

Islamic House Purchase Loans in Britain

ELAINE HOUSBY

Since the bombs on the London Underground on 7 July 2005, a great deal has been heard about the necessity for British Muslims to integrate with something called the *British Way of Life*. Beyond an assumption that the British Way of Life precludes terrorism, the definition of this concept is distinctly hazy. It has been invoked in the media in support of everything from a basic commitment to pluralist liberal democracy to getting more Muslim players into premiership football teams, via expecting schoolchildren regardless of origin to memorize details of the Battle of Trafalgar.

Beyond all of this newly self-conscious discussion, there is one feature of the British Way of Life which is taken so completely for granted that only eccentrics or foreigners ever question it. The British are a nation of homeowners. Continuing to rent beyond one's early twenties is frequently regarded as a sign of failure in life, and the majority of citizens are desperate to free themselves from this stigma, no matter how much house purchase may strain their finances.

The Quran forbids *riba*, which is normally understood to be charging interest on loans. The prevailing interpretation of this prohibition is that not only receiving but also paying interest on a loan is sinful. The ubiquity of house purchase through interest-bearing loans in contemporary Britain has brought this Islamic prohibition into direct confrontation with the habits and aspirations of the vast majority of non-Muslim citizens.

I began work for a Ph.D. in October 2001 and finally submitted my thesis in the middle of August 2005. I therefore found that it had inadvertently become a record of the period between 9/11 and what is now being called 7/7. My topic was the rapid development of Islamic financial products in Britain during this period, of which the most prominent aspect was the appearance of so-called "Islamic mortgages," that is forms of house purchase loan which claim to be "Sharia-compliant." These loans offer an interesting case study of a phenomenon situated right on the interface of cultural difference and integration.

One perception of the promotion of Islamic loans would be that by emphasizing cultural difference it works against integration. I argue that on the contrary it is working to prevent the development of genuine cultural difference by assimilating dissident elements of a minority religious culture into the mainstream of British life.

A notable feature of the emergence of Islamic home loans was the degree of support given to them by the government. For some years the Treasury, the department of the British government dealing with financial matters, had been involved in a working party on Islamic financial products, which also included representatives of some major banks and Muslim organizations,

In the last few years some British banks have begun to offer loans for house purchase which satisfy the Quranic prohibition of interest. This presents the paradox of a retention of cultural difference being used to promote integration with the norms of the wider society. It raises concerns about the exclusion of less affluent Muslims. There is also some question as to whether the banks are in tune with the thinking of younger British Muslims.

notably the Muslim Council of Britain. The remit of this working group was to identify obstacles to the creation of financial products which conformed to Sharia and suggest ways of removing these obstacles.

The most highly publicized result of its efforts was the announcement in the Budget of 2003 that the burden of "double stamp duty" would be removed. "Stamp duty" is a tax payable on the registration of a change of title to a property, which in effect functions as a tax on house purchase. The usual forms of Islamic home purchase loan (described below) involve transferring title twice, and therefore used to make the purchaser liable to pay this duty twice. After this announcement the relevant regulations were amended to say that where change of ownership was merely a technical aspect of the financing arrangement it would not attract duty.

This concession received a considerable amount of coverage in the general press. The Muslim organizations which had lobbied for the change had an interest in presenting it as a campaigning triumph, and the government wished to use it to signal its interest in Muslim voters. In fact the loss of revenue involved was, according to the Treasury itself, negligible, and arguably the government purchased the goodwill of Muslim house-buyers very cheaply.

The two common forms of Islamic contract for house purchase finance are *murabaha* and *ijara*. In the first arrangement, the bank buys the house and sells it back to the purchaser at a higher price, which is repaid in instalments. In the second, the bank buys the property and rents it to the purchaser, who makes payments which cover purchase of the equity by instalments and rent for use of the amount of equity still owned by the bank. The earliest Islamic house purchase loans offered in Britain were *murabaha* arrangements, but the second form of contract is now becoming more common. This may be partly because *murabaha* has been criticized by some scholars for being no more than a device to disguise the charging of what is in effect fixed interest, but it

seems also to be due to the fact that is easier for the bank to vary repayments under an *ijara* contract. The explanation of the Manzil house purchase scheme of the Ahli bank states explicitly that *ijara* is like a variable rate conventional mortgage, while *murabaha* is like a fixed rate mortgage. The Council of Mortgage Lenders has also said explicitly that these payments will be varied to correspond with the variation in the rate of interest under a conventional mortgage.¹

For a long time the only halal house purchase loan available was that offered by the United Bank of Kuwait (the former name of Ahli bank), which was not widely advertised and difficult to access, especially for those living outside London. The launch in the summer of 2003 of an "Islamic mortgage"

[Islamic loans] prevent the development of genuine cultural difference by assimilating dissident elements of a minority religious culture into the mainstream of British life.

by HSBC bank marked a new era of availability of halal loans from a mainstream bank with branches in almost every town. Since then other high-street banks have followed suit, notably Lloyds TSB in early 2005. There has also been interest from banks based in the Muslim-majority world, notably the oil states, in entering this market, although to date none of them offer a widely available home loan.

All of the presently available Islamic house purchase loans are more expensive to repay than a conventional loan, and they all require a fairly large deposit, normally 20% of the value of the property, whereas a conventional lender can usually be found prepared to settle for a lower deposit. These factors immediately exclude those who are struggling financially, and mean that the decision to conform to Islamic principles is in itself a luxury.

Some of the published ruminations of participants in the working party on Islamic finance indicate an unexamined assumption that Muslims currently living in rented housing would become owner-occupiers if only they could access a Sharia-compliant loan scheme.² The government was particularly anxious to dislodge those who could in fact afford to buy a property from social housing, in order to free this for those in the greatest housing need, and seem to have believed that a significant number of these would buy if they could so without compromising their religious principles. An unforeseen factor, which has prevented the opportunity to buy by halal means being taken up as widely as hoped, is that a clause in another scheme designed to encourage tenants of social housing to buy their home, by offering them a discount on the market price, excludes rapid re-sale of the property to a third party. This means that murabaha and ijara contracts cannot be used to take advantage of this discount. However, the most important reason why the government's hopes have not been fulfilled is that the majority of those in social housing simply cannot satisfy the conservative lending criteria of the banks.

The introduction of these so-called "Islamic mortgages" does nothing to reduce the fundamental division in British society between home owners and non-home owners, especially those living in social housing. It does not acknowledge that it is poverty, which is the main obstacle to house purchase for those Muslims who are still living in rented accommodation, and not the lack of readily available Sharia-compliant loans. The increasing availability of "Islamic mortgages" may actually increase this polarization, as banks and other providers of financial services make increasing efforts to court affluent Muslim customers while disregarding Muslims who are of no commercial interest to them.

The marketing of Islamic loans reduces culture to an aspect of consumer behaviour. While academics and politicians continue to debate whether the appearance of British-born bombers demonstrates that "multiculturalism" has failed, the commercial world is happy to promote any aspect of cultural difference, which can be turned into a distinctive product or unique selling proposition.

The trend in the development of Islamic financial products is all in the direction of merely technical differences from the norm. This is even more marked in the area of investment banking than in that of loans. Companies advertise the fact that they have teams of experts working on ways of producing halal versions of conventional products. There is little sign that the ethical concerns which lie behind the Quranic prohibition of *riba* and of a variety of unfair trade practices are inspiring radically new ways of conceiving lending and investment.

The seal of acceptability of all Islamic financial products is an endorsement by a team of Sharia advisors. Scholars prominent in this specialized area are retained by the banks to confirm that their products are halal. Publicity material produced by the banks is normally worded in a way which encourages customers to place total reliance on these scholars rather than attempt to understand for themselves the implications of Islamic thought for their consumer decisions.

Image not available online

PHOTO BY RUSSELL BOYCE / © REUTERS 2005

In this, it is possible that the banks may be moving in the opposite direction from their customers. The affluent, highly educated younger Muslims who are their main target market are becoming dissatisfied with an uncritical acceptance of scholarly authority. An increased scripturalism and return to primary sources has been widely observed among this group. There may in time be a reaction against the generation of scholars who are approving the current spate of Islamic loans and investments. A factor which makes this particularly likely is the involvement of the same scholars with a great many companies. The same names recur again and again on the Sharia advisory committees of different banks. (The Pakistani judge Muhammad Taqi Usmani is particularly dominant in the field.) This is, to be fair, mainly because very few scholars have the necessary combination of training in traditional Islamic scholarship with knowledge of the extremely complex world of modern finance. It is though leading to an undesirable monopolization of the approval of financial products by a few people.

Another aspect of the present situation, which may eventually cause a reaction, is the fact that some of the banks most heavily involved in developing and promoting Islamic products are non-Muslim institutions which see Muslims as simply one more market to target. They are deeply involved with *riba* in all of their other activities. We may see a swing back to favouring Muslim owned institutions by the most religiously aware and active Muslim customers.

Although, it is also likely that such potential customers may come to see a truer adherence to the ethical spirit of Islam lying in convergence with non-Muslim projects in the area of "fair trade" and "ethical finance." This argument has already been made by Tariq Ramadan,³ currently one of the most influential of European Muslim thinkers.

It will, then, be interesting to see whether Muslims who have the means to do so decide to fall in with the British Way of Life by purchasing a three-bedroom red-brick semi-detached house in the suburbs with a loan which is technically *riba*-free, or whether they will seek other ways of reconciling their Islamic inheritance with the national obsession with owner-occupation.

Notes

1. Council of Mortgage Lenders, *Islamic Home Finance*, 2001, <http://www.cml.org.uk/cml/home>
2. *Ibid.*
3. Tariq Ramadan, *Western Muslims and the Future of Islam* (Oxford University Press, 2003)

Elaine Housby is a former research student at the Department of Religious Studies, Open University, Milton Keynes. Her Ph.D. thesis is called "The Development of the Islamic Financial Tradition in Contemporary Britain."
Email: elainehousby@yahoo.co.uk

**Boards
advertising
property for
sale and rent,
East London,
June 2005**