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# Sharia compliant mortgage

An alternative for home financing

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# Your presenter, Hussein Samatar



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- Executive director, ADC, since 2003
- 8 years commercial banking experience, Norwest/Wells Fargo
- Former senior lender, Neighborhood Development Center
- MBA, St. Thomas University
- Languages: Somali, Arabic, Italian, English, Spanish

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# About the ADC

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- “Your guide to financial success in America”
- We work within the African communities in Minnesota to start and sustain successful businesses, build assets, and promote community reinvestment
- Culturally respectful services available in eight languages

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# Services



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- Client consultation and workshops
  - Business development
  - Home ownership education
  - Financial literacy training
- Consulting with African communities nationwide

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# Business development



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- Business planning classes, workshops
- Conventional and Islamic financing
- On-going technical assistance
- Networking opportunities

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# Home ownership training



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- Understanding the process
- Overcoming common barriers
- Finding the right home
- Securing down payment assistance
- Qualifying for a mortgage
- Closing

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# Financial literacy



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- Personal and business banking
- Debt management, consolidation
- Household budgets
- Credit rating, reporting process
- Saving for a home purchase

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# Organizational growth

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- 2003: ADC founded with one half-time staff, \$10,000 operating budget
- 2006: Five full-time staff, \$580,000 operating budget

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# Challenges facing African entrepreneurs

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- Lack of planning
- Market isolation
- Wasted wealth
- Poor financial management

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# Sharia-compliant product: development goal

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- Acceptable to Muslim borrowers
- Comparable to standard American products
- Low-moderate income borrowers
- Available for all borrowers
- Built-in home buyer education

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# What needs to be different

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- Muslim law (Sharia) prohibits charging or paying interest

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# Are there Sharia-complaint products available now?

- Two approaches, both expensive
  - Co-ownership, which complicates future financing
  - Using rents to set mortgage payment



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# Initial market for our product

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- Pilot project
- Focus on Somali-Americans
- Available to all Muslims

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# Why Somali Americans?

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- Somalis are the largest group of Muslims in the Twin Cities
- African Development Center is developing the product
- Home buyer classes are being taught in Somali by the ADC

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# What approaches are we researching?

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- Implied interest approach
- Lease purchase/contract for deed approach
- Each approach has advantage and disadvantages
- Both fit the no interest requirements

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# Underwriting criteria

- Fannie Mae affordable mortgage underwriting
- Modifications
  - Tax and insurance escrow required
  - 2 year employment history for primary borrower, 1 year for co-borrowers
  - 1 year history for second job
  - Job changes OK, max 30 day gap



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# Underwriting criteria

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- Citizenship or proof of legal working status
- Minimum of 3 credit accounts from credit report and/or alternative credit

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# Who Is developing the program?

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- African Development Center

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# Next steps

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- Complete research on existing products
- Choose the best approach
- Work with lawyers
- Obtain community and scholarly approval
- Finalize legal documents

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# Next steps

- Develop capital sources
- Develop administrative support
- Develop mortgage insurance pool
- Develop required partnerships
- Determine the best delivery system
- Originate loans



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# Timeframe

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- Product approach chosen July 1, 2006
- Legal work done Sept. 1, 2006
- Admin support in place Oct. 1, 2006
- Capital in place Dec. 1, 2006
- Ready to originate by January 2007