

CBA Community Webinar Series Transcript

October 2023: Supporting Muslim Participant

10/20/23

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Welcome to CBA's community webinar supporting Muslim Participants. My name is Claire Milldrum and I'm CBA's Training and Curriculum Development Senior Specialist. Thank you so much for taking the time to join us today. We're really excited to have you. Let's start off with some quick housekeeping before we get to today's content. First, this webinar is being recorded. We'll send out a link to the recording and a PDF of these slides and the transcript by October 24th.

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Attendees will remain and listen only mode throughout the webinar. We invite you to engage with us and your peers by setting the chat option to chat with everyone. As a reminder, our goal here is to learn, exchange ideas, and foster a respectful and enjoyable atmosphere for everyone. Closed captions are available for today's session. You can enable them by selecting the CC Live transcript option on your toolbar and if you have any questions for our presenters, put those in the Q&A and not the chat box.

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We will pause for questions at the end and will enter your question into the Q&A box. Helps us best track what questions are coming in. So I want to start by noting our standard disclaimer. The content included in this webinar is not intended to serve as legal advice. We've made every effort to make sure the information is up to date, but it's not intended to be a full and exhaustive explanation of any credit product program or service.

CBA Community Webinar Series

Transcript

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And when working with participants around issues that are potentially legal in nature or deal with contractual agreements, make sure to know your limits and avoid giving participants legal advice or information that is out of your depth or expertise. Creating partnership with pro-bono legal services can be really helpful when these situations arise. So we'll start today's webinar by setting the stage of some key context on what Islamic financing is and some of the work that's happening internationally on this topic will then move into how a national lender in Colorado has created products to support their local community.

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Finally, we'll wrap up with a Q&A session. And as a quick reminder there, put questions in the Q&A box rather than the chat box. And we hope that you leave this webinar with a better understanding of Islamic financing and how you can develop more inclusive financial products to serve your partition and participants.

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So some of you may not know CBA.

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So let's start off with a bit about us. We serve as a bridge between equity focused nonprofits and the credit industry to unlock credit as an asset for all. We offer technical services such as access to credit reports and credit reporting, access to capital through our intermediary CBA fund and capacity building for nonprofits and practitioners. This includes our training institute training series, webinars and toolkits.



CBA Community Webinar Series

Transcript

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All of our services are connected to our core philosophy that a good credit file is essential to achieving and maintaining financial stability. Ultimately, we believe that good credit is an asset, often the foundational asset necessary to get and stay ahead. So a little bit about our members. Many of you are already members and we welcome you here. So members represent about an over 600 nonprofits across the country that serve low and moderate income households and small businesses, many of whom are locked out of traditional financing like the community that we're going to but we're going to learn more about today.

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This includes nonprofit community development, financial institutions, microenterprise development organizations, credit unions, government affiliates and tribal entities. It also includes community action agencies, affordable housing providers, LISC financial opportunity centers and Catholic Charities, United Way and Habitat for Humanity affiliates. These members reach hundreds of thousands of people across the country, from urban to rural to tribal areas, offering program tailored to their communities needs.

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So for current CBA members, this is a quick reminder to complete your annual member update form. This information not only helps us stay up to date with your organization's programs and updated contacts for CBA, it's also an opportunity to ensure the information on our member map is correct. You can email membership at [Credit Builders Alliance dot org](mailto:membership@CreditBuildersAlliance.org) or expect a CBA staff member to provide you your survey link and any direct communication with your organization.



CBA Community Webinar Series

Transcript

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I also want to take a moment and highlight CBA's community development financial institution intermediary CBA fund, who are often asked on how to support Muslim participants with credit building. They're also the reason that we're here today. CBA Fund supports nonprofit lenders and starting or growing small dollar consumer loans. They use a three pronged approach of support loan capital, capacity building grants and technical assistance to nonprofits.

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CBA Fund works with existing business lenders who want to add a small dollar loan products, long time consumer lenders and those who are starting their programs from scratch. And since its inception, CBA fund has supported lenders in offering emergency loans in response to the pandemic, loans to promote housing stability and loans, supporting immigrant communities. And then, if you'd like to be aware of future funding rounds sign up for CBA's newsletter.

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So we have three presenters today. We have Ms. Morgan Speers. Mr. Tuan Shazuli Raheem and Mr. Tony Pelz. Morgan Speers has rooted her career and not simply working towards economic inclusion, but rather economic justice. Morgan currently serves as the Chief Community Engagement Officer for working credit. In this role, Morgan oversees the design, implementation and oversight of a comprehensive community engagement strategy that drives long term program growth, stability and true impact by centering working credits Mission prior to working credit.

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CBA Community Webinar Series

Transcript

Morgan served as a Senior Manager of the Member Relations for Credit Builders Alliance for over five years. She is currently on CBA's board as well. Morgan is also a recent U.S. Fulbright research scholar where she conducted independent research on Islamic financing in Muscat, Oman, and formally trained at both bank Nizwa and Alizz Islamic Bank. Tuan Shazuli Raheem is a passionate Islamic banker with more than 26 years of experience covering Islamic banking and conventional banking.

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He is professionally qualified in banking and finance, credit management and Islamic banking and finance at present. He is employed at Ali's Islamic bank, Oman, as deputy senior manager, Sharia risk and Review. Prior to this role, he worked at a Amana Bank PLC, the only fully fledged Islamic bank in Sri Lanka, where he was instrumental in developing various innovative, award winning products, structuring the Sharia Risk Management Committee and developing the Sharia governance framework based on the FSB governance standards.

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He is a sought after subject matter expert in Islamic banking and finance, providing a 360 degree perspective, as well as a lecturer and a trainer. And last but not least, Mr. Tony Powell is a director of lending and portfolio management at said Finance. Prior to this position, he directed a Nordic Impact Fund supporting SMEs with Islamic finance based loan products in the Somali region in sub-Saharan Africa.

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His professional background includes work with several global investment banks and roles ranging from corporate finance, mergers and acquisitions, credit to proprietary trading in Europe, Asia, Latin America and Africa. Mr.

CBA Community Webinar Series

Transcript

Pelz is also the author of several books on financial options, including The Biotech Trader Handbook. And with that, I am excited to pass it off to you.

MORGAN Thank you so much, Claire, and thank you so much to CBA for allowing me the chance to present today.

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And I would be remiss if I didn't think all the people in on mine who are definitely imparting on me a lot of knowledge as it relates to Islamic finance and Islamic banking. So let's take it away. Claire. I'm ready. So a big part of today's webinar is how do we support Muslim communities? But we want to first create a foundation, and it's important for us to have a shared understanding on exactly why there is a need for a difference between conventional financing and Islamic financing.

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And so to do that, we first need to understand what grounds that understanding. So what is Islamic thinking? So Islamic thinking, moving to the next slide here. Islamic banking is based on Sharia principles, which is also known as Islamic law. So it basically follows the beliefs and principles of a prudent that pertains to how we trade, how we interact and how we do business.

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I'm going to talk a little bit more in depth and provide some more context, but it is also important to note it sometimes is conflated. If Islamic banking is just charity because of its ethics and moral ground. Of course, Islamic banking has this moral ethics and grounding, but it's important to note that it's still a profit making business.

CBA Community Webinar Series

Transcript

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So as we go through what a proper rate is and what's the difference between interest, I really want to kind of set that foundational understanding that Islamic products, Islamic banking and financing is really being able to make profit, but making sure that you do so in a way that abides by Sharia law and Sharia governance. And for those who don't know, Sharia is basically the practices and activities for the well-being of all humans.

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So it is not just from Muslims to other Muslims, but it's how we engage as a holding society for all human beings and their benefit. So moving on to the next slide here. In terms of Islam, it's important to note these cornerstones that kind of that kind of upheld Islam as a faith and as a religion and one of them, of course, is you have your outlet, which is your morals, your ethics.

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And then of course, you have your Aqidah, which is your faith and your belief. And then the other one is Sharia. Sharia, as I mentioned. Are those practices, those activities and even further through Sharia, when we look at it, you have your person to guide. So this is what you give a lot when you go prayer. And then on the other hand, you have Muamalat, which is your person to person dealings.

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So under Muamalat we're able to be able to obtain and to be able to discern how we are to engage with our neighbors, with each other, and through actually transactions. That basically means transactions or dealings. And

CBA Community Webinar Series

Transcript

then as we go through Muhammad, that is important to know. You can click through the next slide here. Fiqhal-Muamalat.

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That is basically those transactions in those dealings as it relates to, like, commercial our finances or how you deal in terms of your engagements with another human being. Right? And one thing that people oftentimes I'm sure most people come into this conversation here today is probably familiar with is no interest in Islam interest, or Riba, is considered as haram are prohibited.

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And then in addition to that, it's not just interest. Right. So oftentimes we talk about, you know, 0% interest loans or zero interest financing. How are we able to meet this need with this community without having interest? And I want to be clear, it's not just interest. It's an entire framework that undergoes in kind of uphill how we are supposed to deal with finances as it relates to Islamic banking.

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And that also includes certainty, right? So you want to make sure that the dealings that you have, not only does it not have interest where money begets more money, but you want to make sure that the times are clear, that everybody knows the amount that they're going to owe. At the end of the day, you want to make sure that there is complete certainty as well as transparency under those dealings.

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CBA Community Webinar Series

Transcript

In addition to that, you want to make sure that whatever is being financed or whatever that transaction is being held, that is also does not underscore other things that are also considered haram, such as alcohol or qimar, which is gambling, or if you are doing any type of dealings you don't want to be doing a dealing with, let's say, a pork butchery, right?

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So you want to make sure that everything in essence is underscore and that's in alignment with these principles. And then one other principle that I really find very strong is that you want to make sure that the economic dwellings and activity does not involve oppression by the intention of oppression of another person. RB In all of these that we get here is really rooted in grounded in our understanding in these, in the source of this, of course comes directly from the Quran from the Sunnah and it comes directly from the texts itself and how Muslims are able to engage and operate in the financial system itself.

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You can click through to the next slide, clear. So one thing I want to note is kind of create this juxtaposition in these differences and to really cement our understanding of Islamic banking as it relates to conventional banking. So conditional banking in the modern sense is where money is the commodity, right? So when you have money, you have essence.

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It becomes the tool, it becomes the resource, it becomes the commodity itself. That is why conventional banks, they lend money directly. So I'm able to give you money as a financier to the financing. I'm able to give you money. However, with Islamic banks in Islamic banking, because of our

CBA Community Webinar Series

Transcript

understanding of Islam, because of our understanding of how we deal in understanding, the interest itself is haram is prohibited.

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Islamic banking, Islamic transactions are where you're dealing with goods and services, right? So you're actually are dealing with each other in a way where profit is kind of the underscore, where you're actually able to sell something, where you actually be able to exchange a product or a service. And this is exactly why back in 2008, during the housing crisis, during the financial crisis that was globally, we were able to see that Islamic banks were able to recover and able to drive a lot more than conventional banks.

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Because Islamic banking is what they call asset backed and is actually based on a tangible, a fixed good or service, whereas conventional banking is based upon money, an asset sale commodity, which of course brings a lot of more instability than if you have an asset that's actually backing that transaction or that product. Okay. So moving forward, So the next slide here.

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So this is a list of different Islamic products. And I want to know is that when it comes to Islamic financing, it has to be rooted in an actually Islamic product. So, Tony, I know later is going to talk about the product that his CDFI offers, which is a Mudarabah product, which is basically a cost plus or markup in just to give a tangible example, is as if I have this water bottle here, right?

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CBA Community Webinar Series

Transcript

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So you want to purchase a bottle of water. And just for our purposes, let's say the bottle water really costs a dollar. So what will happen in us is that I will actually, as the financier, I will take the I will purchase the bottle of water for a dollar, but then I will charge a market markup. So let's say I charge \$0.50.

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So I will give it to you in essence for a dollar and 50. So that way that consumers are able to get the bottled water today because they don't have that dollar \$0.50. But that will be the cost plus the markup for the actual good that they're hoping to actually receive through that transaction. And of course, you have different partnerships and different products such as in Musharakah, which is like a partnership has a profit and loss sharing one where you able to share the profit.

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U there's different ways that you can structure these products, but all in essence with the underscoring and understanding that you are being in alignment with Sharia and also those dealings where the movement is also in alignment with those principles. Other ones like Takaful, which is an insurance Sukuk which is like an Islamic bond. Ijarah which is like a leasing product.

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And if people have questions, we can talk a little bit more about what those products are and how to set those up. Okay, We can go to the next one. And one thing I want to know, and I'm taking this directly from a surah in the Quranis it talks directly about interest and what interest it's prohibited. And

CBA Community Webinar Series

Transcript

it doesn't necessarily give you the reasoning of why, but it strongly condemns interest in the trade of interest.

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Right. So it really undergoes that God will wage a war against interest. Right. So in this so right, you're able to point out and say that it is, you know, is forbidding to deal with interest, to deal with money where you're able to charge money by simply having money. Right. However, you are able and you are permitted to be able to trade, to be able to have a profit, make a profit.

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But when you're using money as the sole commodity, that is very problematic because fundamentally speaking, ethically, if I am borrower, if I'm bringing you money, that means that I am operating in a level of surplus that means I have extra, right? Someone who is borrowing money, they have a need and typically they are operating in a level of deficit.

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So morally and ethically speaking, a person who's operating in a surplus meaning that they have more than what they need, where they can extend cash to someone else should not be charging interest simply because of that of the ethical foundation and understanding of that belief system. And you can skip to the next slide, please. Thank you, Claire. So what is interest So we talked about riba we talk about has prohibited in Islam.

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CBA Community Webinar Series

Transcript

So what exactly is interest? Interest. It's access or additional money discharged when you borrow money. So it's basically you are exploiting your gains, right? So somebody who has the extra cushion of money is just able to make even more money. So because of the fact that they are operating already in this level of surplus. Right. So it's a contracted amount that you charge over a period of time.

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So what is the difference between interest and profit? Right. Profit kind of styles, the last similar to an interest, Right. Profit is different, right? Everybody has gone to the store. Everybody goes to the grocery store where, you know, a carton of eggs is like \$5 is ridiculous. Right? So the merchant basically pays for the set of goods, typically wholesale.

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They they buy these goods and then they mark up that amount when they sell back to the consumer, the amount that they markup minus all of their expenses is their profit. Right. So that is their profit rate. The thing I want to note there fundamentally difference between interest and profit is that interest you're able to continuously is able to compounds able to grow over a period of time profit and in alignment with this on the principles.

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That profit rate cannot increase or change once the contract is agreed upon. So if today I told you that the back to this model, whatever you are as a dollar in 50 today, it will be a dollar 50. If you pay me back today, it will be a dollar 50. If you pay me back three weeks from now.

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CBA Community Webinar Series

Transcript

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That amount that you owe me in terms of the profit on this will be the same. Whereas with interest it can accrue over time. And so even if a customer delays in paying that profit or that change for that transaction is say and so with that, I am going to turn it over to Mr. Raheem, who I have the amazing privilege to be able to study and train under and at ease and on mine.

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So thank you so much, Mr. Raheem, for all of your knowledge, and I'll turn it over to you. Thank you. Sister Morgan. And thank you very much, CBA for the invitation to share my thoughts on Islamic banking and what it can do, what it has to offer to people and everybody openly so here, like Sister Morgan said this live.

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What is the difference between interest and profit? So again, what somebody will see, you might have interacted with people who might have met. People would say, okay, interest and profit are the same in this context. But again, if you go back to the Sura, the verse from the Quran, Sister Morgan showed that it is explicitly said we are interest is not the same as treat, meaning interest is not the same as profit.

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Here is the difference. And rightfully like what Sister Morgan shared. The example about the bottle of water. It is the same thing we are. We sell something, we add the profit onto that and we sit we make a profit on the transaction. So here is how the profit is made. And when the tea later on we touch on this how the transaction will happen.

CBA Community Webinar Series

Transcript

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But the point here is the difference is how it is operational, how the whole process takes place and is of course sometimes the profit market might be the same equal to the interest. Mark but the difference is the I would say the equation or the equality would be only there. Beyond that, it would be different because when it is a sale, when you go to your local grocer, you buy on credit or something like that.

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If that goes to sales, you are on credit. The price that you have to pay to the grocer will not change it. It's similar, but if you go to a bank and figure out what will happen the day you delay your payment, there will be an interest rate that is to be compound interest, will be late fees, penalties and so on.

00;23;02;17 - 00;23;58;24

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Here is the difference where interest markedly will be difference from a profit transaction. Since a clear cut can be more, you can remove the next slide. Yeah. So here again. No, back to the previous slide. Yeah. So again, when we talk about no, I know we are talking about CBA and the organizations under them mostly focused on non-profits, but I would also want to share with you that Islam doesn't say, okay, all Sharia doesn't say you have to, you know, lend out or make a business where you don't make profit.

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So that's why when we talk about transactions, we talk about profit and also the profit amount, the limit, the amount of profit that you can make is up to you. Of course, it should not be exploited. I do. But that is something that

CBA Community Webinar Series

Transcript

you agree, discuss. You negotiate with the other party. The example that we show here is coming from a hadith, meaning it is an event that happened during the Prophet's time here.

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One of the companions of the Prophet is given a dinner by the prophet to go and buy a sacrificial sheep, an animal. So what does he do? He goes and buys with one dinner, a sheep. That was his job. But what does he do? He buys one dinner, he buys two sheep, and then he sells one sheep for dinner.

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And so now he actually made 100% profit. And then he comes back and he returns that he gives the sheep and returns the money saying that this is the profit he made. So what did the prophet do? He invoke blessings on him. So basically, he was such a merchant, a trader, that he can even sell soil, sand and make profit.

00;25;27;05 - 00;25;56;16

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So here what we get from this point is you don't have limits to make a profit, but it is always because the other party he knew what the value of the sheep he must buy. Right. So we need is open, it is transparent. And when it is not exploited to you help or limit or you have the limit that you can go to.

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The next slide, please. So with this, we we come with something else. Now we are talking about the financing, in other words, lending. But we don't call

CBA Community Webinar Series

Transcript

it lending because it's not we are not lending. We are financing that being a business, we only do this financing. We need to source our funds. So now this source has a cost.

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What is the cost? That is the cost that we come we see in the market how how much we need to compensate the fund under hold it the person who gives the fund to the investment. So you we actually we have this what we call dilemma because the owner of the fund will always want move and if you want to invest some somewhere, you'll always want to, you know, have a better return.

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Yeah. So similarly, we have to be able to compensate the owner of the fund in the face of it. What is the theory when it comes to finance, even comes to banking as such, the normal accepted the normal norm is the market rate. How the how much the market will be for your deposit, for your savings account, or your current account offer you a fixed deposit, so on.

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So this is how the funds comes to the investment. So when this happens, Islamic banking, we don't say it. We don't say we will pay you a profit of interest or profit of so much on your investment because we can't. What we'll do is if we do that, what what are we doing? We are promising a profit or interest on the funds.

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CBA Community Webinar Series

Transcript

On the money, right. So if we promise a profit on the money, it is nothing different from interest. It is interest. Okay, so what Islamic banks, Islamic finance companies. What we do is we promise a profit sharing ratio. It can be like a 50, 50 or 60/40. So it is not another exercise itself. How we manage the funds because we call it pooling funds.

00;28;34;01 - 00;29;03;17

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So we'll pull funds from all the investors and we will in turn we will invest this in others like lot system of pre-position like the rabbi has on shot across each other. And so so whatever the profit that we generated from those investments we will be sharing with these investors, this is how it happens. So we obviously we can't say we can be, you know, 2%, 10%.

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We cannot guarantee we can't promise anything. So only thing what we can do is because it used be pay such and such profit ratio. Right. So the challenge here is the dilemma is we have to be in par with the market, right? We would like if we don't have to be. Yeah, but that is the reality, the sad reality because the investor will always want to have something more and nobody will want to have, you know, less amount.

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And by the way, we call it the cost of being Muslim, COBMs. is because when we see you'll be a miss. Because if I go back to my experience in Sri Lanka when we started Islamic banking, at that time, they look customers who came to us and they kept their investment with us and they got less return because we at that point we didn't have enough opportunities to invest to deploy our funds.

CBA Community Webinar Series

Transcript

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So when the scenario was like that, the customer who came to us actually got the return, a less return than what he would have out of what he would have received if he had gone to a traditional bank. But this is the reality. But what we do is we always try to match the market. We we try to reverse calculate, and then we come up with a profit sharing ratio, which is beneficial, which is which is in line with the market.

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We will be, I would say, a happy rate for the investor since initially. Move to the next slide, please. Yeah. So here we come to the governance structure. Why are you we are talking about the golden structure here at this CBA program maybe now because we want to highlight the importance of governance, because now we are talking about financing, we talk about money of others.

00;31;22;16 - 00;32;04;24

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So in in Islamic banking, it is a cardinal rule that when we take this money, we are not taking this money as a just as another management. We are not taking this money of funds from the investor as a loan will be how to repay back. Because like I said, we do profit sharing structures and so it is up to us to make sure that we deploy the funds in the correct place and we ensure as much as possible that the investment is protected.

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So nobody will want I would not be I would not want to in this somewhere. We are I have doubts about how my investment will work or forget about the profit, whether I will get a return, forget about the return, whether my

CBA Community Webinar Series

Transcript

capital is protected with it. I will get my profit. You know, after one year, after ten years, the at least the profit as it is, the amount.

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So here Alhamdulillah, we have Shari'ah governance structures in different organs, right? So different countries they implement based on their legal system, the jurisdictions and so on, they apply in different ways. So here I would just touch the Amani Sharia governance or Sharia Islamic banking regulations, though Islamic banking really started in Oman, but not long ago, it's like ten years ago.

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Right. So but the best thing that happened to Islamic banking, I would say, is in Oman, we have a proper Islamic banking regulatory framework, very talks about governance structure. And you know, from A to Z, you you you can just take this document, the framework and run it. And so having the Sharia governance structure, others Islamic banking, regulatory framework, the structure is very important.

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So here a few organs that come into play in Oman, one is the central bank of human. They are the within central Bank of Oman. We have a Sharia sponsored separately. And apart from this, even the idea of the regulatory framework it touches one iota, I think is one of the I would say, the main of the main body, which sits standards.

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CBA Community Webinar Series

Transcript

Well, Islamic banking and finance. It's not only Sharia standards, it also do so the accounting standards, governance standards, ethics and so on. Auditing standards, everything I offer you basically stands for accounting and auditing organization for Islamic finance institutions. It's basically based in Bahrain and the other organization that is on slides I speak. It is Islamic Financial Services Board, which is based in Malaysia.

00;34;53;18 - 00;35;34;22

Unknown

This is basically set the standards for central banks, all central bodies. So that is it. These two these two organizations work in two different ecosystem environments because IFSB is more to do with regulatory with regard to IOC. It works more to do with individual organizations. So this is one one structure, governance structure when it comes to different countries, like I said, they apply the governance structure in different ways.

00;35;34;25 - 00;36;01;06

Unknown

One example is Malaysia. They have a dual banking system where they have regulations for separately for like banking and then for banking. But when it comes to the example in Sri Lanka, we don't have a separate governance standard for all. For that matter, we don't have an Islamic banking act. And how we operate is within this law, within the existing banking act.

00;36;01;08 - 00;36;35;15

Unknown

So there were some changes that happened a few years ago which allowed us to trade in goods previously, according to the banking, we could not trade in goods. It is not a no deal. But with this change it is Islamic banking. He didn't say anything else, but is this It allowed us to trade in goods as well as take deposits on profit sharing basis because again, the previous act didn't have such a modality.

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Transcript

00;36;35;18 - 00;37;07;27

Unknown

So with these things we were able to implement Islamic banking model in Sri Lanka. So basically we have one fully fledged serving bank in Sri Lanka, but we also have windows, meaning sub divisions or sub units in almost all top commercial banks. So they they basically understood what is the benefit of this, what what benefit can go to the customers.

00;37;08;01 - 00;37;34;24

Unknown

So it was shut down. And again, I would like to just touch on something else which came across the news recently that is Islamic banking in Philippines. They started Islamic banking a few years ago and they have a bank called a minor bank. It's not a money bank. Sri Lanka, they are not the equal. They are not in the same line, but they are two different entities.

00;37;34;26 - 00;38;15;27

Unknown

But that among the bank in the Philippines is a state owned entity. But the news that I want to share with you is now Philippines. They want to use Islamic banking to to reach out to unbanked people. The report basically says so what that about 200 odd cities which are unbanked. So the whole idea now they are they they the plan to solve this it is to use Islamic banking to reach out to these unbanked communities.

00;38;15;29 - 00;38;53;10

Unknown

So this will be another message that I can you can take CBA. So as the discussion goes, we are we don't we have an issue with regarding to unbanked you know underbanked people so this can be in a an avenue that we can reach out to these populations. Can we move on to the next slide, please. Yeah. So basically this is what we want to do.

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Transcript

00;38;53;12 - 00;39;20;14

Unknown

I wanted to share it is always best to have a proper framework if we can have the regulators with us and then it will be easy. It'll create confidence in both investors and also the the people who want a big financing. Also, because I don't want to go to an organization where they do me an example. Mudarabah but it is not Mudarabah.

00;39;20;17 - 00;39;53;21

Unknown

There are no instances of that happening. So when we have all the framework in place or we have a governance structure that is strong, then the the commitment that comes from within the organization, from the top, will reflect in the operations. So this is something that I think is very important. So with that sister, shall we move to the next slide, please?

00;39;53;23 - 00;40;31;21

Unknown

Yeah. So this is from our site. And with that I would like to hand over to Tony for the Tony already exclusively. Thanks for that great presentation. I have one. As I mentioned, I'm Tony Pelz. I'm the director of Lending and Portfolio Management. With CEDS finance in Denver, Colorado, you can actually turn the next slide, please. Today, I will cover CEDS experience in Islamic financing over the past several years and try to provide an overview of some of the key challenge areas we face with the development of our Islamic finance product.

00;40;31;23 - 00;41;04;25

Unknown

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Transcript

Next slide, please. First off, let me try a little background about Search Suds Finance, which stands for Community Economic Development Services, was founded in 2009 and is a nonprofit mission driven lender. We provide small business capital and consulting, and we primarily target refugee immigrants in underserved communities. Since 2009, Search has invested over 10 million into the local community, and we have supported individuals from over 43 countries through lending activities.

00;41;04;28 - 00;41;33;18

Unknown

Since CEDS finance is a 501c3 and also an SBA micro-lending and a certified CFI. Next slide, please. We have won a few awards, including SBA's 2018 and 2023 Colorado Community Lender of the Year. There are six time CFI fund grantees and we were recently selected as a participant in the 2023 Micro-lending Accelerator Program sponsored by the Aspen Institute Foundation.

00;41;33;20 - 00;42;03;27

Unknown

Next slide, please. So serves the Islamic community in several ways. First, we've been providing Mudarabah since 2015, and this product was mentioned before is typically for asset based lending to finance the purchase of a truck or a car, for example. Should be noted that the number of buyers is the most popular Islamic finance structure globally, as it makes up about 80% of all Islamic finance products, such as the only provider of Mudarabah in Colorado.

00;42;03;27 - 00;42;33;08

Unknown

As far as we know where, and we have financed over 161 mudarabah is for total amount of 4.2 million. This treatment currently represents about 41% of our total portfolio. So from financing activities such as it engages in significant outreach to the Muslim community, which includes hosting

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Transcript

dinners and educational courses. Next slide, please. Okay. As mentioned, and from an Islamic finance perspective, Seds only offers mudarabah.

00;42;33;10 - 00;42;58;27

Unknown

Before I go into any detail on this product, I need to preface with a few points to keep in mind. As you can see, first of all, Islamic finance is extremely complex when determining how to implement and there there's no single global standard. Practices differ by region. Country, city and even neighborhood. Some large organizations, however, do exist to provide guidance, which helps when there is confusion.

00;42;58;27 - 00;43;42;01

Unknown

This includes AAOFI as we mentioned. We consulted with Islamic scholars, local imams, customers and others to shape our crude mobile product offering. However, it should be noted that this is an ongoing process. Next slide, please. Product development and deployment, which is still in progress. We stumbled a bit in several areas, including mudarabah basic concepts. I those are products satisfy conceptually what admirable is settlement structure meaning are we properly settling each summer Baja justification and calculation of the admin fee and are we properly calculating the amortization payments?

00;43;42;03 - 00;44;07;25

Unknown

Next slide please. With regards some of our basic concepts, mobile is comprised of two parts the cost amount, which is the cost of the asset you intend to buy and the admin fee amount, which is also known as the market process. In these transactions, it is preferable to use the word seller instead of the words lender or bank, and also is preferable to use the word buyer instead of the words customer or borrower.

CBA Community Webinar Series

Transcript

00;44;07;27 - 00;44;35;29

Unknown

So remember, buyers are extremely important that cost and atmosphere are totally transparent. Agree on in advance. The buyer typically buys on a deferred basis, which means the person pays for the asset over time. Also, the annual fee must be fixed and remain the same. It cannot be based on or are determined by some unknown future outcome. Finally, the seller must disclose the cost of the asset, and seller must take ownership of the asset prior to selling the buyer.

00;44;36;02 - 00;44;58;29

Unknown

Next slide, please. Thank you. These deals are typically structured in the following manner. First, the buyer requests the bank to provide a durable offer or purchase of an accident. Next, the buyer and seller agree on the costs in advance, as mentioned. Then the seller purchases the asset, i.e. acquires ownership and then subsequently sells to the buyer at the green verbal terms.

00;44;59;01 - 00;45;26;10

Unknown

Finally, the buyer pays the seller the total cost plus property on the basis. Next slide, please. Thank you. In practice, for many market participants, the seller does not take physical ownership or possession to purchase asset. Rather, this is achieved contractually. Basically, lenders don't want to hold their own the asset. So the buyer promises to purchase the goods on an immediate delivery or deferred payment basis.

00;45;26;12 - 00;45;48;28

Unknown

I've actually included a real life example of language which takes care of this problem. Contractually. It's in the text. It's worth noting that many market

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Transcript

participants do not agree with this method because the bank didn't really ever seem to own the asset as it near simultaneously sold the asset to the buyer after purchasing it from the lenders. Pretty complicated.

00;45;49;00 - 00;46;17;18

Unknown

Despite many not agreeing with this approach, it nevertheless continues to happen in the market. Next slide, please. Marketers. Participants use many different methods when determining or calculating the proper fee. There's currently several ways the fee is being calculated. These include basing the fee on a bank loan interest rate card, such as using non-Islamic debt rates such as LIBOR, etc..

00;46;17;21 - 00;46;39;12

Unknown

This can be somewhat controversial given that is based on an interest rate. Another approach would be would include basing the fee on actual cost to provide the loan service a sum in the salaries of employees marketing, overhead, etc.. This offer is difficult in practice, especially for a nonprofit. Another approach includes using the base fee as a function of your funding source.

00;46;39;15 - 00;47;03;06

Unknown

Cost of capital plus some rest or profit spread. Often, a black box approach is used when not nothing is disclosed. And finally, using a combination of some of the above, it should be noted that the fee is often subject to much heated debates on whether or not the fee is compliant. Next slide, please.

00;47;03;09 - 00;47;32;24

Unknown

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Transcript

As a philanthropic lender, such uses are funds Source caused scrutiny very low at 1% as a comp and we add a spread especially where references justify average fee rates. This method, we believe, is very transparent and as a result, such current attendance is below the the prime rate on a converted basis. A such customer can thus access loans on a fee level that they would never qualify for the traditional banks, which is pretty cool on this level.

00;47;32;25 - 00;48;03;19

Unknown

However, like obviously lucky changes to the recently expected increases in that funds and across the term structure. Next slide please. Okay. To calculate the admin fee for our method that Aida sends method, we first convert the cost of funds plus the spread rate into a flat dollar fee. Thus, for example, a five year loan at 7% would equate to a flat monthly admin fee of \$281.88 based on a total cost of \$90,000.

00;48;03;21 - 00;48;36;08

Unknown

The total admin fee would be 16,112. Adding this to the total cost of 90,000, the mirror would therefore equal 106,112. That's how we calculate it. Next slide, please. In regards to amortization, it should be noted that Mudabarah need to amortize an equal proportional amount. Note how this differ significantly when compared to the amortization of interest based loan, with the borrowers paying more interest at the early stages of the loan as this is a disadvantage to the borrower versus the seller.

00;48;36;09 - 00;49;03;05

Unknown

This is therefore not or a compliant Islamic finance management slide, please. The other day settlements are Muslim and other customers to succeed. Thus, if there is any confusion or doubt with respect to our mobile offering, such as will meet with our customers, imam or Islamic scholar to

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Transcript

review our nearby agreements prior to closing, also said staff will offer to further explain the product and answer any additional questions.

00;49;03;07 - 00;49;15;03

Unknown

Finally, sites will consider modification of our motherboard based on the customer, imam or scholar points. That's all I have got. Thank you.

00;49;15;05 - 00;49;40;06

Unknown

Wonderful. I invite everyone to come on video and we're going to do a bit of a Q&A, a panel here. So thanks so much, everyone. That was fantastic. Super helpful. I wanted to start off with a question. I noticed from your presentations that you didn't really use the word loan, and that was brought up by someone from CBA Fund.

00;49;40;06 - 00;49;57;05

Unknown

And I will love, if you would kind of describe why the word loan isn't particularly used and how that can create some barriers. And then if you have information beyond that, how would you message these products?

00;49;57;07 - 00;50;27;07

Unknown

I guess, Tony, since you were presented, you want to go ahead. Yes, I think it's all for the scholars. Okay, great. Wonderful. Awesome. Mr. Feedback. And I'm sorry, not going to. I was just going to say and also to add, I think the biggest point and Tony kind of touched on this is like the lending piece, like, you know, the difference between finance and lending money in terms of what is actually the transactions or what's grounding that transaction is a little bit different.

CBA Community Webinar Series

Transcript

00;50;27;10 - 00;50;50;15

Unknown

Great. Thanks for that plug. Yeah. Adding to that, because we want to call a spade a spade. It is a loan. It is a loan. It is stated as a trade. And so it is better to be transparent, to be clear what we are doing, then it is easy to have that communicate.

00;50;50;18 - 00;51;10;19

Unknown

Wonderful. So, so. So in some way you're kind of saying the call, like you said, to a well, to call a spade a spade and then to communicate very transparently, which I think, Tony, you also mentioned by how you communicate your feelings. I think it's incredibly important to be transparent. You spoke throughout all of our experiences about the loans we've made.

00;51;10;25 - 00;51;33;02

Unknown

Transparency is always talked about. The client knows what they're getting into, and it's also being aboveboard. Yeah I love that point. That was something that at my previous organization we had credible drones and there was a 0% interest loan. And so being transparent about how it was structured and why we were doing what we were doing was what really helped that community.

00;51;33;05 - 00;51;51;24

Unknown

And at the same time, what it also did is supported other communities as well by having a product that was financially accessible. Are there any aspects of Islamic financing that you find end up supporting the whole

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Transcript

community and a mortgage? You kind of touched on this with one of your slides, so would love to pass it off to you first.

00;51;51;27 - 00;52;12;28

Unknown

Yeah, I feel like Islamic financing, ethically speaking it because of its moral grounding is rooted on being able to to benefit society and as well be. Now that being said, there are a lot of critics and a lot of debate and, you know, people from different sides who did not like how much of a profit rate is an interest by another name.

00;52;13;01 - 00;52;37;25

Unknown

There's a lot of critiques on it. However, I think the grounding in the fundamental how was operationalized in that founding is principally to benefit all communities, regardless if you're Muslim or not, is basically to be able to make sure that people are transparent. To Tony's point, one of the principles of Islamic financing is transparency and in making sure that there's no uncertainty.

00;52;37;27 - 00;53;02;11

Unknown

So in addition to all of the other things like interest, making sure that you're buying interest from the province. Wonderful. Tony. Mr. Raheem, do you have any additional thoughts on that? Yeah, I think I mean, right now it's mainly like only the Islamic community is using our is our using our mobile, our products. It's not really hasn't like spread to other, you know, other customers.

00;53;02;13 - 00;53;30;02

Unknown

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Transcript

So expect to see that hopefully as the product grows. Right. So actually with my experience like Sri Lanka, it's not a Muslim majority countries as such, but it's excellent to use it. But when we started I'm on a bank is a be with me. I would pull from my previous experience as place of work and so on.

00;53;30;04 - 00;54;04;03

Unknown

When we started the bank, we didn't start the bank initially, it was an investment company. So when we started the investment company, one of the initial depositors are the investors, not the not in the same sense of it. Mr.. Like a shareholder, it was and the Anglican Church over there. And so they had their account because they understood the either unethical grounds or at least the commercial grounds, but it was open to everybody.

00;54;04;06 - 00;54;29;20

Unknown

And later on when we became the bank also we have quite a big number of customers who are not Muslims. And so this to say that it is not only for Muslims and again, going back to Sharia, we are talking about woman to woman. It means people are people in. So people to people introduction is not in it's not religiously grounded as such.

00;54;29;23 - 00;54;59;07

Unknown

It is for everybody. How you interact with each other is not governed by religion. Have such and so the benefits is to everybody, technically speaking. So that's great. I'm sorry I interrupted you. That's okay. So the last the message is like when it comes to Islamic banking, the benefit you can you can share with everybody, everybody can take from it and it's equal to everybody.

CBA Community Webinar Series

Transcript

00;54;59;09 - 00;55;21;03

Unknown

So so need not be, obviously. That's a that's a great point. I think that was the big so the limited amount of time I was doing an Islamic or not Islamic financing so much, but credit building was that it was really because of the fact that it was grounded in an ethical way by that \$0 product that was not designed for that community, that it was so beneficial to everyone, right?

00;55;21;03 - 00;55;43;14

Unknown

People who were Muslim, people who were not, people who were low income, some people who are in high income and just was a good fit because they were looking to support that community, to support our our entire community. And to that end, there's just a couple question like technical questions of this might be a little bit more nuanced focus, but can you tell me, like how credit cards work?

00;55;43;17 - 00;56;23;25

Unknown

Think we often mention secured credit cards in the credit building community in the U.S. How does that work for someone who is is Muslim? Does anyone have a strong feeling on this experience in their go ahead. Yeah, I, I actually did some research on these great cards in U.S. but to see there are some organizations who offer great cards which are Sharia compliant.

00;56;23;28 - 00;56;52;11

Unknown

I don't know what I should put institutions, organizations as such, but there are organizations it's not I don't know whether they operate on security guards or colored credit cards as such. But you can also develop credit cards

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Transcript

which will work on the like like a loan itself. We are there's no charge on that for the for the for the loan that is given out.

00;56;52;18 - 00;57;23;24

Unknown

Basically, we charge a service fee. So it's part of the transaction. How it happens when the transaction when you transact with rate card, you charge a fee and it's similar, the moment happens like that. So basically, even in my bank, I'm not promoting that. I'm just shutting the structure. We also how it got there. We operate on a 0% loan and loan in Islamic terms, non means we can print.

00;57;23;29 - 00;57;52;09

Unknown

There's nothing prohibiting like it's just as Morgan has said. There's nothing that says you can't lend, but you can't charge. So we operate on that model. So it is a liability where it is necessary. You can structure something great. Tony Was there something in your experience that you found in this and Colorado working with your borrowers? No, we don't have like we don't have the credit card.

00;57;52;11 - 00;58;19;24

Unknown

Great. So true. But yeah, yeah, it's just I think it's something that's important to just keep in mind that sometimes products and solutions that may like may not work for some people in some communities. And just to keep that front of mind of that culturally sensitive programing. So we have a ton of questions here. I think we will make a kind of a fake document to be able to answer some of these more technical questions that are in here that I think are really important for anyone that's thinking about developing these products.

CBA Community Webinar Series

Transcript

00;58;19;26 - 00;58;40;15

Unknown

So I will wrap us up for today. Thank you so much for the three of you for joining us and sharing. I know just a very, very just putting our toe in the water of this huge subject. So thank you so much for boiling down some very intense concepts into ways that were understandable. So thank you so much and we really appreciate it.

00;58;40;17 - 00;59;17;24

Unknown

Thank you very much. Thank you. Here with you are now. Great. So thank you so much again for joining us today. We're are going to kind of close out, like I mentioned we will be sharing a Q&A in about a week. So I did want to share about our annual credit building symposium or we'll have conversation like this, which is going to be on June 5th, the seventh in D.C. of next year, and all CBA members receive discounted registration rate and make sure to stay up to date on registration and scholarship and submissions through our CBA newsletter.

00;59;17;26 - 00;59;43;15

Unknown

And I also wanted to flag our training institute. We got a ton of questions about where these slides are going to live and that is actually going to be on this website. It serves as a hub for our credit building, training, educational materials and create membership grants, access to most materials on the CBA Training Institute. So if you're not a member, you will have access to certain materials, including this material today, but not all material.

00;59;43;15 - 01;00;01;23

Unknown

And we recommend that each staff member associated with an organization set up an account on the training institute. There's no need to have a shared



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Transcript

username. So if you found this content interesting, feel free to make an account. And as a reminder, this will be available hopefully by October 24th on the Training institute and you'll get a notice via Zoom.

01;00;01;25 - 01;00;07;07

Unknown

So thank you so much for joining me today, everyone. I hope you have a great rest of your day.