

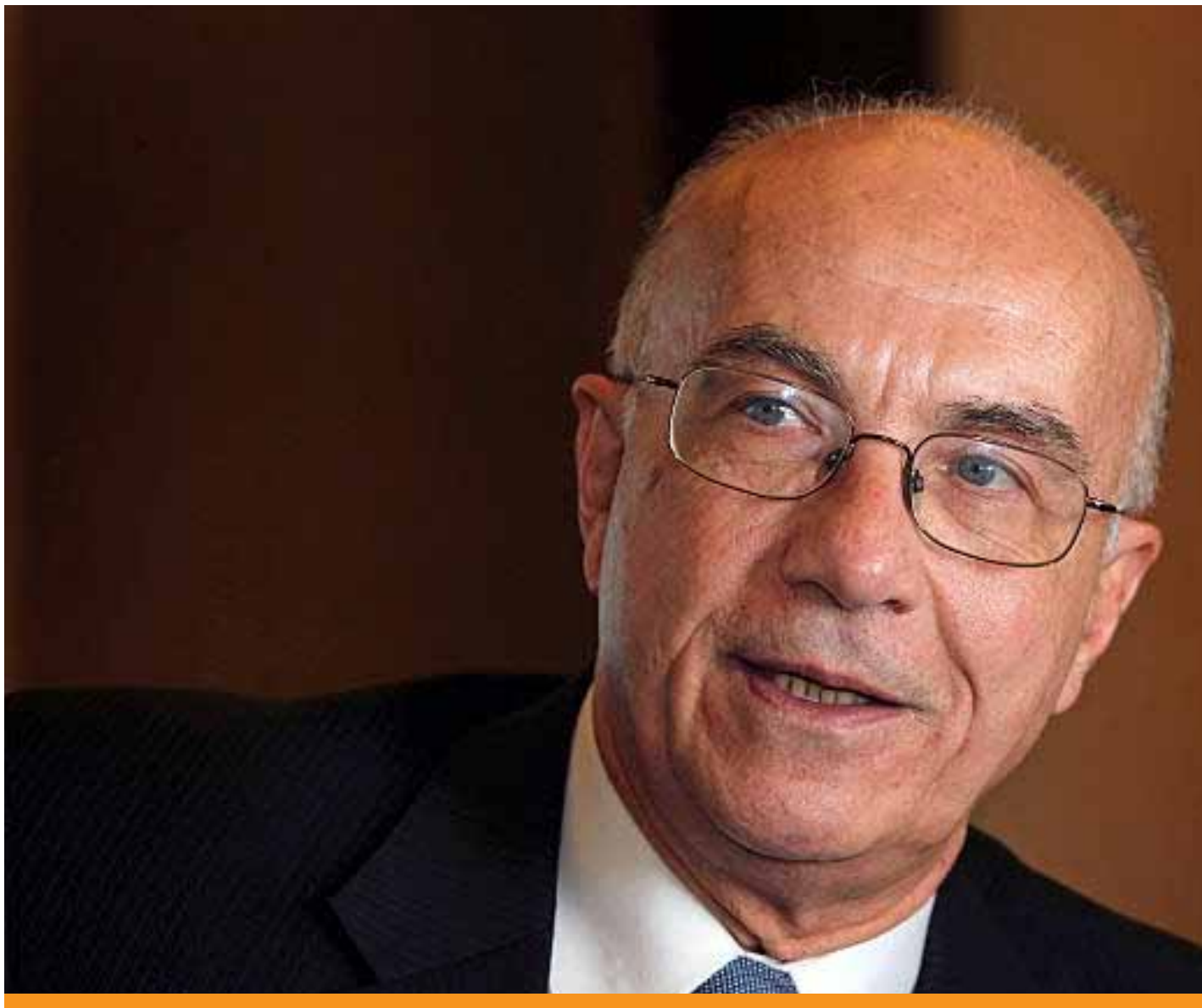
— AN EXCLUSIVE INTERVIEW WITH —  
**DR YAHIA ABDUL RAHMAN**  
CHAIRMAN AND CEO  
LARIBA BANK OF WHITTIER

# THE FATHER OF RIBA FREE BANKING IN AMERICA

**BANK OF WHITTIER** BEGAN ITS OPERATION AT ITS PRESENT LOCATION IN WHITTIER CALIFORNIA ON DECEMBER 20, 1982.

IN JULY 2011 BANK OF WHITTIER EXPANDED ITS UNIQUE BRAND OF RF (RIBA-FREE) SERVICES BY OPENING A SECOND BRANCH IN THE CITY OF RICHARDSON, TEXAS TO SERVE THE DALLAS FORT WORTH AREA.

**BY : JEFFREY KHAN**



**What made you think of starting RIBA Free (RF) banking which you also call responsible Banking and particularly why in United States of America and not elsewhere in the world?**

**I** moved to America almost 50 years ago from Egypt. That was after the devastating defeat of 1967, the occupation of huge parts of Egypt and the Middle East and the shattering of our dream of building a new future in Egypt.

When I arrived in Madison, Wisconsin (close to Chicago) the Muslim community was small and not well organized, Americans did not know much about Islam, and students on campus came from all over the world including Muslim countries like from Malaysia, Iran, India, Pakistan, Iraq, Syria, Egypt, Lebanon and Palestine to name a few. We started organizing and getting to know about other Muslims for the first time in our life, we also started answering questions from our fellow American students and university professors and staff. We prayed in the basement of a church or at the student

union. We started a small Sunday school for the children of fellow students. In brief, a Community of Muslims was started in America in the mid-sixties of the last Century. Many of these students graduated WITH Ph.D.'s, MS' and Bachelor degrees and were ready to work. At that time, the Vietnam War was raging and America had the draft. That created vacancies in many positions. America made it easier for the foreign students and these students after graduation with an MS or a Ph.D. were formally invited by the Immigration Department to become Permanent Residents in preparation of becoming American Citizens. So, many of our generation landed jobs in large companies and medical centers in many cities around America. Each of these new settlers had a dream of building a Masjid and an Islamic School along the lines of the Catholic and Jewish schools.

My family and I moved to Dallas, Texas in the south and started working for a major oil company. As we arrived in Dallas we looked for the Masjid. There were none. We asked about the Friday Congregational prayer (Jumaa), there were none. We started for the first time in the history of Dallas, Texas Jumaa prayer attended by the Imam and another praying behind him. The prayer was held in a public park behind a major university (SMU). That was the beginning of the Islamic Association of North Texas – IANT – growth.

In 1972, the community started growing and we wanted to have our own masjid instead of having our Friday Jumaa on campus and Sunday meetings and school at apartments clubs. We found a nice home sitting on a 2-acre piece of land for \$35,000. We had collected \$17,000 in donations. Some of the richer members who dealt with banks suggested that we go to a bank to get a loan. That created a big problem because of Riba. I was the Chairman and I confessed that my knowledge about Riba is what I read in a small Arabic Language book about Riba. I concluded that I need to educate myself. That prompted me to go back to University of Texas to study international economics, monetary theory and finance to educate myself in this field. I also started polishing on the Islamic Jurisprudence regarding Riba and how to at least avoid falling in it.

**“ That started the seed of a dream that the American Muslim Community own its own financial institution in America which is owned by the community to act as a place for the community to deposit its savings and use these deposits to invest prudently in the development of the community. ”**

I spent most of my weekends during the years travelling to different cities in the US and Canada to help raise funds and donations to help build an Islamic Center and/or a school. When I came back home on Sunday I shared with my wife the dream of having our own financial institution that can be the engine of economic growth of the community.

That was – a long answer – the background of starting LARIBA – American Finance House. LARIBA is an important part of the Islamic Movement in our country America. We are growing a banking and financial institution not only for Muslim Americans but for all Americans. Today, LARIBA is the “Coca Cola” of RF finance in America and the world. We own a full service Commercial Community National Bank and we offer all Banking and Finance services to all states. We have a capital of \$6 MM for LARIBA and \$11 MM for the Bank and we service a portfolio of loans and mortgages totaling \$500 MM between the Bank and LARIBA. Granted; these are small numbers but we aspire to grow much bigger because we have established that the Pilot Prototype model has worked very well. We are now in the market to raise from \$50 to \$100 million to expand our operations in the US by acquiring small community banks in strategic location we identified based on our 30 years of operating experience. We pray that we shall be able to offer the American consumer at large an alternative RF Banking System: LARIBA Bank of America by the blessings of the Almighty God; God of the Buddhists, the Hindus, the Jews, the Christians and the Muslims.





**Was it initially a challenge to convince Muslim community in United States of America to adopt RIBA free banking? Is it why Bank of Whittier was a small bank for a very long time, confined to few branches only?**

Yes, it was a big challenge. I first went to the rich and affluent. They said: Yahia, if you need donations, we shall be glad to but investing and becoming shareholders in the community, that is a big headache, let alone Islamic Banking is just same as conventional banking but with different names. So, it was decided to motivate friends in the middle class who believe in the vision and dream of having a Community-based Riba Free (RF) financial institution. My usual statement to the potential investors went like this: Invest \$20,000, \$10,000 or even \$5,000 and please do not hate me if we lost this investment!

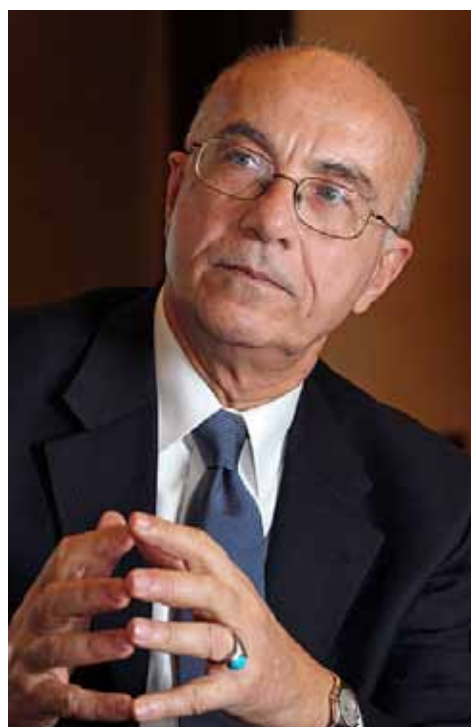
We raised \$200,000 in 1987 and in Ramadan of the same year we opened our bank account for LARIBA. Our first investment was to finance our first home RF (Riba Free) mortgage in Madison, Wisconsin for a friend who was a Professor at the University.

I want to share an experience here to hopefully reflect the teachings of Prophet Muhammad (peace be Upon Him) and for that matter all of God's Prophets, the principle here is gradualism and to communicate with people with the language they understand. When we went to register the company, and apply for a Finance Company license we used the name: American Finance House LARIBA. They asked us about the meaning of LARIBA. Because we did not know how the administrator will react we explained that: LA stands for Los Angeles, R stands for Reliable, I for investment, B for Bankers and A for Associates: Los Angeles Reliable Investment Bankers Associates – LARIBA. For us Muslims it is NO Riba – in Turkish it is also same "Faiz Cis". Today, after 30 years the Bank Regulators commend us for using the RF (Riba Free) Discipline which reflected on the exceptional performance of the Bank and its impeccable record for Safety and Soundness.

The strategy we developed to identify a bank that we can buy to implement RF discipline in it called for a small bank with a capital of \$2 to \$3 million because we did not have enough money and we wanted to rely on the community and act within our means by putting our – and not others' – money where our mouth is.

**How was the support initially from banking sector, Muslim community and government towards RIBA free Banking, being a completely different concept in US?**

The Bank regulators were apprehensive because they did not understand what our RF Discipline is. The Gradualism approach we follow has proven over the years the superiority of the RF Discipline.





## The Muslim community has been very responsive to obtaining RF Credit to finance car, home, commercial businesses, small business and other non-profit organizations.

The main reasons are: competitive implied rates, low closing costs, fast and superior family-style servicing and annual RF auditing by an independent world class audit firm with offices in the US, UK and Kuwait. More importantly has been the real added value of the LARIBA RF Finance model which evaluates the prudence of the credit by looking at it as an investment. Results of the meltdown of 2008 have proven that we saved our customers from participating in the housing price bubbles which our discipline has uncovered in 2006, 2007 and 2008.

However, the community is still lagging when it comes to deposits. We believe that this will take time to rectify with the new generations and we feel the real growth will be coming from all Americans

### **How did you link LARIBA model and RIBA free banking to Muslim community in US those days and how do you link them now? any different?**

We operate as a movement designed to invite all people to live Riba Free and to popularize RF Banking and Finance as a Fair and Prudent alternative to regular Riba-Based banks and financial institutions. We invest our time in travelling in US cities to educate the community by explaining the real purpose and spirit of RF Banking and its real added value. We invest our time teaching at universities and with regulators. Now, we have a world-famous text book: *The Art of RF (Riba Free) Islamic Banking and Finance* published by John Wiley & Sons and marketed on [www.Amazon.com](http://www.Amazon.com). The first edition came in 2010 and about 12,000 copies were sold in two printings. It stayed on the Amazon top 10% best sellers list. And it came in 420+ pages. In November 2014, the second edition came out in over 570 pages. It is an expanded version and produced as a text book for teaching at universities. In 2016 an expanded Turkish edition came out in 725+ pages and the Arabic edition is expected to be out by the grace of God in 2018.

Our familiarization, education and popularization efforts started by using the term Riba Free Banking & Finance about 15 years ago which is now used globally. Three years ago, we stopped using Islamic to open the RF Discipline up to all people of all faiths. After all RF can also stand for Responsible Finance. We pray that our efforts to introduce RF Banking as a new brand of banking which is preferred by the consumers at large. We believe that these efforts have started to project the real.

### **What are/were the driving growth factors in the success of RIBA Free banking? In your opinion, any catalyst that made RF banking a popular choice for Muslim community even today?**

- 1 Business Model: Passionate Mission. We run the company as a movement.
- 2 The way we treat and serve our customers: We treat every customer as a member of our family and we mean it. What comes out of the heart indeed penetrates the customers' hearts. Our slogan is what Prophet Muhammad (S.A.W) was reported to have said: "The Best of People are Those Who are Most Beneficent to People"
- 3 Staff Selection: Top of classes and fresh from College. They can be trained well and become well qualified RF Bankers. RF Bankers are trained as investors investing with the customers. That is why our slogan has been: "We Do Not Rent Money! We Invest in You & In Your Family." Our staff is not remunerated by commission on sales like they do in mostly Riba and Riba Free banks. We look at our staffs as our partners and professionals who is salaried with all entitlements of insurance, bonus and promotions.
- 4 The strategic use of the Internet early in the business since 1988.

## What makes this lease to purchase LARIBA model different from other commercial mortgage models (except naming the monthly payments as lease payments rather than interest payments)?

The description of the model is included below to show you the uniqueness of our model:

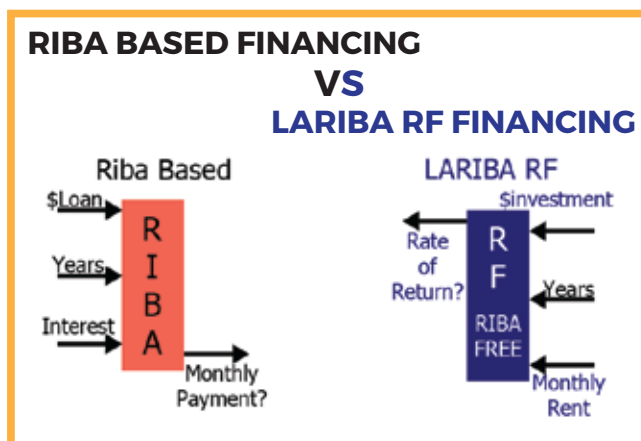
### Model Structure & Procedures

1. LARIBA Residential Property Financing Model "Declining Participation in the Usufruct (DPU)" is a financing model based on purchasing the property jointly with the client, then sale of the financier's share in Milkul Raqabah (ownership of property title) to the client without Haqul Manfaa (usufruct), and renting out the financier's share in the usufruct to the client throughout the financing period as described on the following steps:



- A) The client applies for residential property financing.
- B) LARIBA obtains the approval of Private Investors, Bank Credit Department &/or GSEs (Fannie Mae and Freddie Mac) to participate in the transaction as a Wakeel (Proxy) on behalf of the GSE.
- C) LARIBA presents the client a prequalification letter, which is a letter to prove that the client is capable and qualified to get the financing.
- D) LARIBA provides the client with an "RF Preliminary Term Sheet" to inform the client and describe the financing procedures. This preliminary term sheet has no legal or Shari'a effect.
- E) Both parties, LARIBA & the client, sign a "Wakala Agreement".
- F) The client (Wakeel & Partner) signs the "Purchasing Agreement" with the original owner on behalf of both LARIBA and Client.
- G) LARIBA evaluates the prudence of buying a house based on the rate of return on investment realized if the property were to be leased in the open market. LARIBA finance officer and the customer research the market rent of a similar property in the same neighborhood. Each of the finance officer and the customer come up with three market estimates of the rent. LARIBA finance officer and customer agree on a fair rent to be the average of the six rent estimates.

LARIBA then applies its unique and patented computer algorithm to evaluate the economic rate of return on investment by using its proprietary computer model based on the LARIBA RF Finance model. In the computer model, LARIBA inputs the invested amount, the number of years of financing and the average rental value based on the live market. The unknown is the Rate of Return on investment. This is in contrast to what other banks do as shown below:



Please note that LARIBA does not start with an interest rate (interest is the rate of rental of money which is Riba) but relies on actual rental value of a similar property in the same neighborhood as described earlier:

- I. If the rate of return is higher or equal to the charged by the competition LARIBA issues a "Commitment Letter". If it is higher, then LARIBA voluntarily reduces the agreed upon market rent such that the monthly payment is competitive with rates offered by other banks and finance institutions.
  - II. If the rate of return is very low indicating that it is imprudent to invest in this property, LARIBA declines financing and advises customer that the property is overpriced even though the appraised value may indicate otherwise. This is what saved many of LARIBA customers from participating in the US economic price bubble of 2008
- H) Both parties sign disclosure documents that meet Federal and Shari'a legal requirements.
  - I) Both parties sign "RF Final Term Sheet" in which LARIBA sell its share of Milkul Raqabah (ownership of property title) to the client without Haqul Manfaa (usufruct) which is rented throughout the financing period.
  - J) Property title is to be registered in the name of the client.
  - K) A mortgage lien is perfected in the name of LARIBA, the client signs a deed of trust which is a conventional document where some terminologies such as loan, interest and late payment fees are shown in this document to protect both parties' interest as per legal requirements.
  - D) Property is to be handed over to the client.
  - M) When the period of financing ends, or the client pre-pays the entire principal amount, the exception of Haqul Manfaa (usufruct) ends and the client becomes the sole owner of Haqul Manfaa (usufruct), and the transaction would be closed.



**Is there any other mortgage model in market of Islamic Banking a threat to LARIBA model of yours? OR is all Islamic Banking mortgage models are same (working on same lease to purchase principle)?**

We do not think so but of course we should be careful and proctor the ways and means of the competition without sacrificing the necessary laser beam sharp focus on our goals. Our model appeals to sophisticated customers who like to read, reason and to come to their conclusions. They love it. Our demography indicates highly educated and accomplished professionals and their families.

The only sad state has been the resorting of some competitors to position themselves as better and more compliant group than the rest of us.

***We POSITIVELY prohibit our RF Professionals from degrading or undermining the competition because it is not the proper behavior of those who claim to serve God.***

We train our RF Bankers to explain what we do and answer questions and show independent RF audit report and leave the customer to decide.

**Shariah Banking is in forefront of consideration in RIBA free Banking. How it managed and what are the challenges? (e.g. Credit cards in RF banking is it according to Shariah, interest is charged if full payment is not made).**

First of all, I want to tell you that we refrain from using the word Shariah in all our dealings because of three major reasons:

1. We did a study of how an average America feels about Shariah. The majority related it to chopping hands, terrorism and polygamy to mention a few.
2. In America, there are over 10 states that introduced legislation to ban Shariah law, one of these states is Oklahoma.
3. We want our RF Services to be the chosen banking service of ALL Americans regardless of their faith, national origin, language, gender, etc. We want the Average American to experience the honest dealings of a committed RF Banker.

In general, we have three types of depository products:

1. Amana Deposits called in America Demand Deposit Accounts. We look at these as a Trust and cannot be invested. On average, this category represents about 15 to 20% of the deposits. This means that the Capital Ratio in an RF Bank is better than the regulators' policy guidelines. The regulators love it.
2. Certificate of Deposit Investments. The profit is derived from RF investments in home financing, car financing, commercial and business financing. Because the banking regulators require full disclosure we offer ONLY 3-mo, 6-mo and 12-mo CD's because this is the time horizon we can safely project the return on investment on the portfolio.

**3.** Income Generating Deposit Accounts which derive part of the RF income of the portfolio short-term investments.

As to Cards: we offer a Cash / ATM /Debit Visa card which is tied to the Amana Account and it is valid at 1 million ATM outlets world-wide

To complete our services, we also offer a Credit Card to very few customers (only 12 customers signed up!!!). This card is managed and administered by another institution. We have a statement in **BOLD LARGE RED FONT** on the **FRONT** page of our web site **ADVISING CUSTOMERS TO PAY THEIR CHARGES BEFORE THE END OF THE MONTH TO AVOID RIBA AND ADVISING CUSTOMERS NOT USE THEIR CREDIT CARDS AS TOOL OF Borrowing.** In fact, we received a call from the regulators telling us that this statement about credit cards is unusual for a bank to display because most banks derive a large portion of their profits from credit cards.

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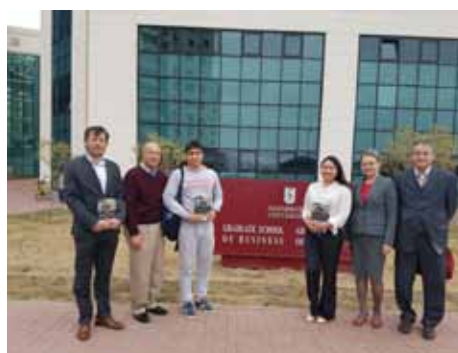
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**Is LARIBA and RIBA free Banking is open to all faiths and is the working environment different at Bank of Whittier being an Islamic Bank?**

We serve all people of all faiths. The majority of our depositors are non-Muslims. We have the accounts of most churches in town and the Synagogue in town. We believe in translating what we believe in action and not act they do in Hollywood. This way we Muslims – American Muslims – will have a great impact on all.

**Is responsibility being shared in RF in case of losses and in case of increase/decrease in property value the 'RENT' amount is renegotiated?**

Yes, we share in Loss but NOT in profit because in our model the Title is owned by the customer. However, we share in the loss because the customer owes us the Dayn (debt.)

**In case of Bankruptcy, as LARIBA is joint purchase the property be sold by bank. How will the model work in that situation?**

We handle cases of non-performance with a great care. If a customer is delinquent our RF Servicing department calls him/her and finds out. If it is because the head of household had an emergency or a loss of job, we ask how much he needs to complete his monthly payment. We give him a Qard Hassan (Interest Riba Free Loan) for three months which can extend for three more months. The money comes from a Special Fund called "Miskeen Fund" or the funds who are in distress. The fund sources of money are the Zakah, the money coming as penalty paid by chronic late payers. This way the family wholeness and dignity can be preserved to meet this unusual situation without forcing them to sell the house. In most cases we do not resort to foreclosure. In case it happens to be an option, we counsel the customer closely and act as his advisers to may be sell the house, or rent it and move into a smaller place or to move with his parents. Under no circumstance we resort to sell the house and gain money off the misery of our customers.

**In your opinion, Is US Muslim community a saturated market for RIBA free banking and LARIBA now?**

As far as mortgages, I believe it is close to being saturated. However, we believe that there will be a large wave of highly affluent expatriate American Muslims who will be leaving the Oil Rich Gulf countries to come back home to America. In addition, America is a mobile society where affinity to living in a city changes may be every 10 to 15 years as cities offer incentives for corporations to move in. Finally, there is a new generation of American Muslims who insist on living RF Life Style as they get married and need housing.

As to other banking services, there is a huge market out there for Muslim Americans depository services and lending / credit services

**Where do you see RIBA free banking, LARIBA mortgage model and Bank of Whittier as a whole in next few years? Will you make it accessible to other communities, countries and states, in terms of expanding business?**

We aspire to build a nation-wide Internet-based with Banking Centers in strategic cities in the East, the Southeast, the south, the Midwest, and Western states. We aspire to have three to five more branches added through acquisition of small size community banks. This will present for the FIRST TIME IN HISTORY an RF Banking operation that presents the consumer a viable, credible and prudent alternative to Riba-Based banks Our most important challenge is NOT ONLY Capital. It is trained RF Bankers who are committed and who make a difference in service and who are ethical sound.