

GOAL

Create an organization made up of community members who pool their cash resources to provide interest-free loans to members to pay off their interest-bearing loans.

CONTRIBUTIONS

Each member will provide a contribution of \$50.00 per month to the organization.

- i. Members can contribute more if they want.
- ii. Members can suspend contributions temporarily or permanently.
- iii. Members can make annual lump-sum contribution payment in lieu of the monthly payments
- iv. The organization will maintain the balance of each member's contributions.
- v. These funds will be repaid to the members as loan payments are received – see details later.

LOANS

Each member will submit a list of their car and home loans, including the loan balance, interest rate, monthly payment and whether the loan interest is tax-deductible or not.

A Loan committee of 3 people elected by the members will meet monthly or quarterly to review the list of loans and available contributions, and select the member loans that should be paid off. The Loan committee may also consider the member's ability to repay the loan in determining if a loan should be selected. The Loan Committee may require a member to furnish credit information like a recent credit report, proof of income, etc.

An aging process will be applied to give preference to older loan applications over recent loan applications. Loans with lower balances and fastest repayments will be given preference.

For example

- i. A loan of \$3000.00 will be given preference over a loan of \$10,000.00.
- ii. A loan of \$3000 with a monthly payment of \$300.00 per month will be given preference over a loan of \$2500.00 with a monthly payment of \$100.00.

A member cannot get a new loan until all previous organization loans have been paid back.

If the Loan Committee does not have enough funds to pay off the selected loan, the Loan Committee will inform all members by email about the amount of additional funds needed to pay off the selected loan, and will wait two weeks for any new funds, and meet again to issue the loan if enough funds have become available.

A loan will not be made if the full loan amount cannot be paid off. Also, loans that would require more than 60 months to be repaid to the organization are not eligible.

LOAN PAYMENTS

A member who receives the interest-free loan from the organization will make monthly loan payments to the organization. The monthly payment will be the same as that of the original loan unless the member agrees to a higher amount. The member may choose to make higher subsequent payments.

For example,

- i. Imran has a car loan from a bank for \$3,000.00 with a monthly payment of \$300.00 per month.
- ii. The organization loans \$3,000.00 to Imran.
- iii. Imran pays off the bank loan.
- iv. Imran starts making loan payments to the organization for \$300.00 per month until the organization's loan is paid off.

CONTRIBUTION REFUNDS

Loan repayments received from members will be used to refund the contributions made by members. The contribution refund amounts for each member will be based on the ratio of the members contributions used for funding the original loan.

For example,

- i. The Organization uses contributions of \$1,000, \$1,500 and \$2,500 from Hasan, Hyder and Kumail to make a loan of \$5,000 to Imran in January 2008.
- ii. Imran makes a loan repayment of \$100.00 in February 2008.
- iii. The Contribution Refund amount for Hasan would be \$20: $\$100$ divided by $\$5,000$ (total contribution of $\$1,000 + \$1,500 + \$2,500$), multiplied by $\$1,000$ (Hasan's contribution).
- iv. Similarly, the contribution refund amounts for Hyder and Kumail would be \$30 and \$50 respectively.

CONTRIBUTION REFUND PAYMENTS

The contribution refund amounts due to each member will normally be paid back to the member once a month.

Members may choose to use their contribution refunds as additional contributions. In such cases, instead of making the payment to the member, the funds will be used as additional contributions from the member.

Also, if a member has an existing loan from the organization, the contribution refund amount due to the member will be used as an additional loan payment for the member's existing loan.

Payments for contribution refund amounts will be made only if the amount exceeds \$50.

ORGANIZATION EXPENSES

The organization should have minimal expenses. The organization may charge an equal amount of fee to each member who has any available contribution or contribution refund amount. At this time, a fee of \$1.00 per month will be added to each member's monthly contribution amount.

LOAN DEFAULTS

There may be times when a member is unable to make the loan payments on the agreed schedule, and there may also be times when a member cannot make any more loan payments.

Normally, a member will be given extra time to make the payments. The Loan Committee may also reduce the monthly loan payment amount if it decides the member needs the change.

A loan payment will be considered in default if it is overdue by more than 2 months. The Loan Committee will review each Loan Default situation and determine any action to be taken. If the Loan committee determines that legal steps are necessary, the organization may choose to take legal steps if approved by 60% or more of the members who contributed funds for the loan in default.

ADDING NEW MEMBERS

A new member will be added when the person

- i. is recommended by 2 existing members, and
- ii. The Loan Committee approves the new member. The Loan Committee must apply any new member criteria approved by the organization's members.

The purpose is to add new people who are well known by some of the existing members, and are known to be responsible Muslims.

REPORTING BY LOAN COMMITTEE TO MEMBERS

For transparency reasons, the following will be reported by the Loan Committee every quarter:

- i. Total new Contributions received, Loan Repayments received and Contribution Refund payments during the last quarter.
- ii. New Loans approved for the last quarter, including the loan amounts, interest rate of the member's original loan and monthly loan payment amounts.
- iii. Total number and amount of payments in default for the last quarter.
- iv. Total Expenses Fees for the last quarter.
- v. Number of active members at the end of last quarter.
- vi. Contribution balances, loan balances, Contribution refund due balances for

each member (without the member's name or other identification information) at the end of the last quarter.

Each member will get, via the organization's website or email, the list of recent transactions for the member, including contributions, loans, loan repayments, contribution refunds and organization expenses.

Each member will also be able to review the list of recent transactions for the organization, without the related name of the individual members.

The names of members receiving new loans will not be shared as part of the general information available to all members. Members who wish to know the names of members awarded new loans in the last 12 months as well the loan amounts, the original loan's interest rate and monthly payment amounts can do so by contacting a member of the Loan Committee in person. Members who get this information will have to keep it confidential and not share this information with other members or anyone else. This purpose of this process is to keep this information as confidential as possible.

CHANGES TO THESE RULES

A set of by-laws for the organization will be put together to govern the operation of the organization. These by-laws will define how changes will be made to the loan rules, membership rules, etc.

APPENDIX

Aging process for loan applications

To give preference to earlier loan applications versus new loan applications, an aging process will be applied to all older loan applications, as below.

- i. Any loan requests that exceed the available funds will be excluded.
- ii. For each of the remaining loans, the current loan balance amount will be divided by 60 and multiplied by 60 less the number of quarters since the loan application was made. The resulting amount will be used as the loan balance amount when comparing the loan applications.

For example,

- i. Imran applied for a \$10,000.00 loan in the 2nd quarter of 2006, Kumail applied for a \$6000.00 loan in the 2nd quarter of 2006 and Hasan applied for a \$4,800 loan in the 2nd quarter of 2007
- ii. The Loan Committee is evaluating loans during the 3rd quarter of 2007 and has \$5,000 available to loan.
- iii. Imran's current loan balance is \$8,000.00, Kumail's current loan balance is \$4,800.00 and Hasan's current loan balance is \$4,500.00.
- iv. No aging is applied to Imran's loan since \$8,000.00 exceeds the available to loan amount of \$5,000.00.
- v. The age of Kumail's loan application is 5 quarters, from the 2nd quarter of 2006 to the 3rd quarter of 2007. Kumail's aged loan amount is the current balance of \$4,800.00 divided by 60 and multiplied by 55 (60 – 5), which is \$4,400.00.
- vi. The age of Hasan's loan application is 1 quarter. Hasan's aged loan amount is the current balance of \$4,500.00 divided by 60 and multiplied by 59 (60 – 59), which is \$4,425.00.
- vii. Kumail's loan has a lower aged amount and it would be selected.
- viii. Since the aged amounts are close, the Loan Committee could decide to select Hasan's loan if Hasan has a higher interest rate or his monthly payment amount would pay back his loan faster.