



# NON-INTEREST-BEARING FINANCING IN MINNESOTA

---

GUIDE





**This report was created with the generous support of the following individuals and organizations:**

Jameel Ahmed, **UIF**  
Abdihakim Ali, **Devon Bank**  
Tal Anderson, **Minnesota Housing**  
Pat Aylward, **RE/MAX Results**  
Mahamud Gorod, **Guidance Residential**  
Beth Hyser, **NeighborWorks Home Partners**  
Michou Kokodoko, **Federal Reserve Bank of Minneapolis**

Gretchen Nicholls, **LISC Twin Cities**  
Johanna Osman, **Sakan Community Resource**  
Nasibu Sareva, **African Development Center**  
Shoeb Sharieff, **Ijara CDC**  
Homeownership Opportunity Alliance Product Development Committee Members

## About this Guide

Many faiths including Christianity, Judaism, and Islam, prescribe adherence to financing principles, many of which comprise conventions around the use of interest. A popular housing provider around the world, Habitat for Humanity, in fact was founded on Christian principles that limit how interest is used in the purchase of a home.

This guide aims to provide a summary of those financing principles and home financing products particular to the Islamic faith that are currently available in Minnesota. It addresses common questions about non-interest-bearing products. The purpose of this guide is to provide lenders, real estate professionals, homeownership advisors and others with the information you need to support homebuyers considering non-interest-bearing products. We encourage you and your clients to consult with representatives of more than one provider of financing in any home purchase transaction.

In Islamic law, the term **riba'** is used to mean unwarranted gains, interest, or usury. The Qur'an forbids **riba'**—because it symbolizes profiting at another's expense or making money from money instead of tangible assets. The prohibition of **riba'** limits the financial transactions in which some Muslims can participate. This has led to the development of innovative financial products that avoid **riba'**.

**Interest-bearing Mortgage  
(selling money) = Riba'**

**Islamic Finance  
(selling product) = no Riba'**

# Introduction to Key Islamic Financing Principles

## Haram

Anything that is unacceptable under Islamic law or Sharia. A traditional interest-based bank where the profit comes from lending cash and charging interest is haram.

---

## Halal

Anything that is permissible according to Islamic law. Companies offering interest-free home financing products make their profits from either charging more for a house or from charging for the use of a house—that is halal.

---

## Fatwa

An opinion or ruling on a point of Islamic law by an Islamic scholar or other recognized authority.

---

## Usury

The practice of making unethical or immoral monetary loans that unfairly benefit the lender. The term may be used in a moral sense—condemning, taking advantage of others' misfortunes—or in a legal sense, where an interest rate is charged in excess of the maximum rate that is allowed by law.









# Three Models of Home Financing

**Murabaha (installment sale):** An installment credit agreement for the sale of tangible goods. The seller acquires an asset, which the buyer agrees to purchase at some point in the future. The seller is entitled to a profit as long as the exact markup is disclosed in the contract. Payments may be spread out over time.

**Musharaka (co-ownership):** An equity partnership where each partner contributes capital to a project, though not necessarily in equal amounts. A partner with a larger investment has proportionally more control over the decisions that are made and would absorb a larger percentage of any potential losses. Profit-sharing ratios must be specified in an agreement.

**Ijara (lease-to-own):** A leasing agreement where the owner of an asset transfers its use to a lessee in exchange for cash payments. The owner receives a profit as compensation for assuming the majority of the risk in the transaction.

In Minnesota, there are products available for each of the three models of home financing as listed in the table below. Devon Bank, Ijara CDC, and UIF offer more than one of the financing models. Guidance Residential offers the Musharaka model. Specific questions pertaining to specific models can be directed to any of the home financing providers offering that model.

MURABAHA COST-PLUS-PROFIT MODEL	MUSHARAKA CO-OWNERSHIP MODEL	IJARA LEASE-TO-OWN MODEL
 Devon Bank	 Guidance Residential	 Devon Bank
 Ijara CDC	 Ijara CDC	 Ijara CDC
 UIF	 UIF	 UIF

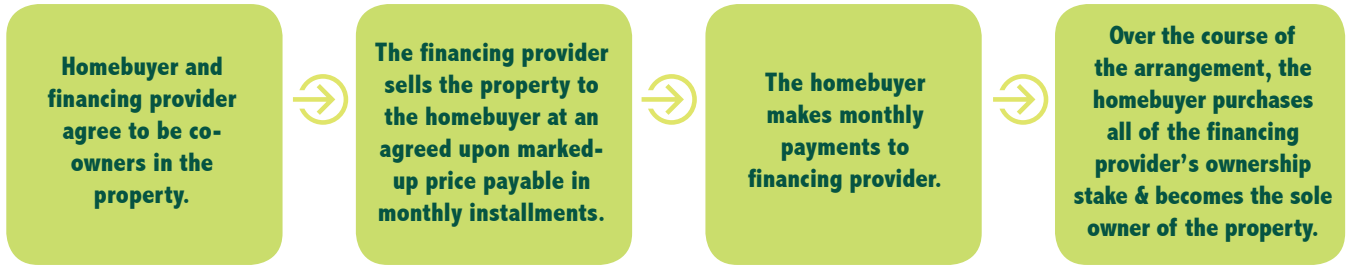




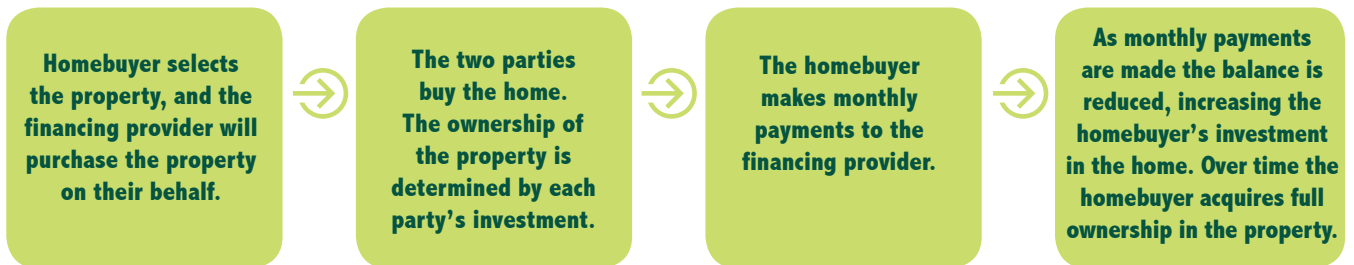
## Transaction Processes

This diagram illustrates a typical process for the three financing models as well as an interest-bearing loan. While similar, each model has a distinct process.

## Murabaha



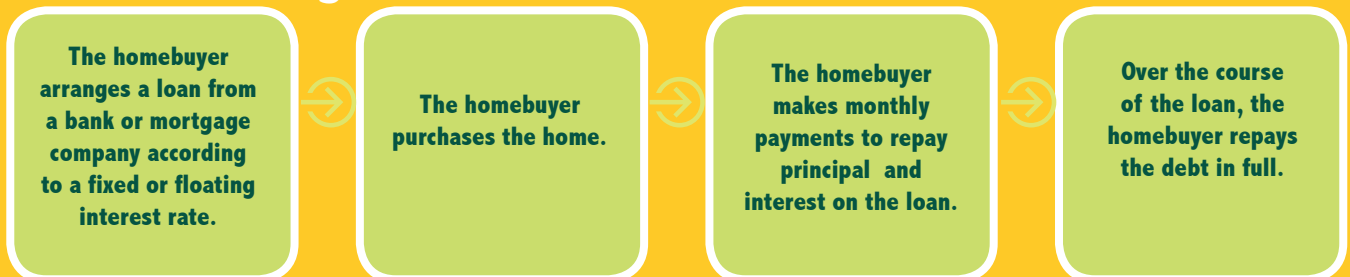
## Musharaka



## Ijara



## Interest-bearing loan



# Considerations and Questions



## Do non-interest-bearing products cost more than interest-bearing financing?

---

The costs associated with Islamic financing products compared to each other or compared to interest-bearing loans may differ. For example, some up-front costs may be more expensive. Buyers should work with trusted advisors to consult representatives of more than one provider of financing in any home purchase transaction.



## Do non-interest-bearing products work with government or non-profit down payment assistance programs?

---

Generally, the Islamic financing products currently available in Minnesota work with down payment assistance programs that are grant programs. Down payment programs that are administered as a loan, even those with no interest, may not be acceptable. Lenders will need to review the underwriting criteria and other terms of the down payment assistance to ensure compliance with the principles of Islamic financing. Requirements may vary depending on the model and lender.





## Who takes title and why is that important?

---

Title is a legal term that refers to your collection of rights in a property. The rights you have may vary based on the type of financing you use. In any transaction, you should understand what your title rights are, including your right to sell the home, refinance, take out a home equity loan, etc.



## How do you know that these products are Sharia-compliant?

---

Each company offering Islamic financing products in Minnesota provides information about the scholars or advisory boards that have reviewed their products and issued rulings on Sharia. Islamic scholars may have differing interpretations of Sharia. Furthermore, individual buyers may choose to have their transactions reviewed by their own scholar or religious leader. For information about how to access fatwas or other determinations for each financing provider, see page 11.

# Example

The following example compares a Murabaha transaction to an FHA loan. The estimates in the following table were provided by providers in Fall 2020 using the following assumptions:

- ✓ A buyer's credit score of 640
- ✓ 3.5% down payment for FHA, 10% down payment for Murabaha
- ✓ \$250,000 purchase price
- ✓ 30-year fixed rate at 3.125% for the FHA loan

## Murabaha Financing

Total Estimated Closing Costs	\$3,861 + \$25,000 down payment
Total Estimated Cash to Close	\$28,861
Mortgage Insurance Premium	\$2,541 PMI added into the contract balance. It does not have to be brought to closing.
Total Costs	\$256,417
Finance Amount	\$227, 534
Estimated Monthly Payment	\$1,021*

## FHA Loan

Total Estimated Closing Costs	\$6,908 + \$213 + \$8,750 down payment
Total Estimated Cash to Close	\$15,871
Mortgage Insurance Premium	\$170 PMI added to total monthly payment
Total Costs	\$261,342
Finance Amount	\$245,471
Estimated Monthly Payment	\$1,222*

*\*Does not include homeowner's insurance or property taxes.*

*Note: Rates and terms may vary from provider to provider. These numbers are for illustration only. Actual rates, payments, and other costs will depend on the specific transaction.*

# Product Matrix

	Devon Bank	Guidance Residential	Ijara CDC	UIF
Minimum Credit Score	Use guidelines set by Fannie Mae and Freddie Mac	620	580	620
Minimum Down Payment	5% of purchase price	Generally no minimum down payment. May vary depending on qualifying information.	3%	3%
Loan Servicer	Devon Bank through sub-servicer DMI	US Bank	Wells Fargo	Midwest Loan Servicing (owned by UIF)
Fatwa/Board of Scholars	devonbank.com/shariah-board-approval/	guidanceresidential.com/islamic-finance-scholars-ruling-fatwa	ijaracdc.com/sharia-compliance/fatwa/	myuif.com/fatawa/
Property Tax	A 1098 is sent out per IRS guidelines. It is up to the buyer to exercise the option on their tax filling.		Buyer is eligible for the deductions on their income tax return for the amount of the profit and property taxes. Generally, the tax ID number for the trust that is created for the transaction is the buyer's SSN. Therefore, the tax benefits flow directly to the buyer's personal tax return.	UIF will mail the homebuyer a 1098-INT form that shows how much profit was paid to UIF during the year. The buyer can deduct this profit on their income taxes.
Contact Information	devonbank.com/mortgage-programs/  Abdihakim Ali (local office) 206-899-9027 aali@devonbank.com	guidanceresidential.com/  Mahamud Gorod (local office) 612-351-1245 Mahamud.gorod@guidanceresidential.com  Hoda Ashour (local office) 612-501-4208 Hoda.ashour@guidanceresidential.com	ijaracdc.com/  Shoeb Sharieff 1-87-786-IJARA shoeb@ijaraloans.com	myuif.com/  Jameel Ahmed (local office) 612-702-9575 jahmed@myuif.com

**SOME HOMEOWNERSHIP ADVISORS OFFER SUPPORT IN SOMALI, AMHARIC, OROMO, DINKA (SUDANESE), SWAHILI, OR ANUAK (ANYUAK). CONTACT ONE OF THESE AGENCIES OR SEE THE CENTER'S WEB SITE TO LEARN MORE ABOUT LANGUAGES AND SERVICES OFFERED:**

African Development Center **(612) 333-4772** • [adcmnnesota.org](http://adcmnnesota.org)

African Economic Development Solutions **(651) 646-9411** • [aeds-mn.org](http://aeds-mn.org)

PRG, Inc. **(612) 721-7556** • [prginc.org](http://prginc.org)

Three Rivers Community Action **(507) 316-0610** • [threeriverscap.org](http://threeriverscap.org)

Sakan Community Resource **(612) 564-9157** • [sakanrcr.com](http://sakanrcr.com)

In 2020, the Local Initiatives Support Corporation Twin Cities, the Federal Reserve Bank of Minneapolis, Minnesota Housing, and Minnesota Homeownership Center completed a study of East African households and their needs, attitudes and use of financial services. To see the results of that study, go to: <https://www.lisc.org/twin-cities/regional-stories/findings-financial-survey-east-african-households-twin-cities/>

## Homeownership Advisors Network

---



**MINNESOTA  
HOMEOWNERSHIP  
CENTER**

The Minnesota Homeownership Center supports a network of homeownership advisors who offer free, nonbiased advice about homeownership, financing products, affordable loans, and down payment assistance programs. You can find a homeownership advisor at **[www.hocmn.org](http://www.hocmn.org)** or **866-462-6466**.