Towards a LARIBA Mortgage Financing in the United States

October 1998

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HOME MORTGAGES IN THE US FACTS

- 66% of Residential Properties are Owner Occupied
- Mortgage Payment is the Biggest Monthly Liability
- Typical Home Buyers Finance 80-90% of Purchase Price
- Typical Mortgages Mature in 15 to 30 Years
- Due to Mobility, Home Mortgages are usually not Held till maturity. They are repaid within 5 to 8 years
POPULATION OF AMERICAN MUSLIMS
Based on Studies by American Muslim Council (AMC - 1992) and U.S. News & World Report (7/20/98)

- Five to Six Million.
- California has Largest Population 1.2 million
- Significant Communities in New York, Illinois, New Jersey, Indiana, Michigan, Virginia, Texas and Ohio.

AMERICAN MUSLIMS
BANKING & FINANCING PRACTICES

- Most Participate in RIBA Banking, Investing & Financing
- Most are Beneficiaries of RIBA System
- Arguments Against LARIBA:
  - American Muslims Lack Credible Institutions
  - No Difference Between RIBA (interest) & LARIBA (profit)
  - Failure of Some Islamic Banking & Finance Institutions (Egypt)
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THE MARKET IN AMERICA

• Total Households Estimated to be 1.5 million.
• 50% or 750,000 Households Can Afford Owning A house.
• 20% Aspire to Live According to Islam; i.e. 150,000 HH
• LARIBA PURITANS - WHO REFUSE TO PARTICIPATE IN RIBA - are estimated to be 5% to 10% of the 150,000 HH
• Market for LARIBA Mortgages is Estimated to be 7,500 to 15,000 HH. We Use 7,500 HH to be on Safe Side.
• LARIBA MORTGAGE VOLUME Approx.. $200 million
• A DETAILED STUDY IS NEEDED

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IMPLEMENTATION STRATEGY
BEGIN WITH THE POSSIBLE TO ACHIEVE THE IMPOSSIBLE

1. Grassroots Community Involvement

   – Reliance on Own Local Resources.
   – Participation in Community Activities Take Interest in Community Members.
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IMPLEMENTATION STRATEGY
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2. THE LAWS OF THE LAND
• Changing the Laws is Difficult, Expensive and Lengthy
• Coexist with American Banking, & Finance Laws. Experiences Gained from Marriage Contract & Procedures
• Support “Financial Services Modernization Act”, “HR10”
• American Laws Enhance the Credibility of LARIBA

3. MATCHING THE COMPETITION
• LARIBA Products should surpass the RIBA Mortgage
• Title & Ownership Should be Transferred with No Delay
• Closing Cost Should be At least Same or Even Less
• Client Should Take Advantage of Capital Gains on Selling
• Client Should benefit from Mortgage Tax Deduction
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IMPLEMENTATION STRATEGY
BEGIN WITH THE POSSIBLE TO ACHIEVE THE IMPOSSIBLE

4. MARKETING APPROACH

- Avoidance of Traditional ‘Marketing Hype” is Necessary
- Belonging to, Knowledge of, and Participation in the Activities of the Community are Required
- Referrals are The Major Sources of New Business

5. REDUCE ADMINISTRATION & GENERAL COSTS

- Voluntary Work is The Key. No or Low Salary
- Officers Take the Task as A Mission Not A Job
- Reduce Costs in Travel, Accommodations, Entertainment,

Know Your Client - Less Non-Performing Loans
6. EDUCATION

• Facts About 30-Year Mortgage. Continual Debt Burden
• Advantages of Owning A House and Concept of Return on Paying Rent for Oneself.
• Value of Saving for Children Home Using “Roth IRA”

THE LARIBA LEASE PURCHASE MODEL

CONCEPTS

• Joint Venture. Client Owns 30% & LARIBA Owns 70%.
• Client Agrees to Buy LARIBA Shares Back at Original Price.
  RETURN OF CAPITAL - No Time Value of Money
• Client & LARIBA Agree on A Lease for Say 5 to 7 Years .
• Pay Back Can Be Straight Line or Accelerating from A Smaller Base to Fit the Expected Growth in Client Income
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CONCLUSIONS

• LARIBA is Potentially in Harmony With the Best of American Virtues and Values. It Offers Many Benefits for Civil Society in a World Where Many are Excluded from Credit & Finance.

• LARIBA Mortgage Financing is Feasible in America if Done Strategically to Satisfy the Laws of Shari’aa and those of the US.

CONCLUSIONS (cont.)

• Initial Market Size is 7,500 Households or approximately $200 Million.

• Community Involvement at the Grassroots and Reliance on Local Capital for Funding are Imperative.

• LARIBA Mortgage Model is Designed to Rid Customer from the Burden of Pay Back (Debt) As Fast As Possible. In Contrast, the 30-Year Mortgage Keeps the Debt Going.
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CONCLUSIONS (cont.)

• LARIBA Mortgage Can Best Survive and Grow under the Protection and Scrutiny of the American Banking, Monetary and Financing Laws. It brings to Life the Community Reinvestment Act “CRA”.

• A Savings Program for Children from a Young Age is Recommended (may be in a ROTH IRA) to Save for Education & For A Sizeable Down Payment on their First House.