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ABOUT US

Front Page

The San Jose Mercury News

Published Tuesday, October 10, 2000, in the San Jose Mercury News

The high cost of paying cash

FOR MUSLIMS WHO MUST AVOID INTEREST, FINANCING A HOUSE IS TRICKY

How Islamic financing groups work, and where to contact them.

[BACK PAGE](#)

BY MATTHAI CHAKKO KURUVILA

Mercury News

With about half a million dollars of their own cash to put down, Yassin and Nura Idris still can't buy the four-bedroom, two-bath home they want.

It's not just that they can't find the right home at the right price in the Bay Area's surreal housing market. It's also because the Idrises are strict Muslims who refuse to take out a mortgage.

Islamic teachings prohibit the paying or receiving of interest -- which touches upon almost every financial transaction in American society, from paying for gas on a credit card to buying a car. For Muslims, this ancient law conflicts with an increasingly complex U.S. society that thrives on debt.

The stakes are high, especially in the Bay Area. For strict followers in the region's growing Muslim population, the price of piety can be not owning a home.

So Muslims nationwide have created unique loan contracts that allow them to use credit without paying interest. A group of local Muslims has started one of the country's few Islamically permissible housing co-ops, where creative financing allows members to pool money and buy each other homes. With 160 members, the Palo Alto-based co-op has bought nine homes in its four years of existence.

The Idrises are to live in the 10th.

``We wanted to have an alternative to the present, interest-based economic system," said Manzoor Ghori, who co-founded the Ameen Housing Co-op. But ``it's a meager effort because the whole world economy is going one way, and you're trying to do something different."

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The ban on interest comes from an interpretation of the Koran followed by the most devout -- roughly 10 percent of the estimated 6 million to 8 million Muslims in the United States. About 250,000 live in the Bay Area.

Though scholars debate the origin, these Muslims say interest is like loan-sharking, because the rich are guaranteed money from the poor. The ban on interest, they say, is in line with one of the five pillars of Islam, zakat, which requires all Muslims of a certain wealth to give part of their income to the poor.

“Usury is a way of taking money from the poor and making rich people richer,” said Humayun Sohel, Ameen's secretary. “Even if there is a loss, the poor person suffers and pays.”

But the prohibition against *riba* -- the Arabic word for interest -- also bars many American Muslims from standard transactions involving traditional loans, credit cards or government bonds.

The key to interest, in the eyes of Islam, is the guarantee of a return. Islam does allow its followers to make money -- so long as both lender and borrower share in the risk, profit or loss.

With Islamic home financing, the fortunes of both borrower and lender depend on swings in property value. With Islamic banks, the depositor is a shareholder who earns dividends if the bank profits, and loses money otherwise.

Islamic stocks have their own guidelines, with complicated rules of debt-to-asset ratio. And Muslims cannot invest in companies involved in gambling, pornography, pork consumption or alcohol, all of which are banned by Islam, according to Professor Mahmoud El-Gamal, who specializes in the study of Islamic finance and economics at Rice University in Houston.

Several financial products have been launched over the past few years to help the Muslim investor, including mutual funds and tools such as the Dow Jones Islamic Market Index, which keep tabs on more than 600 permissible stocks.

In a society where interest is ubiquitous, many Muslims find themselves forced into compromises. For example, most have credit cards but pay off the full balance each month.

But for the strictly devout minority, there are few choices for home ownership, besides borrowing from friends or relatives or renting for years on end.

The Ameen housing co-op was an answer for Muslims who dreamed of a home interest-free, and others who wanted to atone for taking out a mortgage.

The organization started in 1996 with 50 families, mostly immigrant high-tech workers.

Despite its success, the co-op suffers from the quirks and nuances of an emerging financial system. Homeowners repeatedly run into problems with the Internal Revenue Service, which hasn't let the group take advantage of tax deductions.

Mohamed Talha Serang, Ameen's treasurer, refinanced his home in the Hayward hills in 1999, converting his 30-year bank loan into an Ameen loan, which he hoped to pay off in eight years. Serang also asked for -- and received -- the approval of a

conventional financial adviser.

``Besides being religiously the correct thing to do, it was financially the correct thing to do," said Serang, 44, who feared carrying a mortgage until he was 70.

But the Alameda County assessors reappraised the home and jacked up property taxes, because they believed Serang had sold a piece of the property to Ameen, listed as an owner.

``They need to get educated," exclaimed Serang, who is still battling with the department.

The co-op's main problem is that there's just not enough money to go around, with 150 other families waiting patiently in line behind the Idrises. Eritrean-born Yassin Idris, who has lived in the United States for 20 years, could have bought a \$300,000 home four years ago when he moved to the Bay Area. But he waited, believing that housing prices couldn't go higher.

They did. So he rented a comfortable but modest four-bedroom, two-bath home in North San Jose for himself, his wife and their four children.

The living room -- with its thick, ornate rug, shelf full of religious books and east-facing picture window -- quickly transforms into a prayer room at moments throughout the day. The Muslim faith seems to touch upon every aspect of the Idrises' lives, including their finances.

The software engineer and his homemaker wife have never had an interest-bearing bank account or an unpaid balance on their credit cards. They rarely eat out: most restaurant food is not halal -- not prepared in permissible ways.

When Idris wanted a safer car for his family, he bought a new sport-utility vehicle for \$28,000 -- in cash.

``What the Koran says is that you should not be stingy and deprive yourself of worldly things," Idris says. ``But you should not be extravagant and overdo it. Allah wants a middle ground."

Living in a society where everyone else uses credit affects him, Yassin Idris says, but doesn't affect his beliefs.

``Definitely if all this money wasn't available for people to borrow, prices would go down," he said. But, ``I don't feel I'm punished. This is the lifestyle of this system, this society. I happen to be among them, so I'm trying to preserve myself, to live by my standards."

Idris also believes that Islam protects him from drowning in debt, like an acquaintance who seems quick to buy new luxury cars and renovate his home.

``In my heart, I feel like he is going deeper and deeper into debt," he said. ``I think they really don't own it."

To augment the Idrises' already sizable savings -- much of it earned through Islamically correct stocks such as Cisco and Microsoft -- they will receive \$300,000 from Ameen. They hope to pay it back over the next five years, interest-free.

Idris is looking for at least the equivalent of his current four-bedroom, two-bath rental. He'd also like a short commute, like the five-minute one he has now, to his Milpitas office.

But the Idrises have found that even Islamic financing can't resolve the basic problem facing all Bay Area home buyers: sky-high prices.

Four-bedroom homes in North San Jose and Milpitas, where he works, are too expensive to be worth considering. A five-bedroom home in the Mission San Jose area of Fremont was selling for \$1.2 million. Even in the Hayward hills, comparable homes sell for more than \$600,000. And Idris doesn't want to buy his dream home at the cost of his entire savings.

``Justifying it is the problem," Idris said. ``Coming up with the money is not the problem."

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