



March 7, 2009

ON RELIGION

A Hometown Bank Heeds a Call to Serve Its Islamic Clients

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ANN ARBOR, MICH.

Until a stranger without an appointment showed up one day in late 2001, Stephen L. Ranzini was feeling rather pleased with himself. University Bank here, which he led as president, had just won a national award for community service. The honor attested to Mr. Ranzini's success in working with local black ministers and a nonprofit agency to increase home-ownership in African-American neighborhoods.

Then, disturbing the aura of satisfaction, a well-dressed man arrived and insisted on seeing the president. "If your bank is so outstanding for community service," the visitor said, as Mr. Ranzini recently recalled, "how come you're not servicing my community?"

What community, the banker asked, would that be?

"I'm a Muslim," the man responded.

Mr. Ranzini started to explain that University Bank already had plenty of Muslim customers, hardly a surprise in a college town in the area of southeast Michigan with the largest concentration of Arab-Americans in the United States.

That answer did not satisfy the visitor. Those Muslims, he said, were paying or earning interest.

"So what?" Mr. Ranzini said. Wasn't interest sort of the whole point of what banks did?

Over the next 10 minutes, Mr. Ranzini, a Roman Catholic executive who had grown up in the vanilla suburbs of New Jersey, started an education that would ultimately transform an otherwise conventional hometown bank into a national leader in the growing specialty of Islamic finance. This year, the bank won an award from the American Bankers Association largely for its service to Muslim clients.

University Bank now has an entire subsidiary devoted to financial products that comply with Muslim religious law, or Shariah. It has done nearly \$80 million in Islamically approvable

“mortgage-alternative” financing for residential and commercial real estate in 15 states.

This past week, while the stock market plunged to its lowest point in a dozen years and close-to-home General Motors teetered near bankruptcy, University Bank recorded one of its best periods ever. It completed 11 home sales, more than twice the weekly average, to observant Muslim customers, and pushed four more closings into next week.

“I never thought I’d be involved in Islamic banking because I’d never even heard of it,” Mr. Ranzini, 43, said in an interview. “And it’s been a stretch to learn it, succeed at it and make it work. But you feel best about the things that were hardest to do.”

To distill and simplify some complicated theological and financial concepts, the basis of Islamic finance is Shariah’s forbidding of “riba,” which can be variously translated as usury or interest. Mortgage alternatives, which are the most popular financial product for Islamic consumers in the United States, essentially add what would have been the monthly interest into the purchase price of a home.

In one variation, the bank actually buys the house at a qualified customer’s direction, and then sells it to that customer through monthly installments modeled on the payments of a 30-year mortgage. In two other common methods, the customer either acquires the home from the bank on a lease-to-own arrangement or purchases the home in partnership with the bank and gradually buys out the bank’s share.

University Bank’s boomlet forms only part of a national trend. Institutions like Devon Bank in Chicago and Guidance Residential in Reston, Va., also offer mortgage alternatives. The Amana Funds, based in Bellingham, Wash., has several [mutual funds](#) operating on Islamic principles.

For the past decade, Dow Jones has computed a stock index for Shariah-compliant companies. The law schools at Harvard, Fordham and the University of California, Berkeley, have held academic conferences on Islamic finance.

“It’s part of this religious revival, this return to roots, you see taking place not only in Islam but in many faiths,” said Isam Salah, an expert in Islamic financing at the international law firm King & Spalding. “And as people began to see the feasibility of Islamic financing, you had smart bankers saying: ‘There are seven million Muslims in the U.S. There’s a niche market no one is serving, and I can do it.’ ”

In Mr. Ranzini’s case in Ann Arbor, the decision to enter Islamic banking meant all sorts of challenges.

On the religious side, he needed to appoint a board of Shariah scholars to certify the mortgage alternatives as “halal,” or religiously permissible. On the secular flank, he put months into persuading both state banking officials and his own board of the new products’ legitimacy.

One of the bank's vice presidents, Amjad Quadri, now has responsibility for marketing the Shariah-compliant products, speaking at mosques and meeting imams, and overseeing satellite sales offices in New Jersey and Virginia. The visibility of [University Bank](#) in Islamic financing has brought it, among other things, pillorying by [Rush Limbaugh](#).

For customers like Abdul El-Sayed, though, the bank was literally a godsend.

A medical student and Rhodes scholar, Mr. El-Sayed bought a \$123,000 condominium in Ann Arbor with a mortgage-alternative arrangement. A generation earlier, Mr. El-Sayed's father had had no choice under Shariah but to save up until he could buy a home with cash.

"Ultimately, the question is," Mr. El-Sayed, 24, said in an interview, "when I die and I stand before God and go through everything I did in my life, I don't want to say I did it the easy way instead of the Shariah-compliant way. Not because of fear but because of obligation."

The sense of religious and communal obligation has its fiduciary advantages to Mr. Ranzini. Besides carefully vetting prospective home-buyers, and besides having a well-educated, professional clientele among American Muslims, he has customers for whom default would be almost sinful. Indeed, there have been only a handful of failures among University Bank's observant Muslim clients.

"In my heart, I'm doing this because it's the command of my creator," said Fariz Huzair, 51, who recently bought a home for his family in Canton, Mich. "You have a standard you're supposed to live up to."

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