



FAQ: Demystifying Halal Financing

What is Faith-Based Lending?	1
What is Halal Financing?	2
What is the state of Halal Finance across the G7?	2
United Kingdom	2
United States	2
Germany	2
France	3
Japan	3
Italy	3
Canadians presently Unserved by Traditional Banks?	3
What is the Average Profile of a Halal Borrower?	4
Is Halal Financing relevant to the Non-Muslim Borrowing Community?	4
United Kingdom	4
Malaysia	5
United States	5
Kenya	5
Indonesia	5
Ethical Investment Funds	5
Types of Halal Financing?	6
Murabaha	6
Ijara	6
Musharaka	6
What about Early Repayment?	6
Additional Resources	7

What is Faith-Based Lending?

Faith-based lending takes various forms across different religious traditions. Many religious groups in Canada prohibit usury or the charging of interest. Faith-based lending is rooted in our Western tradition. The Christian community has historically frowned upon usurious practices with varying interpretations.

Various non-bank solutions have been developed to service these communities of interest. In the Jewish community, there are Kosher/Halacha-compliant mortgages, and in the Muslim community, there is Halal Financing based on Islam's legal system.

What is Halal Financing?

Halal is an Arabic word that means “lawful or permitted.” According to Islam's legal system, traditional financing models are seen as exploitative. That doesn't mean halal mortgages remove profits from the equation. Instead of interest rates, a halal lender might charge a fee or “profit rate”. Even though these profit rates can be based on the Bank of Canada's overnight interest rate, they tend to be higher than those attached to traditional, non-halal mortgages.

What is the state of Halal Finance across the G7?

The state of Halal finance across G7 countries shows varying levels of development and integration, influenced by local regulations and market demands.

Overall, the G7 countries are progressively incorporating Halal finance into their economies, each at different stages of development and with unique approaches tailored to their respective legal and market environments. The focus remains on enhancing regulatory frameworks, increasing market offerings, and ensuring compliance with Shariah principles to cater to the growing demand for Halal financial products.

United Kingdom

Islamic finance in the UK has grown significantly since the early 2000s. The UK government has supported the sector by implementing regulatory frameworks and tax reforms to accommodate Shariah-compliant products. In 2004, the Islamic Bank of Britain (now [Al Rayan Bank](#)) became the first Islamic bank to be established in the country. The UK is also home to several Islamic finance conferences and forums, further promoting the industry.

Example: [Gatehouse Bank](#): Gatehouse Bank offers Shariah-compliant products, including [MyUIF](#) green home finance, savings accounts, and property investment opportunities.

United States

Islamic finance in the US has seen steady growth since the 1980s. Early pioneers like LARIBA and University Islamic Financial helped establish the market by providing home financing and investment products. The regulatory environment in the US has gradually adapted to accommodate Shariah-compliant financial practices.

Example: University Islamic Financial: University Islamic Financial offers Shariah-compliant home financing, investment accounts, and commercial real estate financing.

Germany

Germany's interest in Islamic finance began gaining momentum in the 2000s, with the establishment of institutions like KT Bank in 2015. The country has been working on integrating Islamic finance into its broader financial system, focusing on regulatory frameworks and market demand.

Example: [KT Bank](#): KT Bank provides Shariah-compliant banking services, including savings accounts, current accounts, and financing solutions.

France

France has shown growing interest in Islamic finance since the 2000s, with efforts to develop a supportive regulatory environment. The French government's commitment to exploring Islamic finance was marked by the release of a white paper addressing legal and business aspects of the sector.

Example: [CIFIE](#) (Centre d'Innovation et de Formation en Finance Islamique): CIFIE promotes and educates about Islamic finance in France, offering training programs and consultancy services.

Japan

Japan's engagement with Islamic finance began in earnest in the late 2000s, driven by its interest in enhancing trade and investment ties with Muslim-majority countries. The Japanese government has supported initiatives to integrate Islamic finance principles within its financial system.

Example: [Japan Bank for International Cooperation](#) (JBIC): JBIC facilitates Shariah-compliant financing for infrastructure and development projects.

Italy

Italy's interest in Islamic finance has been growing, particularly in trade finance and investment products. Italian financial institutions are increasingly exploring Shariah-compliant options to cater to the needs of Muslim investors and businesses.

Example: [Banca UBAE](#): Banca UBAE offers Shariah-compliant trade finance and investment products, focusing on facilitating trade between Italy and Muslim-majority countries.

Canadians presently Unserved by Traditional Banks?

Muslim Canadians represent a significant market for their financial needs, including investing in retirement, buying a home, and protecting themselves, their families, and their businesses with insurance. The banking market is a clear opportunity as a result of the large transaction sizes, and there is demand sufficient to support over US\$2 billion in Shariah-compliant mortgages in the first year, rising to US\$17.7 billion by 2020, which represents an immediately addressable market for a smaller Islamic bank.

When asked: How likely would you use an Islamic Financial Alternative if offered?

73% expressed a high likelihood of using Islamic Finance, and approximately 10% were indecisive or would never consider it.

Would you consider switching to the Islamic finance option if you have an existing mortgage? Of the proportion with a home mortgage, 81% said they would move if Islamic Finance was available.

Source: [Islamic Banking Opportunity in Canada](#) - A Preliminary Market Research: August 2017 (Page 5 - 7) | MaruBlu market survey commissioned by [EORAZ](#) Inc., April 2023

Does Halal Financing give the Consumer an unfair advantage over traditional Mortgages?

No. Consumers can generally expect to pay up to an *additional 4%* for halal financing compared to a traditional mortgage from one of the major banks. The increased cost is due to various factors, including a general scarcity of available capital.

Source: MaruBlu market survey commissioned by [FORAZ](#) Inc., April 2023

What is the Average Profile of a Halal Borrower?

CLIENT PROFILE	MANZIL	MOYA
Average Household Income	\$172,359	\$180,000
Average Credit Score (min 680)	778	791
Average GDS (max 39%)	28.29%	26.39%
Average TDS (max 44%)	31.77%	29.94%
Average Financing-To-Value (FTV)	53.89%	53.17%
Average Purchase Price	\$695,392	\$838,000
Average Down Payment	\$307,362	29%
Average Mortgage	\$388,030	\$463,154
30 Days Default	\$0	\$0
60 Days Default	\$0	\$0
90 Days Default	\$0	\$0

Source: Based on real clients holding a [Manzil](#) mortgage and [Moya](#) mortgage May, 2024. Moya data is based on 335 clients and a default history of 15 years.

Is Halal Financing relevant to the Non-Muslim Borrowing Community?

Non-Muslims use Halal financial products in various contexts and regions, driven by the ethical appeal, financial benefits, and inclusive nature of these products. While precise global percentages of non-Muslim users of Halal banking products are not readily available, regional examples and industry trends indicate a significant and growing interest among non-Muslims. This interest is driven by the ethical, fair, and inclusive nature of Islamic finance principles.

Here are some notable examples:

United Kingdom

[Al Rayan Bank](#): As of 2017, Al Rayan Bank, the UK's largest Islamic bank, reported that over 30% of its customers were non-Muslims . This significant proportion highlights the appeal of ethical and interest-free banking products to non-Muslim customers in the UK.

[HSBC Amanah](#): HSBC offered Islamic financial products through its Amanah division. Non-Muslims in the UK utilized these products for ethical investment opportunities and interest-free banking.

Sovereign Sukuk Issuance: The UK government issued a sovereign Sukuk, becoming the first Western country to do so. This attracted non-Muslim investors looking for ethical investment opportunities and diversification in their portfolios.

Malaysia

Corporate Sukuk Issuance: Multinational corporations such as General Electric and Tesco have issued Sukuk in Malaysia, reflecting non-Muslim corporate interest in Islamic finance products. The involvement of non-Muslim entities in Sukuk issuance suggests that the market for Islamic financial products extends beyond the Muslim community.

United States

Islamic Investment Funds: Islamic mutual funds like the Amana Mutual Funds attract a diverse investor base, including non-Muslims interested in socially responsible and ethical investments. While specific percentages are not readily available, the inclusion of such funds in mainstream investment portfolios indicates a notable non-Muslim participation.

University Financing: The University of Michigan utilized Islamic finance principles to issue Sukuk for funding campus projects. This allowed them to diversify their funding sources and appeal to a broader investor base.

Real Estate Development: Non-Muslim developers in states like Texas and New York have used Islamic financing for real estate projects, leveraging interest-free loans and profit-sharing agreements to fund their developments.

Kenya

Islamic Banks: Gulf African Bank and First Community Bank in Kenya serve a diverse clientele, including non-Muslims who appreciate the ethical and inclusive nature of Islamic finance. The exact percentage of non-Muslim customers is not specified, but the inclusive approach suggests a mixed customer base.

Indonesia

[BTPN Syariah](#): A microfinance institution in Indonesia offering Sharia-compliant financial services to low-income clients, including non-Muslims, who value the ethical and interest-free nature of the products.

Ethical Investment Funds

Broader Appeal: Ethical investment funds that comply with Islamic principles attract investors who prioritize ethical and socially responsible investing. The appeal of these funds to non-Muslims is part of a broader trend towards ethical finance, though exact participation rates are difficult to quantify.

Types of Halal Financing?

The three Shariah-compliant home financing models are Murabaha, Ijara, and Musharaka. Each has a different structure and method for transferring ownership.

Murabaha

Under a typical Murabaha agreement, the financier buys the property and immediately sells it to you (the customer) at a higher price, including a profit. The amount of profit is based on several factors, including your risk profile, credit history, deposit amount, property value, and repayment term. Instead of owning the property as an individual, you hold the property title within a corporation you set up for this purpose. Unfortunately, this makes you ineligible for the land transfer tax rebate available to first-time home buyers in some provinces. There are, however, variations of Murabaha available in Canada, where the borrower assumes ownership of the property directly without having to take the step of purchasing it through their lender.

Ijara

An Ijara mortgage is similar to a rent-to-own scheme. The financier buys the property outright and rents it to you for a fixed term. Over this term, you make regular steady payments, a combination of rent, capital repayment, and profit for the financier. At the end of the agreement, ownership is transferred to you.

Musharaka

With a Musharaka financing agreement, you and the financier own the property jointly. Your payments are a combination of rent for the portion of the property owned by the financier and a property purchase payment to buy a little bit of the financier's share until, eventually, at the end of the term, you own the whole property.

Like traditional Western mortgages, halal financing offers a variety of terms, conditions and fees. Some Murabaha agreements, for example, do not allow for additional payments, while some Musharaka mortgage customers can pay up to 20% extra per year without penalty.

See the CMHC's 2010 Report on Halal financing in Canada, which highlights the challenges of the above halal financial products, and why they remain unworkable under Canadian regulations (Page VII of report)

What about Early Repayment?

While different solution providers provide different terms, Halal products in general strongly discourage early payment penalties, as the intention is to minimize debt for the community.

In Canada, Halal lenders would only need to impose penalties if they want to access financing from Canadian Banks and capital markets, as these are used to IRD / 3 months interest, and will not willingly fund without these penalties imposed.

Additional Resources

1. [Islamic Banking Opportunity in Canada](#)
2. [CMHC: Halal Housing Lab Supporting Marginalized Communities](#)
3. <https://www.truenorthmortgage.ca/blog/halal-mortgage>
4. [https://rates.ca/guides/mortgage/halal-mortgages-101\](https://rates.ca/guides/mortgage/halal-mortgages-101)
5. <https://www.nerdwallet.com/ca/mortgages/what-is-a-halal-mortgage>