

Welcome!

We will start shortly. Closed captions are enabled.
Please select the live transcript option if you wish
to use them.





Supporting Muslim Participants

CBA Community Webinar Series
October 19, 2023

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Housekeeping



This webinar is being recorded. The recording and slides will be available by October 24th.



Use the chat to interact with us, but do so respectfully.



Closed captions are available for the event.



Questions? Type them into the Q&A box.



Disclaimer

This information is not intended to be legal advice and may not be used as legal advice. Every effort has been made to assure this information is up-to-date. It is not intended to be a full and exhaustive explanation of any credit product, service, or program.



Agenda



Setting the stage



International Focus



National Focus



Q&A



Our Mission

Bridging the gap between equity-focused nonprofits and credit bureaus to unlock credit as an asset for all

Our Philosophy

Good Credit is an Asset

Mission-driven nonprofits and other entities are uniquely positioned to help the households they serve build credit as an asset – often the **foundational** asset.



Credit Building Community



CBA Fund

CBA's Community Development Financial Institution (CDFI) Intermediary helps nonprofit lenders start or grow small dollar consumer loan programs to provide safe and affordable alternatives to predatory loans in their communities.

We employ a three-pronged approach of support:

1. Loan Capital
2. Capacity Building Grants
3. Technical Assistance



Meet the Presenters



Morgan Spears
*Chief Community
Engagement Officer*
Working Credit



Tuan Shazuli Raheem
Deputy Senior Manager
Shari'a Risk & Review
Alizz Islamic Bank



Tony Pelz
*Director of Lending and
Portfolio Management*
CEDS Finance



2023
ISLAMIC
FINANCE
THE BASICS

■ ■ ■ ■ ■
■ ■ ■ ■ ■

WHAT IS ISLAMIC BANKING?

- Based on Shari'a Principles (Islamic Law)

It follows the beliefs and principles of Islamic jurisprudence pertaining to trade and business , fiqhal-muamalat (Islamic rules) on transactions. Islamic banking avoids all the prohibited activities such as riba (usury-interest), gharar (uncertainty), financing of haram (forbidden) trades & businesses like casinos, alcohol, pork, etc.

- Profit-making Business

Islamic bank does not compromise on the Islamic Shari'a rules, though it is a profit-making organization. Islamic banking is not based on pricing and exchanging money and earning interest as conventional interest-based banks do, but it is a system of trade where goods and services are sold and capital is invested by taking risk to earn Shari'a -compliant profits.

What is Sharia?

Sharia is the practices and activities for the wellbeing of all humans.



ISLAM



AQIDAH

FAITH | BELIEF



SHARIA

PRACTICES |
ACTIVITIES



AKHLAQ

MORALS + ETHICS

IBADAT

Person-to-God

MUAMALAT

Person-to-Person

FIQHAL-MUAMALAT



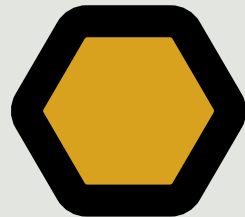
NO INTEREST
(RIBA)



NO UNCERTAINTY
(GHARAR)



NO FINANCING HARAM, I.E.
ALCOHOL, GAMBLING (QIMAR)



NO ECONOMIC ACTIVITIES
INVOLVING OPPRESSION
(DHULM)

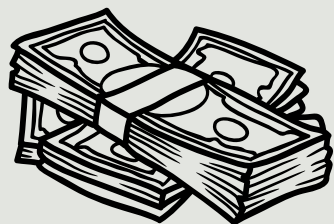
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Sources:

Quran, Sunnah, Ijma,
Qiyas, Ijtihad

CONVENTIONAL BANKING



Money is a commodity



lending money directly

ISLAMIC BANKING



Goods and services



Asset Backed
and based

ISLAMIC PRODUCTS

- ✿ Murabaha - cost plus mark up
- ✿ Musharakah - joint partnership; profit-loss sharing
- ✿ Mudarabah - partnership where one party provides capital and the other provides labor; profit sharing
- ✿ Ijarah - leasing
- ✿ Sukuk - bond
- ✿ Takaful - insurance

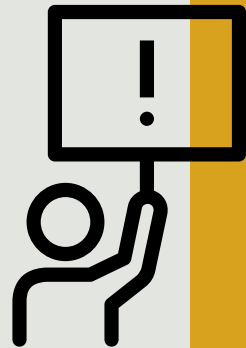
الَّذِينَ يَأْكُلُونَ الرِّبَا لَا يَقُومُونَ إِلَّا كَمَا يَقُومُ الَّذِي يَتَخَبَّطُهُ الشَّيْطَانُ
مِنَ الْمَسِّ ذَٰلِكَ بِأَنَّهُمْ قَالُوا إِنَّمَا الْبَيْعُ مِثْلُ الرِّبَا وَأَحَلَّ اللَّهُ الْبَيْعَ وَحَرَّمَ
الرِّبَا فَمَن جَاءَهُ مَوْعِظَةٌ مِّن رَّبِّهِ فَانْتَهَىٰ فَلَهُ مَا سَلَفَ وَأَمْرُهُ إِلَى اللَّهِ وَمَنْ
عَادَ فَأُولَٰئِكَ أَصْحَابُ النَّارِ هُمْ فِيهَا خَالِدُونَ ﴿٢٧٥﴾

Those who consume interest will stand 'on Judgment Day' like those driven to madness by Satan's touch. That is because they say, "Trade is no different than interest." But Allah has permitted trading and forbidden interest. Whoever refrains—after having received warning from their Lord—may keep their previous gains, and their case is left to Allah. As for those who persist, it is they who will be the residents of the Fire. They will be there forever.

RIBA is prohibited in Islam.

WHAT IS INTEREST

Excess and additional money charged to borrow money - a contracted amount charged over a period of time. Money is a commodity. Money begets more money. Exploitative gains.



SO, WHAT IS PROFIT RATE?

Similar to going to a grocery store - a merchant pays X for a set of goods and then may mark up the amount when selling to the customer.

The profit rate is a fixed rate defined in the contract at the beginning. The profit rate can not increase or change once contract is agreed upon. Even if customer delay, profit rate or charge for transaction is set.



Key to note that profit rate only exists or is applied to goods/service.

IB does not directly lend money!

2023

THE DIFFERENCE?

- Actual Cost/Charge to customer may be the same, higher, or less

Some people typically say that profit and interest rate are the same given that in this example the total cost to the customer was the same (103,000). It is important to note that the profit rate can sometimes even be higher, the same or less. The difference is how it is operating and the practice itself.

- Difference is Operational

Unlike with interest, where the primary contract is a loan (qard), in the Islamic banking system, every product must have an Islamic contract. One of the contracts that is being used in this example is a sale and purchase contract known as bai murabaha (cost plus profit). The Islamic bank need to buy and possess the merchandise first, then the Bank will sell to Mr. A on a markup price. Although Mr. A need to pay to Islamic bank by installment, the underlying contract is a sale and purchase, and not direct lending. The profit gained from that valid sale contract is allowed and permissible, as mentioned by Allah SWT in the Qur'an.

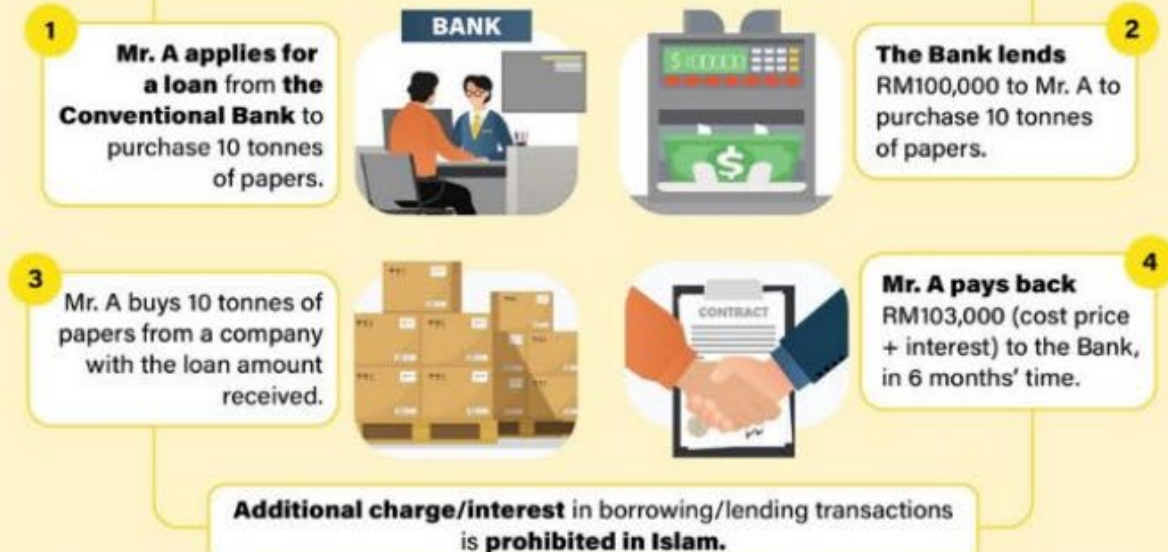
Note: Profit is permissible in Islam.

PROFIT & INTEREST IN ISLAMIC & CONVENTIONAL BANKING

EXAMPLE: PROFIT



EXAMPLE: INTEREST



Narrated 'Urwa al-Bariqi (RA):

The Prophet (ﷺ) gave him a Dinar to buy a sacrificial animal or a sheep. He bought two sheep with it, sold one of them for a Dinar and came back to him with a goat and a Dinar. So he invoked blessings on him in his business dealings, and he was such that if he had bought soil (of the earth) he would have made profit from it. [Reported by al-Khamsah except an-Nasa'i].

وَعَنْ عُرْوَةَ الْبَارِقِيِّ - رَضِيَ اللَّهُ عَنْهُ - { أَنَّ النَّبِيَّ - صَلَّى اللَّهُ عَلَيْهِ وَسَلَّمَ - أَعْطَاهُ دِينَارًا يَشْتَرِي بِهِ أُضْحِيَّةً، أَوْ شَاةً، فَاشْتَرَى شَاتَيْنِ، فَبَاعَ إِحْدَاهُمَا بِدِينَارٍ، فَأَتَاهُ بِشَاةٍ وَدِينَارٍ، فَدَعَا لَهُ بِالْبَرَكَاتِ فِي بَيْعِهِ، فَكَانَ لَوْ اشْتَرَى تُرَابًا لَرَبِحَ فِيهِ } رَوَاهُ الْخُمْسَةُ إِلَّا النَّسَائِيَّ¹.

¹ - صحيح. رواه أبو داود (3384)، والترمذي (1258)، وابن ماجه (2402)، وأحمد (4 / 375).

COST OF FUND + MARKET RATE

Conventional banks typically give a set rate. This rate is taken into account in their cost of fund. This rate drive the market rate.

ISLAMIC BANKS CAN'T PROMISE THE RATE.

Unlike conventional banks, Islamic banks can't guarantee the profit rate. That said, Islamic banks compete with conventional banks and offer competitive Profit Sharing Ratios. They thus are subjected to the market rate in the economy and need to be competitive. Thus they may adjust the profit rate to be comparable to the market rate. This can be a challenge for IBs.



SHARI'A GOVERNANCE STRUCTURE



OMAN



Bahrain's international Islamic nonprofit providing accounting, auditing, governance, and Shari'a standards. Offering professional qualification standards and certification services.



National regulator and bank in Oman overseeing bank activities. The Central Bank of Oman is responsible for promoting and maintaining financial stability in the Sultanate of Oman.

IBRF

Islamic Banking Regulatory Framework:
Requires banks in Oman to follow AAOIFI standards. Oman one of few to follow the graphic.



International body that regulates banks and institutions.

Oman is one of few that follow all of the AAOIFI standards. Bank is required to 100% follow their Sharia and Accounting standard.

ISLAMIC BANKING REGULATORY FRAMEWORK

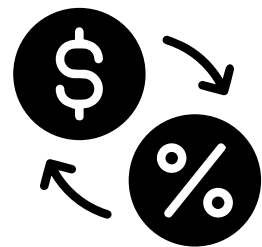


OMAN



Governed by Central Bank of Oman, it provides, among others, licensing rules and guidance applicable to banks and Windows regulated and supervised by the central bank and Sharia governance framework to ensure Sharia compliance in Islamic banking operations of Islamic banking institutions in Oman.

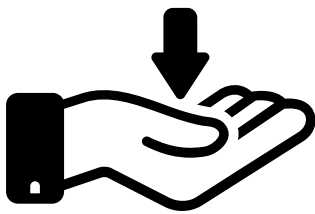
MONETARY POLICY



NO RIBA



NO QIMAR



SELLER
MUST
OWN



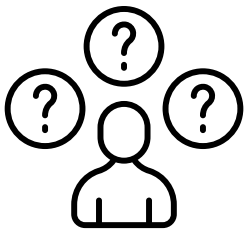
PROFIT +
LOSS
SHARING



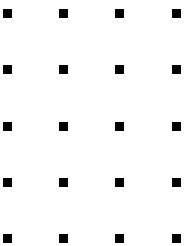
SSB, IBRF,
CBO



FUN FACT: NO
TAWARRUQ



NO GHARAR



THANK YOU

Shazuli Raheem

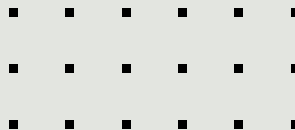
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U.S. Fulbright Research Scholar 22-23 (Oman)

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CBA Community Webinar Series: Supporting Muslim Participants

October 19, 2023



About CEDS Finance

- ❑ Community Economic Development Services ("CEDS") Finance was founded in 2009 and is a non-profit, mission-driven lender that provides small business capital and consulting to refugee, immigrant and underserved communities
- ❑ CEDS Finance has invested over \$10 million into the local community and is dedicated to helping entrepreneurs realize their dreams, by providing free business consulting to all applicants (pre- and post-loan)
- ❑ We have supported individuals from over 43 countries through our lending activities
- ❑ CEDS Finance is a 501(c)(3), a SBA microlender and a certified CDFI



AWARDS & RECOGNITION

- ☐ 2023 Colorado Community Lender of the Year (SBA)
- ☐ 2018 Colorado Community Lender of the Year (SBA)
- ☐ 6 time CDFI Fund grantee
- ☐ Selected as a participant in the 2023 Microlending Accelerator Program sponsored by the Aspen Institute Foundation

- ❑ Providing Murabaha¹ since 2015
- ❑ Typically (for CEDS) asset-based lending (i.e. trucks, cars, etc.)
- ❑ Only provider of Murabaha in Colorado (as far as we are aware)
- ❑ CEDS has hence financed over 161 Murabahas for total amount of \$4.2M; currently represents 41% of total portfolio
- ❑ CEDS engages in significant outreach to Muslim community

(1) Murabaha is the most popular structure globally (makes for 80% of all Islamic finance products).

- ❑ Islamic finance is extremely complex
- ❑ There is no single global standard – rather, practices differ by region, country, city (and even neighborhood)
- ❑ Large organizations, however, do exist to provide guidance⁽²⁾
- ❑ CEDS consulted with Islamic scholars, local imams, customers, etc. to shape our current Murabaha product offering

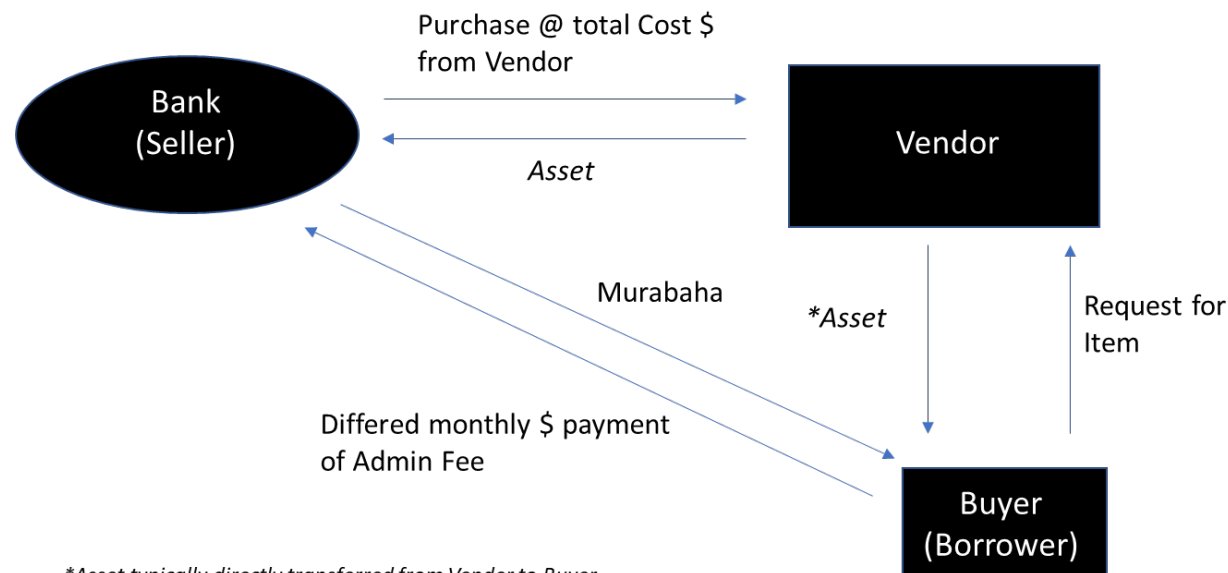
(2) AAOIFI, established in 1991 and based in Bahrain, is the leading international not-for-profit organization primarily responsible for development and issuance of standards for the global Islamic finance industry. It has issued a total of 100 standards in the areas of Shari'ah, accounting, auditing, ethics and governance for international Islamic finance. It is supported by a number of institutional members, including central banks and regulatory authorities, financial institutions, accounting and auditing firms, and legal firms, from over 45 countries. Its standards are currently followed by all the leading Islamic financial institutions across the world and have introduced a progressive degree of harmonization of international Islamic finance practices.

- ☐ Murabaha Concepts
- ☐ Basic Structure
- ☐ Admin Fee Justification
- ☐ Calculation of Admin Fee
- ☐ Amortization

- ❑ Murabaha components:
 - Cost amount
 - Admin Fee (or Mark-up, Profit, etc.) amount
- ❑ Preferred nomenclature:
 - Seller = Lender/Bank
 - Buyer = Customer/Borrower
- ❑ Cost and Admin Fee must be totally transparent and agreed on *in advance*
- ❑ Buyer (typically) buys on a deferred basis (i.e. pays for asset over time)
- ❑ The Admin Fee must be fixed and remain the same and cannot be a rate % or based on/determined by some unknown future outcome
- ❑ Seller must disclose the Cost of the asset
- ❑ Seller must “take ownership” of asset prior to selling to Buyer

Basic Structure (i)

1. Buyer requests Bank (Seller) to provide a Murabahah for purchase of an asset
2. Buyer and Seller agree on Cost and Admin Fee (in advance)
3. Seller purchases the asset (acquires ownership)
4. ... and then sells to the Buyer at the agreed Murabaha terms
5. Buyer pays Seller total Cost + Profit on a deferred basis



**Asset typically directly transferred from Vendor to Buyer.*

- ❑ In practice (for many market participants), the Seller does not take (physical) ownership or possession of purchased asset
- ❑ Rather this is achieved only **contractually**:
 - lenders don't want to hold or own the asset
 - ... so the Buyer “promises to purchase the goods” on “immediate delivery and deferred payment basis”

- ❑ (Actual) market example:

“The [Buyer] wishes to avail itself of a Murabaha contract arrangement to be made available to it by the [Seller] subject to and upon the terms herein contained, whereby the [Seller] will, at the request of the [Buyer], purchase [Item] from suppliers on immediate delivery and immediate payment terms and will sell such [Item] to the [Buyer] on immediate delivery and deferred payment terms for specific period in compliance with the principles and rules of Murabaha as defined by the Sharia’ Fatwa and Supervisory Board of the Seller.”

Source: From a Murabaha between major Islamic finance bank and a client.

- ❑ Many market participants do not agree with this method (however, many do and transactions structured this way continue to occur)

Admin Fee Justification (i)

- ❑ Market participants use many different methods when determining or calculating the “proper” Admin Fee
- ❑ It should be noted that the Fee is often subject to much debate
- ❑ Methods include:
 - base Fee on bank loan interest rate comps⁽³⁾ , i.e. LIBOR, etc. – some consider controversial
 - base Fee on actual costs to provide the loan service (i.e. salaries of employees, marketing, overhead, etc.) – difficult in practice
 - base Fee as a function of fund source cost of capital + risk spread
 - black box (i.e. don’t disclose)
 - a mix of some/all the above

(3) In contemporary Islamic financing transactions, the profit margin set by some Islamic financial institutions are based on conventional benchmark like LIBOR or some other conventional benchmark interest rate. Although nothing explicitly prohibits such practice, the question arise whether it is appropriate to benchmark profit rate for Islamic financial transaction to conventional interest.

Admin Fee Justification (ii)

- ❑ As a philanthropic lender (i.e. non-profit), with respect to our Fee, CEDS uses our fund source (currently very low at 1%) as a comp and adds a spread (which references a CDFI average fee range) – we believe this is very transparent
- ❑ Currently our Admin Fee offered to borrowers is below the Prime Rate on a converted basis (by design)
 - A CEDS customer can thus currently access loans at a Fee level they would never qualify for at traditional banks or via the SBA (7a) – nice!
- ❑ This level however will likely change due to recent increases of Fed Funds and across the term structure

Calculation of Admin Fee

☐ Calculation of Admin Fee (CEDS):

- convert the cost of funds + spread rate into a flat, \$ Fee
- 7.0% would equate to a flat monthly Admin Fee of \$281.88 based on our conversion below
- Murabaha of \$106,912 (\$90,000 Cost of item + Admin Fee amount of \$16,912)
- = $[(\$281.88 \times 60 \text{ months}) + (\$1,500 \times 60 \text{ months})] = \$106,912$

Loan Summary	
Loan Amount	\$ 90,000.00
Loan Term (Months)	60
Payment Amount	\$ 1,782.00
First Payment Date	3/15/2023
Maturity Date	2/15/2028
Interest Rate	7.000%
Total Costs	
Total Interest	\$ 16,912.69
Total Cost of Loan	\$ 16,912.69
APR	6.997%

Murabaha Summary	
Cost	\$ 90,000.00
Loan Term (Months)	60
Payment Amount	\$ 1,782.00
First Payment Date	3/15/2023
Maturity Date	2/15/2028
Monthly Administrative Fee	\$ 281.88
Total Costs	
Total Administrative Fees	\$ 16,912.69
Murabaha	\$ 106,912.69

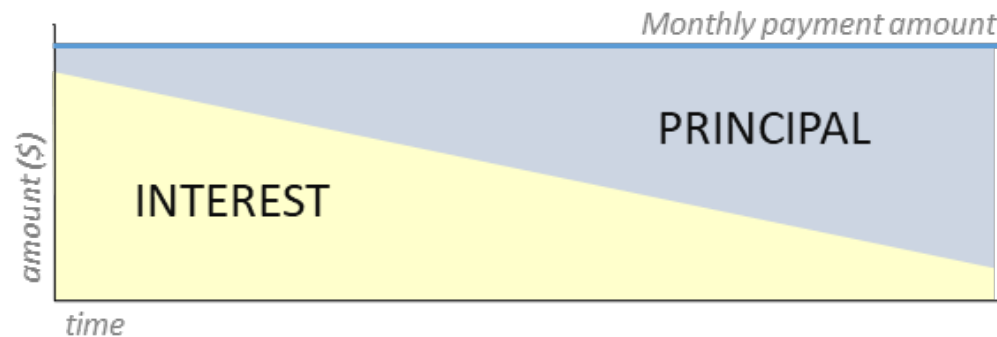
Loan Schedule					
Payment #	Date	Interest	Principal	Total Payment	Principal Balance
-	2/15/23				90,000.00
1	3/15/23	483.29	1,298.71	1,782.00	88,701.29
2	4/15/23	527.35	1,254.65	1,782.00	87,446.64
3	5/15/23	503.12	1,278.88	1,782.00	86,167.76

Murabaha Schedule					
Payment #	Date	Admin Fee	Principal	Total Payment	Principal Balance
-	2/15/23				90,000.00
1	3/15/23	281.88	1,500.12	1,782.00	88,499.88
2	4/15/23	281.88	1,500.12	1,782.00	86,999.76
3	5/15/23	281.88	1,500.12	1,782.00	85,499.63

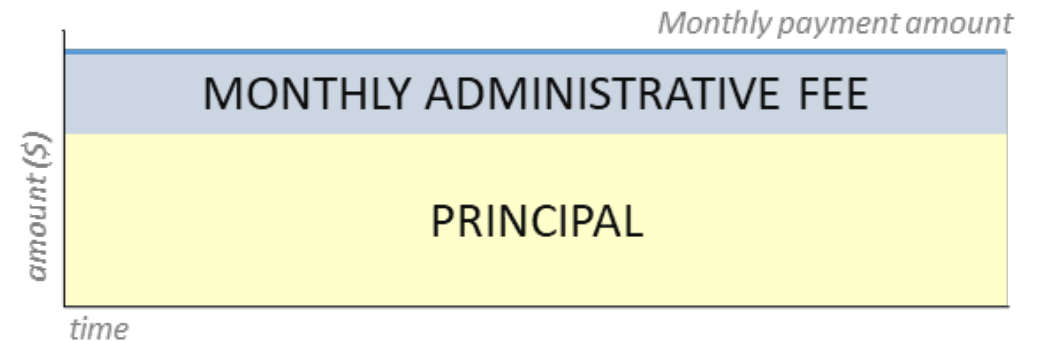
❑ Please Note:

- Murabaha amortizes in equal, proportional amounts
- this differs significantly when compared to the amortization of an interest based loan
- the interest payment comprises a much larger percentage of the total monthly payment in the earlier years which is a disadvantage to the Borrower

LOAN:



MURABAHAH:



- ❑ CEDS wants our Muslim (and other) customers to succeed thus if there is any confusion or doubt CEDS will do the following:
 - customer's Imams and/or Islamic Scholar may review our Murabahah Agreements prior to closing
 - CEDS staff offers to explain product & answer questions
 - intricacies of note may be modified based on the client's, Imam's, and/or Scholar's preference

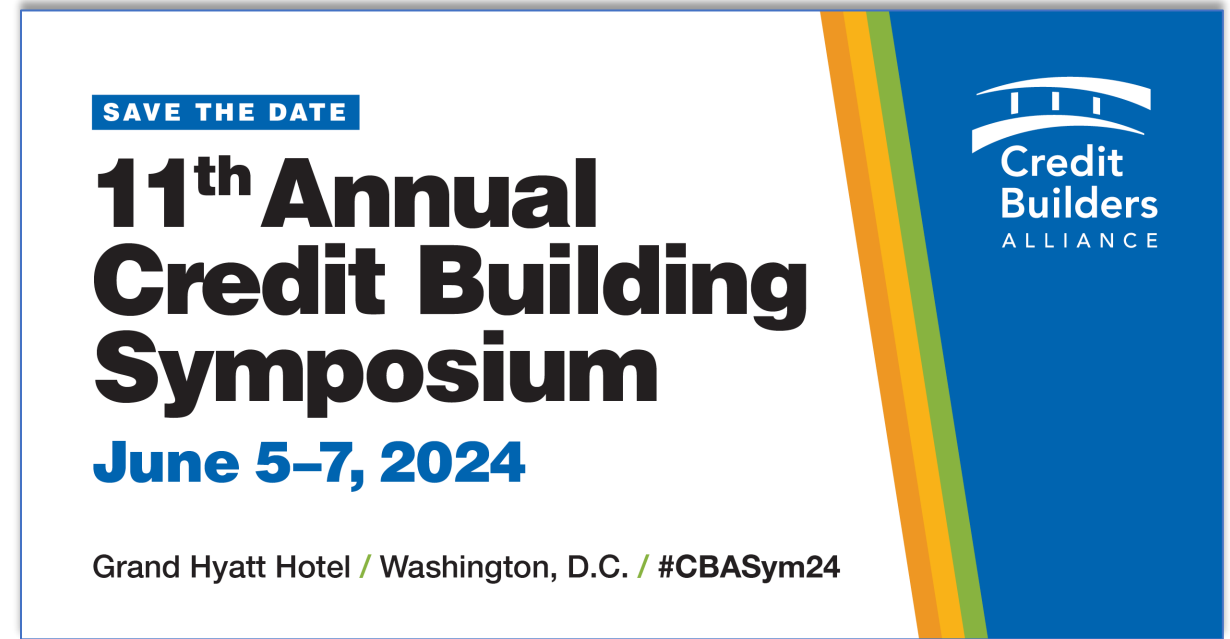
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Q & A



CBA's Annual Credit Building Symposium

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CBA's Training Institute



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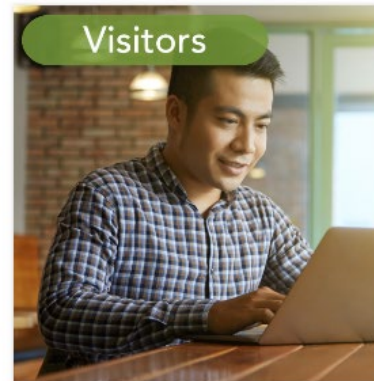
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The TI serves as the hub for these valuable learning resources. Many are exclusive to CBA members, but many others are available to anyone with a TI account. Log in or register now to get the most out of your visit.



CBA's Mission: to bridge the gap between equity-focused nonprofits and credit bureaus to unlock credit as an asset for all.

www.cbatraininginstitute.org



Questions?

webinars@creditbuildersalliance.org

