associated with these activities are *haram*. Yet, Islamic economics also contains a number of ideals, including profit sharing and mutual risk. In other words, both the lender and the borrower should share equally in the profits and risks associated with a particular financial venture, including a mortgage (e.g., Al-Omar and Abdel-Haq, 1996; Lewis and Algaoud, 2001; Vogel and Hayes III, 1998). In ‘conventional’ or interest-based mortgages, the buyer assumes much of the risk, but this may also be the case in what are called *murahaba*-type mortgages within IHF (I elaborate on this further below).

Islamic mortgage contracts rest on the interpretation (*ijtihad*) of Islamic law (*fiqh*). *Ijtihad* is central to the way in which medieval contracts are adapted to meet the demands and regulations of modern or Western economies, but different schools of *fiqh* may differ on what is acceptable. It is widely agreed that *Shari’a* law does not allow contracts to be combined (e.g., Al-Omar and Abdel-Haq, 1996; Lewis and Algaoud, 2001; Vogel and Hayes, 1998), although in practice, IHF does involve some overlapping contractual elements (Thomas, 2001). There are primarily three types of Islamic home financing contracts...
in practice today across the world: murabaha (or a cost-plus/mark-up transaction), ijara wa iqtina (commonly called ijara which means lease, together with ‘purchase’ or ‘acquisition’), and a diminishing musharaka or a declining balance co-ownership model (which is a version of a musyarakah or partnership contract). Let me discuss each of these mortgage contracts in turn.

A murabaha contract is essentially a cost-plus or mark-up transaction in which a customer approaches an Islamic bank, financial institution, or a similar entity, which then buys the property and sells it to the customer for a higher price (there is no loan involved, technically speaking). The time involved in transferring ownership from the bank to the customer varies and may take place only at the moment of the last payment. In any case, the customer is required to pay a deposit along with a mark-up or administrative payment whose payment is fixed over time. The mark-up replaces conventional interest payments and “equals the present value of future interest payments under such a conventional mortgage” (Visser, 2009: 107). The calculation of these ‘future interest payments’ is typically indexed to the LIBOR (the London Interbank Lending Rate), which has been deemed permissible by most Shari’a scholars. While murabaha contracts seem to dominate the global landscape of IBF in general — what Yousef (2004) calls the “murabaha syndrome” — the administrative payment resembles a typical interest-based mortgage. As a consequence, many Muslims and Islamic bankers are uncomfortable with murabaha contracts, even though the administrative payment does not vary over time as in the interest rates on adjustable/flexible rate mortgages. In fact, a lingering scepticism about the ‘Islamicness’ of mortgages has prompted some mortgage providers to market their mortgages as a ‘Home Purchase Plan’ (e.g., the Islamic Bank of Britain’s (IBB) mortgage offering) rather than call it an ‘Islamic mortgage’. Not surprising then that they have become less common than ijara or musharaka contracts in mortgage markets. Many IHF companies have now switched from murabaha to other contracts (Visser, 2009), and I discuss these further below. In the meantime, let me provide a notable community-based exception, which relies on a murabaha contract: the offering of the African Development Center in Minneapolis, Minnesota (see Box 1 below).

In an ijara contract, once again, a customer approaches a financial institution and asks the latter to purchase a property for the customer and the company is the legal owner until the last payment (i.e., the company owns the ‘title’ to the property). The customer agrees to buy the property from the mortgage provider at a defined price at the end of a predetermined period of time, and signs a lease to reside in the property. A client pays down – let us say an initial down payment of 20% (down payments tend to be higher with IHF, although a 5% down payment is not out of the question). Therefore, the client owns 20% of the house and the bank or financial institution owns 80%. The client then pays the principal towards the purchase of the home, along with an additional sum every month which is a proportion of the fair market rent (the ‘fair market rent’ is determined by what the property would rent for in the local housing market). The proportion of the fair market rent is based on the customer’s share of ownership. This means that each month the client pays back a predetermined portion of the principal along with 80% of the monthly fair market value. As months go by, the client owns more and more of the house, and thus the proportion of the monthly rent decreases (Maurer, 2006; Woesnner, 2009; Yousef, 2004).
Nayeem et al., 2009; Visser, 2009), along the lines of a “conventional amortization table” (El-Gamal, 2006: 4).

Strictly speaking, in an *ijara* contract, the mortgage provider owns the title to the house and at the end of the term, the legal ownership of the property is transferred to the customer. But in the context of US mortgage regulation, for example, the customer must be the title-holder of the property. The response by Islamic banks and financial institutions in the United States has been to honour this regulation, but the bank or financial institution holds a lien (legal claim) against the client’s title. This lien is indicative of a specific partnership between the company and the client, which in turn determines the disposition of shares in the property, and the transfer of the property to the client over time. As Maurer (2006) explains it, this allows a “return-of-capital” for the client and a “return-on-capital” for the company (statement by the American Finance House LARIBA; see Relevant Websites). This return-on-capital is determined by indexing the property to the rental market, and not by interest, which exemplifies the ‘Islamicness’ of this mortgage contract. However, in most instances, the rent can be reassessed according to market conditions, which some have associated with fluctuating interest rates (for an evaluation of this issue, see Relevant Websites). There are other versions of this *ijara*, in which two contracts are in effect signed, one in which the client and the lender agree on the fair market rental rate and another in which the client must eventually purchase the house and the lender must eventually sell it exclusively to that client (Maurer, 2006; Nayeem et al., 2009).

This brings us to a *musharaka* contract, which literally means a ‘partnership’. Alongside *ijara*, many Islamic financial institutions or banks use what is called a ‘diminishing musharaka’. In such a contract, the bank or financial institution establishes a partnership whereby the customer provides a certain deposit or down payment (let us say 20%) and the bank contributes the rest (80%). The two parties are thus co-owners of the home. The home buyer resides in the house, paying a predetermined rent or ‘utility fee’ and an extra or ‘profit payment’ against the bank’s share of ownership. As the bank’s ownership decreases/diminishes over time, the utility fee decreases accordingly, until the home buyer has bought out the bank and completely owns the home. While the client is responsible for all property taxes and maintenance costs (as in an *ijara*), there is no prepayment penalty and if and when a customer should default, the bank cannot seize the customer’s other assets. The customer is only responsible for the loss corresponding to their equity in the partnership. As with the monthly payments associated with a *murabaha* contract, the ‘utility fee’ or ‘profit payment’ may be related to interest rates and may also be indexed to the LIBOR. In the United States, rent payments associated with an *ijara/diminishing musharaka* can be deducted as home mortgage interest on the client’s federal income tax returns. Although the US Internal Revenue Service has not officially allowed it, it has accepted it as a deduction (Maurer, 2006).

Along with the contracts discussed above, another element of IHF that needs to be discussed briefly is *takaful* (literally ‘mutual or joint guarantee’, in other words insurance). Home insurance is a requirement for purchasing a home in both the United Kingdom and the United States. In fact, the long absence of *takaful* in the United States, for example, dissuaded Muslims from purchasing a home as they had to rely on conventional insurance (Thomas, 2001). Rather than the individual transfer of risk from an individual to an insurance company, which is not permissible under Shari’a law, *takaful* is based on the Islamic idea of mutual assistance, shared responsibility, and the mutuality of risk. In principle, with *takaful*, policy-holders and the insurance vendor share the profits and losses (i.e., they share the risk), and policy-holders are responsible for the operation of pooled funds. The *takaful* company acts as a *mudarib* (or manager) of the pooled fund (e.g., Al-Omar and Abdel-Haq, 1996; Iqbal and Mirakhor, 2007; Lewis and Algaoud, 2001; Vogel and Hayes, 1998). However, the ideal of mutuality is rarely realised in practice, and *takaful* firms rarely share the losses, but tend to benefit from the profits (Visser, 2009: 105).

### What Are the Differences between Interest-Based Mortgages and IHF?

For most lay observers of IHF, it is difficult to distinguish between IHF and interest-based mortgages. This is primarily because the monthly (mark-up or rental) payments appear to be very similar to conventional mortgage payments and some Muslim scholars argue that they are in fact too similar (Nayeem et al., 2009). While the word ‘interest’ certainly does not appear in IHF contract documents, most of the paperwork and even the mortgage calculators remind one of conventional documents, probably to make IHF look familiar, for both sceptical Muslim clients and regulators alike (Maurer, 2006). Yet, a more careful examination might identify several key differences: IHF rests ostensibly on an Islamic value system, ‘interest’ is not explicitly charged by Islamic banks and financial institutions, and IHF operates primarily through mark-up and rental payments. In sum then,

1. Unlike in a conventional mortgage, the bank is the owner of the property (at least for some time) and as such there is risk associated with this ownership.

2. Unlike a conventional mortgage, where clients are understood as borrowers, in an *ijara/diminishing musharaka*, clients are considered tenants. Considering (1) and the previous statement, this means that the
relationship between a bank and customer is different than in a conventional mortgage and thus different risks and solutions to problems present themselves (Visser, 2009).

3. In a conventional mortgage, money is technically loaned, whereas in IHF, the bank earns money through the physical use of the house (that is from the tenant).
4. The securitisation of IHF must involve an underlying asset (more on this below).

Securitising IHF

Like ‘interest-bearing’ mortgages, Islamic mortgages are securitised in global financial markets through various government agencies, quasi-government agencies, Islamic banks, Islamic financial institutions, and other corporate entities. And like conventional securitisation, Islamic mortgage-backed securitisation (IMBS) creates a secondary market for mortgages and therefore provides greater liquidity to IHF markets. However, as noted above, Shari’a law forbids the exchange of debt for debt or money for money, and securitisation must involve a tangible asset. Beyond the requirement that there must be an underlying asset involved, and that any securitisation cannot involve interest-based transactions or (interest-bearing) debt, Islamic securitisation must involve a scrutiny of the type of the asset, the structure of the transaction (including the clear assignation of risk and obligations, and the sharing of risk and return), a scrutiny of underwriting standards, issue placement, ratings, and the use of takaful (Jobst, 2007). The mechanics of Islamic securitisation are similar to those of conventional securitisation, involving some sort of ‘Special Purpose Vehicle’ (SPV, or Special Purpose Mudarabah) in which mortgages are pooled and shares in these ‘pools’ are sold to investors (see Ikbal and Mirakhor, 2007, for a lengthy step-by-step analysis of the process of securitisation). Not all contracts, however, are so easily securitised, and murabaha contracts are not deemed to be ‘negotiable’ contracts for reasons relating to the temporality of the completion of the contract. They are therefore more unlikely to be securitised, or at least their securitisation must involve the inclusion of a certain percentage of ijara contracts in the ‘pool’ (Jobst, 2007; Maurer, 2006). In contrast, ijara and diminishing musharaka contracts are more suited to securitisation, owing to their own temporality of completion, but also their ‘flexibility’, ‘extended maturity’, ‘transferability’, and ‘negotiability’ (Ikbal and Mirakhor, 2007; Jobst, 2007; Maurer, 2006). As El-Gamal (2006) remarks in the context of the United States,

A added advantage to lease financing [Ijara] is that Islamic jurists allow the SPV to issue certificates securitizing the lease (ostensibly, the certificates represent ownership of the underlying asset, and thus allow their holders to collect rent). In recent years, this has given rise to a booming securitization industry in Islamic finance [...] Here in the US, both Fannie Mae and Freddie Mac have purchased and guaranteed ijara-based mortgages, subject to their note requirements (which required overcoming some legal and juristic hurdles). Those Islamic mortgage-backed securities are currently being marketed as fixed-income investment alternatives for Muslims. (El-Gamal, 2006: 4)

Since asset-backed securities such as ijara fit quite well with Shari’a trading principles, such securities often involve sukuk (Islamic bonds or Islamic certificates), and a global sukuk market developed and expanded very rapidly until late 2007 (e.g., Iqbal and Mirakhor, 2007). These and other securities are evaluated and tracked through the Bahrain-based Dow Jones Islamic Market index (a parallel to the Dow Jones Market index), which screens investments for their Shari’a compliance. However, as with other elements of IHF, securitisation is controversial (Alsayed and Malik, 2010). Maurer (2006), for example, outlines several of the objections from Islamic scholars, Muslim publics, and other observers, including that (1) securitisation seems to distance the transaction from an underlying asset or assets, (2) securitisation benefits the already wealthy, rather than more modest Muslims, and (3) securitisation of IHF in the United States has involved the American government in the form of Freddie Mac and Fannie Mae – a government which has supported wars against Muslims, among other transgressions. Certainly, counterarguments have been proposed, not least by Islamic banks and financial institutions themselves. Nonetheless, even the once rapidly expanding sukuk market experienced a sharp decline when the highly reputed Shari’a scholar Sheikh Taqi Usmani issued a fatwa in November 2007 contending that sukuk were in fact not permissible. Given that this contravened the AOIFFI (Accounting and Auditing Organization for Islamic Financial Institutions) Shari’a standard ruling no. 13 that sukuk and securitisation were acceptable, the Usmani ruling has sparked a lively if not acrimonious debate over their Shari’a compliance, and has raised some questions about the future of secondary IHF markets (Alsayed and Malik, 2010).

The Various Types and Operating Structure of IHF Providers

It seems important at this stage to make a distinction between different providers of IHF including wholly Shari’a-compliant Islamic banks, wholly Shari’a-compliant Islamic financial institutions, conventional or interest-bearing banks with ‘Islamic windows’, wholly
Sharia-compliant wholesalers/consultants, and NGOs and state institutions (for a similar distinction, see Tacy, 2006). A wholly sharia-compliant Islamic bank does not have any division that involves interest-bearing mortgages or any other commercial or retail activity deemed baram. It is also recognised as a bank by a state authority. A wholly Sharia-compliant Islamic financial institution is similar to a bank, but is not officially recognised as a bank by a country’s laws or regulations. An ‘Islamic window’ refers to a global bank or financial institution such as HSBC or Citibank that have divisions (the Islamic windows) which offer Sharia-compliant mortgages but which are supported by funds generated through interest-bearing finance. Many Islamic scholars and Muslims believe that such financing is not truly ‘Islamic’, though many also accept this and are even attracted by the presence of a global brand name. Finally, a few NGOs and government bodies (such as the Minnesota State Housing Agency) provide Sharia-compliant home finance, generally to those who are more disadvantaged. However, the number of these organisations remains quite limited in the United Kingdom and the United States (Pollard and Samers, 2007).

If the principal providers, that is Islamic banks, Islamic financial institutions, or Islamic ‘windows’, wish to be recognised by Islamic global standard setters such as the Bahrain-based AIOIFI in order to instil trust with potential customers and increase their client base, they require a Sharia Supervisory Board (SSB). Research with clients of banks and financial institutions shows that many clients may follow and even be loyal to a particular Sharia scholar and value the role of Sharia scholars insofar as they are perceived to be the guardians of the ‘Islamicness’ of a bank or financial institution. The SSBs provide legitimacy to IHF by including a signed fatwa (Arabic for ‘ruling’ or ‘decision’) which mirrors the legalistic appearance of a conventional mortgage document and as a consequence, instils a sense of trust in Muslim clients used to the bureaucratic and legal practices associated with conventional mortgages (Maurer, 2006; Pollard and Samers, 2007). In short, Islamic banks or financial institutions must sell ‘mortgage products’ that are credible.

A Brief History of IHF

IBF gained momentum in the 1970s and 1980s, especially in the Gulf states. In the United Kingdom and North America, a trickle of Islamic mortgages and other financial instruments, largely initiated by Middle Eastern banks, Southeast Asian banks, and small Islamic financial institutions appeared in the late 1980s and early 1990s. By the second half of the 1990s, IHF proliferated as the supply and flexibility of Islamic mortgages and other financial products increased (Dar, 2004; Ainley et al., 2007; Warde, 2000).

In the United Kingdom specifically, at least two financial obstacles hampered the growth of Islamic mortgages: the lack of recognition and regulatory protection by the UK Financial Services Authority (FSA) and the problem of ‘double stamp duty’. Thus, in terms of the first obstacle, the FSA could not provide deposit insurance against losses by the consumer, which left Islamic mortgages unattractive except to the truly devout. With regard to the second obstacle, that is double stamp duty, a fee would be placed on the bank purchasing a property and on the transfer of the bank to the customer at the end of the mortgage term. HSBC’s Amanah division (an ‘Islamic window’) began to offer an ijara mortgage in 2002, precisely because it avoided the double stamp duty, but they later switched to a diminishing musharaka. There were also unfavourable tax laws that deferred deductions further into the future for purchases of Islamic financial products, mortgages or otherwise. Nonetheless, these were only of minor concern, and have now been altered to provide a “level playing field” (Ainley et al., 2007). HSBC’s mortgage market initially developed through ‘road shows’ where representatives of HSBC, including Sharia scholars, would visit mosques and, in conjunction with local Imams, give presentations and conduct question and answer sessions about IHF and IBF more generally. Knowledge of IHF soon deepened and diffused quickly as social networks and a strong Internet presence spread the word and encouraged Muslims to migrate to IHF (Pollard and Samers, 2007). The elimination in 2003 of the double stamp duty in the United Kingdom allowed Islamic mortgages to become more competitive, and now only the customer is responsible for a single stamp duty (Ainley et al., 2007). In September 2004, the Birmingham-based IBB opened its first branch in west London and became the first wholly Sharia-compliant Islamic bank operating outside a Muslim-majority country. By 2007, the market for IHF in the United Kingdom was flourishing and a number of Islamic banks were lining up for approval from the FSA. Finally, in 2008, the first takaful provider for car and homeownership (Principal Insurance) opened in the United Kingdom (in fact it was the first provider in Europe), which freed Muslims from relying on conventional insurance.

In the United States, the opening in 1987 of the American Finance House LARIBA (Los Angeles Reliable Investment Bankers; in Arabic it means ‘no interest’) marked the provision of the first Islamic (murabaha) mortgage to a client in the city of Madison, Wisconsin. Other small Islamic financial institutions opened their doors in the late 1980s and early 1990s, and the United Bank of Kuwait (UBK) entered the American market with its mortgage company Al Manzil in 1998. However, it ceased to conduct business in 2000, owing to weakly developed networks with local customers. Significantly, however, the UBK initiated a 1997 interpretive ruling by
the Office of the Comptroller of the Currency (OCC) which paved the way for  *ijara*- and *murabaha*-type mortgages across the United States (Thomas, 2001). In addition to the 1997 interpretive ruling, the Financial Services and Modernization Act (FSMA) of 1999 eliminated the chief obstacle to developing an Islamic bank (not a financial institution) in the United States, namely the 1933 requirement that banks must be investment banks, commercial banks, or insurance-related banks, but not a combination of any of them. Islamic banks or financial institutions typically conduct all of these activities but the liberalisation of this requirement by the FSMA has allowed for the development of a wholly *shari’a*-compliant Islamic bank (Taylor, 2003), although one has not yet appeared in the United States. In March 2001, Freddie Mac announced that it would securitise LARIBA’s mortgages, and in 2003, Fannie Mae also agreed to enter the scene. This had the effect of pumping liquidity into Islamic mortgage markets, which remained expensive compared to their interest-bearing counterparts (Freddie Mac, 2002; Maurer, 2006). In 2003–04, the Amanah division of HSBC began to offer *murabaha*-type mortgages, and around the same time, a financial consulting company – SHAPE Financial Corporation – developed an *ijara*-type mortgage contract for the University Islamic Financial Corporation, a subsidiary of the University Bank in Ann Arbor, Michigan. Noteworthy in the same year was the initiative by the Federal Reserve Bank of Minneapolis to team up with a consultancy (Reba Free) and the Neighborhood Development Center in St. Paul, Minnesota, to provide *murabaha* and *ijara* mortgages for the growing number of Somalis in the Minneapolis–St. Paul metropolitan area. In 2003, Devon Bank, a community-oriented bank on the north side of Chicago with a large Muslim population, developed both *murabaha*- and *ijara*-type mortgages and became a significant supplier of *Shari’a*-compliant mortgages in Chicago and across the United States. However, it is the Reston, Virginia-based Guidance Residential that has perhaps become the leading provider of Islamic mortgages in the United States, conducting some US$1 billion worth of mortgage business by June 2007 (Dar, 2009; Guidance Residential, 2008; Maurer, 2006; Pollard and Samers, 2007). Finally, in 2007, the Princeton, New Jersey-based Zayan *takaful* became the first *takaful* provider in the United States.

IHF in the United Kingdom and the United States: An Overview of Current Markets

The world market for IHF has changed dramatically over the past 15 years, and I can only provide a picture of its status at the end of the first decade of the twenty-first century. The frequently quoted figure in both academic and popular accounts is that IFB is growing somewhere between 10 and 20% per annum with some US$550 billion to US$1 trillion in assets, up from US$100 billion in 2000 (The Banker, 2007). While it is not clear how much the mortgage market is responsible for this total figure, in the United Kingdom, IHF accounted for £500 million out of a total mortgage asset stock of £1.1 trillion (Visser, 2009: 142). IHF markets, including their securitisation, are global in scope, but the bulk of Islamic home financing is approved in the Gulf states and other Muslim-majority countries in the Middle East, Southeast Asia (especially Indonesia and Malaysia), Western Europe (primarily in the United Kingdom), and in Canada and the United States. Until the global recession that began in 2007, Islamic mortgages grew rapidly in the United Kingdom and the United States where homeownership has been especially encouraged. In this section, I discuss the mortgage market in terms of the simple distinction between supply and demand.

The Demand for IHF in the United Kingdom and the United States

On the demand side, Muslims continue to be intrigued by, and interested in, IHF, but at the same time they remain cautious about its uptake, an issue broadly acknowledged by the academic literature and the popular news media. Some recognise that according to a well-known *fatwa*, it is permissible for Muslims to purchase one conventional mortgage out of necessity (*darura*) as long as the house is used for the borrower’s family and not to rent out to someone else. In the United Kingdom, however, the wide availability of Islamic mortgage alternatives has called into question that *fatwa*, and rejection of this in the United States has also increasingly become the case. For example, there is a dedicated website in the United Kingdom (see Relevant Websites) which is designed to provide Muslims with information about the character and availability of Islamic mortgages. Others are sceptical of *mudarabah*-type transactions and whether the bank really is prepared to accept a loss together with the customer. Still others remain sceptical about the *Shari’a*-compliant mortgages offered by ‘Islamic windows’ given that they use money from other divisions which are not *balad*. Because of lack of knowledge, other Muslims are sceptical about how a bank can provide a mortgage without interest. Nonetheless, the interest in *ijara*- and diminishing *musaraka*-type mortgages has increased, and there is a trickle of interest as well from non-Muslims interested in the ‘ethical’ or ‘socially responsible’ character of IHF. In fact, what is striking about the opening of the wholly *Shari’a*-compliant IBB in 2004 is that its Managing Director, Michael Hanlon, insisted that IBB be marketed as not just an ‘Islamic’ bank, but an ‘ethical’ and ‘socially responsible’ one (Pollard and Samers, 2007).
However, this must be partly attributed to the bank’s desire to attract as many customers as possible. In any case, demand in the United Kingdom remains strong, as is obvious from the increasing number of Islamic banks, especially in London.

There is a considerable pool of research on the motivation of Muslims who purchase an Islamic mortgage in Muslim-majority countries, but virtually no research on non-Muslim-majority countries (for exceptions, see Chiu and Neuberger, 2005; Dar, 2004; Maurer, 2006; Thomas, 2001). Research from the early part of the 2000s indicates that mainly professional Muslims in the United Kingdom and the United States were interested in IHF. However, some non-UK citizens residing in the United Kingdom, such as overseas nurses who had an Islamic mortgage before settling in the United Kingdom, were also interested in IHF. An interesting converse to this is the United National Bank’s specific IHF programme for Pakistanis living in the United Kingdom who wish to buy, build, or renovate a home in Pakistan (see Relevant Websites). At any rate, the available literature suggests that the interest of Muslims in IHF and their specific choice of bank are based largely on grounds of religion, the Islamic reputation of a particular bank, financial soundness, and the quality of service. Furthermore, in their study of Malaysian customers, Dusuki and Abdallah (2007) found that a bank’s “social responsibility” in terms of “environmental practice”, “involvement in community”, and “respect for human rights” also proved to be surprisingly relevant. This is in contrast to the importance of, say, cost, familiarity, or convenience, though the latter are also significant. In other words, Islamic piety may be a necessary but insufficient explanation for Muslims’ choice of opting for IHF (Dusuki and Abdallah, 2007).

In surveys he conducted in the United States, Maurer (2006) shows that Sunni Muslims constitute much of the demand for Islamic mortgages, although Shia Muslims are also interested in IHF. Noteworthy is the absence of Shia scholars on any Islamic financial institution in the United States. Data from the early 2000s suggest that very few African-American Muslims appear to have applied for Islamic home financing in the United States, even though they constitute more than one-third of all Muslims in the country. The majority seem to be South Asian, although some ‘converts’ are also visible in the statistics. Most of the Muslims surveyed by Maurer see ijara and mudarabah as ‘ideal’ contracts (even though a mudarabah contract has never been used in the United States), rather than a murabaha or diminishing musharaka. Finally, Muslims seem to prefer the legalistic, anonymous, and professional treatment associated with the practice of IHF, which reminds them of conventional mortgages.

Overall, however, the uptake in mortgage markets appears to be slower than anticipated by Islamic bankers and financial observers in the United Kingdom, which is attributed to either a lack of knowledge about Islamic home mortgages or suspicion of products that allow them to avoid interest while purchasing a house (Oakley, 2007).

The Supply of IHF in the United Kingdom and the United States

In this section, I briefly discuss (primarily in tabular form) the supply of IHF in the United Kingdom and the United States, based on two dimensions of the supply of IHF: the nature of Islamic institutions and the type of mortgage contracts used. In the United Kingdom, the number of Islamic banks and financial institutions continue to proliferate (especially in London), and they have weathered the recessionary storm quite well (Oakley, 2008). However, only a few offer home financing, and Table 1 provides a selection of the more prominent shari’a-compliant mortgage providers in the United Kingdom in 2010. As Table 1 indicates, there is a leaning towards ijara/ diminishing musharaka contracts rather than murabaha.

In the United States, the number of mortgage providers has not increased substantially, and the four main providers continue to be Chicago-based Devon Bank (offering mortgages in 31 states as of 2009), Reston, Virginia-based Guidance Residential (21 states, including Washington DC), Los Angeles-based LARIBA (all 50 states),

<table>
<thead>
<tr>
<th>Name of bank or financial institution</th>
<th>Institutional type</th>
<th>Type of home finance offered</th>
<th>Year IFH offered</th>
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<tbody>
<tr>
<td>Alburaq</td>
<td>Islamic financial institution</td>
<td>Ijara/musharaka</td>
<td>2004</td>
</tr>
<tr>
<td>Ahli United Bank/Al Hilal Islamic banking services</td>
<td>Wholly Shari’a-compliant Islamic banking subsidiary</td>
<td>Murabaha for ‘buy to let’ and nonresidents only; otherwise Ijara</td>
<td>2007</td>
</tr>
<tr>
<td>Islamic Bank of Britain</td>
<td>Fully Shari’a-compliant bank</td>
<td>Ijara or diminishing musharaka</td>
<td>2008</td>
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<tr>
<td>HSBC Ammanah UK</td>
<td>Islamic window</td>
<td>Diminishing musharaka</td>
<td>2002</td>
</tr>
<tr>
<td>Lloyds TSB (with Alburaq and Bristol and West PLC)</td>
<td>Islamic window</td>
<td>Ijara/musharaka</td>
<td>2005</td>
</tr>
<tr>
<td>United National Bank</td>
<td>Conventional bank with Islamic window</td>
<td>Ijara</td>
<td>2001</td>
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</table>

Source: Author’s compilation.
and Ann Arbor-based University Islamic Financial Corporation (12 states). While all have the name 'bank' in front of them, Devon is a community bank and the University Islamic Financial Corporation is a subsidiary of University Bank. As such, there is still no wholly shari’a-compliant Islamic bank in the United States (see Dar, 2009). Table 2 provides a selection of the more prominent IHF providers in the United States in 2010.

In sum, the supply of IHF providers, or at least shari’a-compliant mortgage assets, is growing in both the United Kingdom and the United States, but perhaps more slowly than some might have imagined in the early 2000s. The Usmani fatwas (discussed earlier in the article) along with slower economic growth may further impede the supply of IHF in the future.

**Conclusions**

This article has explored the basic mechanics of IHF in relation to conventional mortgages, the various types of IHF providers that exist, a brief history of IHF since the late 1990s in the United Kingdom and the United States, and an overview of the market in 2010. The IHF market has grown rapidly in the first decade of the twenty-first century in the United Kingdom and the United States, using primarily ijara and diminishing musharaka contracts, and securitised through sukuk and other financial instruments. London in particular has emerged as a centre of IBF in the West, and in both the United Kingdom and the United States, IHF may be viewed as at least a provisional alternative to the damaging vicissitudes of conventional mortgage markets. In that sense, IHF may serve to alter and mediate the geography of foreclosures and loan defaults in urban areas. At the same time, IHF is still tiny in terms of assets as compared to conventional mortgage markets as a whole in the United Kingdom and the United States. And it has not escaped the turmoil that has faced conventional mortgage markets, given the way in which IHF is 'entangled' (Pollard and Samers, 2007) with conventional banking and finance.

Despite that, many Muslims harbour some suspicion and concerns about the 'Islamicness' of IHF; others see the emergence of IHF as a new means of remaining faithful in non-Muslim-majority countries, and there is little doubt that the proliferation of information about IHF has contributed to its growing acceptance. IHF volumes have increased over the last decade, and this may mean lower product costs for many Muslims who still suffer from limited socioeconomic mobility in Western countries.

**See also:** Credit Derivatives and the Housing Market; Demographic Perspectives in Economic Housing Research; Ethnic Minorities and Housing; Ethnicity and Housing Organisations; Financial Regulation; Immigration and Housing Policy; Microfinance for Housing; Mortgage Innovation; Mortgage Market Regulation: Europe; Mortgage Market Regulation: North America; Mortgage Market, Character and Trends: United Kingdom; Mortgage Market, Character and Trends: United States; Security of Tenure in Muslim Communities; Shelter and Settlement for Forcibly Displaced People; Social Justice; Submarkets; Urbanisation and Housing the Poor: Overview.

**References**


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Further Reading


Relevant Websites


www.islamic-mortgage.com

www.islamicmortgages.co.uk – Islamic Mortgages.