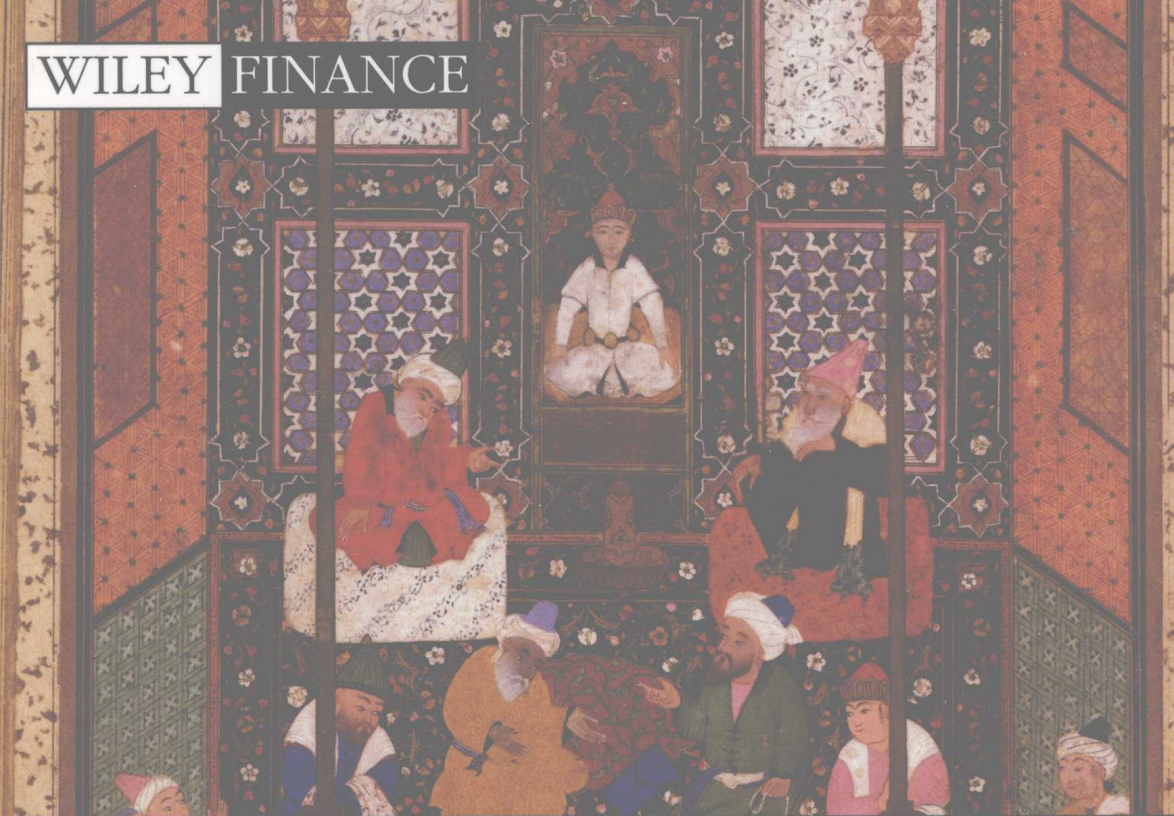


WILEY FINANCE



THE ART OF ISLAMIC BANKING AND FINANCE

Tools & Techniques for Community-Based Banking

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YAHIA ABDUL-RAHMAN



The Art of Islamic Banking and Finance

*Tools and Techniques for
Community-Based Banking*

YAHIA ABDELRAHMAN

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The Art of Islamic Banking and Finance

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PREFACE

My Story With Islamic Banking and Finance in America

I came to the United States on my own from Egypt to study for my MS and PhD degrees at the University of Wisconsin, Madison in 1968. I had essentially nothing except my BS degree in Chemical Engineering from Cairo University and a letter from the University of Wisconsin, Madison accepting me as an International Special Student on a trial basis. I did not have the funds to pay for tuition nor for accommodations, books, and other expenses. It was a big challenge for me, but I made it, through hard work, to where I am today managing a pioneering effort in America to establish what I consider a revival of the banking system that built America. Using a platform we call the LARIBA system (www.LARIBA.com), we offer socially responsible, faith-based, and *riba*-free banking. Throughout this book, I will abbreviate it as RF banking.

In 1987, a group of dedicated friends invested \$10,000 each to start a small company we called American Finance House LARIBA. We gathered \$200,000 as the startup capital. To my knowledge, this was the first time ever a group of Muslims had bonded together to start a joint project that would eventually become an important force in the American Muslim community and in many non-Muslim communities. Our goal was to start a finance company that would operate without the charging of interest and according to the foundations of Islamic law (*Shari'aa*). Today, in 2009, and after 22 years the LARIBA shareholders own LARIBA (www.LARIBA.com), the oldest Islamic RF finance company in the United States, and the Bank of Whittier (www.BankOfWhittier.com), a national bank. The LARIBA System (the finance company LARIBA and the Bank of Whittier, NA) serves all 50 states in America and services a portfolio of *riba*-free *shari'aa*-compliant financing that is worth approximately \$400 million. The portfolio includes home mortgages, automobiles, fast food franchises, medical doctors' clinics, dialysis centers, commercial buildings, schools, churches, and Islamic centers. It was, and continues to be, a wonderful journey.

This book is a strong effort to introduce this new brand of banking, which is based on the Judeo-Christian-Islamic value system while upholding the laws of America.

I must acknowledge that, after traveling the world over and doing business in many nations, I concluded that *only in the United States* can a new immigrant realize his/her dreams, even with a new idea that might have looked unbelievably outrageous at the time. I am deeply indebted to Almighty God, who created the reasons for me to come to America, start a family, and live here. I am thankful to my fellow Americans of all faiths and backgrounds for making our country, the United States of America, what it is. It is unfortunate that America is viewed internationally through the lens of Hollywood movies and the sometimes controversial aspects of our foreign policy. It is unfortunate that the wonderful average American neighbor, colleague, farmer, worker, professional, student, and volunteer do not get a chance to be fully and fairly represented and exposed to the United States and the rest of the world.

My feeling as a Muslim moving to live in the United States was one of curiosity. Moving to America changed my social standing and grouping; I went from a majority Muslim country to being a member of the Muslim minority in the United States, which was an unknown minority belonging to an unknown religion at that time. Reflecting on it, I concluded that God in His infinite wisdom wanted us Muslims in the United States to experience living as a minority. If we were wise, we, the Muslims, would learn from this golden opportunity and better understand how to deal with non-Muslim minorities in the Muslim majority countries. At the same time, we might be able to further enrich a country that was—after all—built by successive waves of immigrants, each bringing something new to the broader culture of the nation. Being a member of the small Muslim minority created an interesting basic feeling, an instinct and need to discover ones' roots and to define whom one really is. That was the beginning of our journey, my wife and I, in the service of Islam in America in the form of serving the Muslim community and the integration of Islam and the American Muslim community to make them part of the unique American mosaic through interfaith and civic activities.

My story with Islamic finance began in Dallas, Texas in 1971. I had completed my PhD in chemical engineering, and my wife had completed her MS degree in chemical engineering. I got a job at the Production Research Center of Atlantic Richfield Co. (ARCO, which is now owned by British Petroleum). At the time, ARCO had just discovered oil in Alaska and was expanding its research on how to produce that oil and transport it south to the mainland under the most severe operating conditions. We moved from Madison, Wisconsin to Dallas, Texas in November 1971. We looked for a

masjid (mosque) where we could perform our weekly congregational prayers (*jum'aa*). We started by looking for people with a Muslim last name. The most prevalent and easy to find in the phone book was Khan. We called and we got in touch, but we learned sad news: There were no Friday prayers yet in the Dallas/Fort Worth area. We started the first-ever Friday prayers in Dallas, Texas on Friday, November 26, 1971. Only two persons attended the prayer which was held at a park behind the Southern Methodist University (SMU) campus.

The community grew, and we started collecting donations to build an Islamic Center of our own, The Islamic Association of North Texas (IANT). We eventually raised approximately \$17,000 in donations, and we found a home on a nice sized piece of land in the city of Grand Prairie, Texas (between the cities of Dallas and Fort Worth), which was selling for approximately \$34,000. A medical doctor friend and a board member, who was more sophisticated because he knew how to borrow from banks (as he had financed his clinic and his convertible Mercedes), suggested that we borrow money from the bank. Members of the community were up in arms because we were entertaining the thought of dealing with interest, which is prohibited in Islam. When I was asked to give an opinion about the issue, I indicated that I was an engineer and a practicing Muslim who takes interest in studying the Qur'aan and Islam, but I knew nothing about money, banking, and finance.

That was the beginning of a journey that gradually took me away from engineering to banking and finance. It was also an amazing coincidence that God created another reason for that transformation. In 1972, the Strategic Planning Group at ARCO was convinced that oil prices would increase drastically because of an impending supply/demand imbalance. ARCO had huge reserves of oil shale in Colorado and "wet" coal in Wyoming. It was decided that the Research Center would start developing new processes for the production of synthetic oil and gas from shale and coal. I was one of those assigned to the task. I developed a number of processes that were patented by ARCO. The next step was to study the economic feasibility of these new processes. To do that, ARCO, in 1974, agreed to help finance my studies towards an MA degree in International Management and Finance at the University of Texas, Dallas. There, I chose to study monetary theory, to understand what money is and how money is created, international monetary theory, financial accounting, credit analysis, and international economics.

It was also amazing that God created another reason for me to get a once-in-a-lifetime opportunity to obtain hands-on banking experience. One day in 1974, during the month of Ramadan, while working in my ARCO office in Plano, Texas, I received a phone call from a stranger who said that

he was from Kuwait, that he was one of the Executive Directors of the World Bank representing Kuwait and that he was given a mandate from his government to start the Industrial Bank of Kuwait, IBK. When I asked him how he found me, he said that he was looking for an engineer in the petroleum field, preferably one who understood finance and could speak Arabic. It happened that two different persons recommended my name. I went to Washington, DC to interview him and was offered a job on the team that would start the Industrial Bank of Kuwait. My responsibility was to take care of financing small- and medium-sized oil-related development projects and other chemical and petrochemical projects. ARCO management was elated and encouraged me to go. They granted me a leave of absence, with a guarantee that my job would be waiting when I was done with the assignment. It was a wonderful experience that introduced me to the process—and the associated challenges—of starting up a bank. The bank developed an industrial development plan for Kuwait. We financed projects ranging from mega-sized petrochemical plants to offshore drilling rigs to projects that were as small as juice packaging facilities and cookie manufacturing plants. In 1975, I returned to Dallas, became a United States citizen in 1976, and completed my MA degree, while my wife completed her MS degree in Physics and a PhD in Environmental Engineering.

At the end of 1976, I was invited to join the ARCO Strategic Planning Group, which took us to ARCO's Los Angeles headquarters. There, I eventually became the Senior Planning Consultant in charge of projecting oil prices based on studies of energy sources, supply, and demand from oil, gas, shale, coal, nuclear, and hydro power, both in the United States and overseas. The group made recommendations to ARCO's management for investing in oil, natural gas, and coal in the United States. This was a wonderful experience that taught me strategic thinking, integrating the thoughts of many experts and executives in their own fields, and translating the conclusions to reach specific, well-defined strategic recommendations and decisions. The experience also gave me a chance to deal with many company executives, leading politicians, and government employees in the field of energy. In 1979, the Islamic Revolution erupted in Iran, and ARCO lost its oil production and supply from Lavon Island (which is off Iran's coast). In 1978, during the peak of the oil crisis, ARCO management assigned me the responsibility of managing the effort to find more than 250,000 barrels of oil per day to supply the shortfall due to the loss of production from the Lavon oil fields. This gave me a chance to see the world. I went to Africa, Asia, and Latin America looking to sign oil supply deals with almost every country that produces oil. I received an attractive offer to be an Executive Vice President of an independent refining company in Houston, Texas.

Later on, I started my first company as an entrepreneur trading in oil and petroleum products.

In Houston, I was invited to become a founding member of a new bank, Woodway National Bank (it was acquired by a larger bank later). In 1983, and during our bank board meetings, we were briefed on delinquencies and non-performing loans that were given to some of the biggest entrepreneurs, companies, and executives in Houston. I also noticed a lot of tension in one of the briefings given by the then-mayor of Houston, Kathy Whitmeyer, and the city's financial manager. Business in Houston had slowed drastically due to the decline in oil prices. Houston was hit as the oil, economic, and real estate bubble burst. (I saw the scars of this crash every time I visited Houston until the early 2000s, 20 years later.)

I went home to discuss this alarming situation with my wife. We decided to sell our house in the expensive Memorial area of Houston. We wanted to sell it fast. We asked a well-educated real estate broker (a former mathematics and statistics high school teacher from Canada) to give us a good estimate for a price that would help us sell it as soon as possible. He invited over 100 real estate agents to our house and polled them. Based on his statistical analysis of the poll, he recommended \$595,000, but he hesitated because the house next door was listed for sale at approximately \$895,000. We told him to go ahead. We sold the house within weeks for \$575,000 and moved to a nice apartment close by until our two daughters finished the school year, at which time we prepared to move back to our house in the city of Altadena near Los Angeles, California (which we hadn't been able to sell because interest rates had risen to nearly 19%). We considered ourselves very lucky, because we were able to sell our house before the Houston real estate crash, and not being able to sell the California house meant we had a home waiting for us in California. (The next-door neighbor was not able to sell his house until he lowered the price from \$895,000 to \$300,000.)

Returning home one day in 1984, while still in Houston, I found a telegram from the Industrial Bank of Kuwait; the bank I had helped start 10 years before. In 1983, Kuwait was hit by a devastating stock market crash because of a nationally practiced pyramid scheme. I went to interview with the new chairman and received an offer to return to the Industrial Bank of Kuwait. I took my family back to California, fixed the house, and settled our children in school. My wife went back to work for CF Braun designing fertilizer plants and oil refineries before she moved later on to work for Northrop, the defense contractor. In September 1984, I started working at the Industrial Bank of Kuwait. As the projects manager, my team responsibilities included

1. taking care of non-performing assets and recommending a course of action to work out the loan portfolio,
2. identifying new projects that were needed in the economy to help growth and to finance them, and
3. training a new generation of young Kuwaitis to take over as the new industrial bankers in Kuwait.

Because my daughters were in school, my family did not join me this time; they stayed in the United States. I lived in a half-suite at the Sheraton in Kuwait. During this time, between 1984 and 1986, I had a chance to see how a bank loan portfolio can grow in a fictitious boom and how many took advantage of “easy” credit terms and loose credit standards. I experienced how corruption can change the fiber of a society and how money matters can cause deep feuds between leading families and create irreparable fractures in a society. I also was close to the raging Iran-Iraq war, and I saw daily convoys of hundreds of trucks carrying tanks, military supplies, wheat, and food supplies traveling to Iraq from a Kuwaiti port dedicated to support the Iraqi war efforts. Before I left Kuwait to go back home in 1986, I told my Kuwaiti friends, “Those tanks you are sending to Iraq may come back to threaten your safety and security.” Indeed, in 1990, the late President Saddam Hussein invaded Kuwait, and the U.S. Marines came to the Kuwait Sheraton! The rest is history.

In 1986, I returned to California and found a job as a financial consultant with Shearson Lehman (later to merge with American Express and subsequently in many other mergers to become Smith Barney/Citigroup). As I began to work in the financial industry, a dream started forming in my head. My dream was to start a bank or a financial institution for our community.

During all these years, I had remained in close and continuous touch with the community by serving with my wife in the Islamic Center of each city we lived in. My wife and I helped start Sunday schools for the children; I delivered the Friday sermon (*khutbah*) and led the congregational prayers. I also performed and officiated at wedding ceremonies, presided over marriage conflict resolution and family matters, prepared the dead for burial, and taught in the Sunday program to the youths and adults. I was called upon to travel around the United States and Canada to help motivate local Muslim communities to donate generously for the building and financing of masajid (mosques) and full-time Islamic schools designed along the same models of Catholic and Jewish schools in the United States, Europe, and the rest of the world.

When we moved from Dallas to Los Angeles in 1977, I was elected to the board of directors of the Islamic Center of Southern California. I left the board when we moved to Houston in 1981. In Houston, my wife and I

started activating, formalizing, structuring, and institutionalizing the Islamic Sunday school and helped in the organization and operation of the Islamic Center there. After moving back from Houston to Los Angeles, I was again elected to the Board and was given the responsibility of chairman of the finance committee. There, I applied what I had been learning all these years. Our team restructured the Center's finances, started a program for automatic donations from members' checking accounts to ensure that the Center employees' salaries could be provided on a regular basis, and developed operating policies for the Center. Most important of these policies was to rely only on donations from the American Muslim community. Our policy allowed the acceptance of donations from non-community sources and others from outside the United States, but not from governments. It was difficult in the beginning. However, it has been my experience that when you put people to the challenge and articulate your goals to them, you will capture their imagination to join you. Then what seems impossible can become possible. Doing this for all those years gave me the opportunity to understand the community, share its joys and dreams, and feel its pains. It also gave me a chance to meet the youth and children—the new breed of Americans who are Muslim. I saw the future in them, and I had no doubt that it was going to be a very bright and promising future.

During my many fundraising trips, and on my way back home, I started thinking about the future of our community. I asked myself: When were we going to stop “begging” and start building the financial muscles of our community? How could we develop an Islamic finance solution to help solve the problem of many Muslim “puritans,” who preferred living in small, crowded, and shabby apartments rather than commit the grave sin of borrowing money with interest to finance the purchase of a home? How could we bring these families out of the apartments and into suburban America, where they could meet new neighbors, live a more comfortable life, and send their children to wonderful neighborhood schools, integrating them in America to live a full American life, but without interest? How could we create a financial institution that would be capable and qualified to gather the community's savings and be qualified to invest these savings prudently back in the community, with qualified, dedicated, and honorable community members who have experience, good ideas, and good projects? If we could realize this dream, I knew, we could empower the community, help its growth, and create wealth and economic prosperity and job opportunities for many. The answer to this question was to start a bank or a finance company. The biggest problem was the challenge of operating that institution without interest.

In 1987, I met a visionary who was busy developing Islamic finance companies and banks around the world. He was in Los Angeles on vacation,

and he heard me deliver a Friday sermon (jum'aa khutbah) at the masjid. We became close friends, and I shared with him my dream of starting Islamic banking services for the community in America. He was another gift from God, because he encouraged me to proceed. He was also instrumental in introducing me to his contacts: significant lawyers, bankers, and religious scholars who specialized in the field of Islamic finance. He also wanted to start a stock portfolio under my management. He further asked our team to develop parameters that would qualify a company stock on world stock markets to meet Islamic finance investment criteria. In cooperation with a few dedicated and highly qualified Islamic bankers and scholars, we developed these parameters, started the portfolio, and diversified it among different portfolio managers around the world. We reviewed the different screens used to identify Shari'aa-compliant stocks and the performance of this \$250 million portfolio on a quarterly basis. To my knowledge, that was the first time in history an Islamic stock portfolio was developed and brought to life. It would be years before the Dow Jones Islamic Index was developed, made public, and marketed throughout the world.

We started American Finance House LARIBA in 1987. In the beginning we were not sure if our efforts would be accepted or if they would be misunderstood. We used the name American Finance House: *American* to acknowledge that our company is American, and *Finance House* to imply its nature as an Islamic treasury; in the early history of Islam, the Treasury was called the House of Assets (*Bayt ul Maal*). We also added the word LARIBA. In the beginning, we explained to those who did not know about riba-free financing that LARIBA stood for Los Angeles Reliable Investment Bankers Associates. Those who knew about riba-free Islamic financing also understood that in the language of the Qur'aan (Arabic), *la* means *no* and *riba* means the act of renting money at a price called interest rate (the Old Testament uses the sister word *ribit* for the same concept). We made it very clear that we were not out to change, dismantle, or demolish the conventional banking and finance system in the United States. We simply offered a humble alternative that would serve those "puritan" Muslim Americans who wanted to live according to their religious beliefs while obeying the laws of the United States. We articulated this at the outset when we made it clear that changing U.S. laws was not one of our objectives.

As we developed LARIBA, we wanted to make sure that it would be a grassroots organization for our community. That meant that we should rely on our own resources, not go hat-in-hand soliciting capital from the oil-rich communities in the Gulf. We believed that if we were really serious, we could entice many of our community members, starting with each one of us putting our own money where our mouths were. We also wanted to train members from our community on Islamic banking and finance. We made

sure that we did not use the American Muslim as a marketing front for the same conventional finance operations to take advantage of a market niche. The strict guidelines were severe and challenging. They meant that we would have a steep uphill battle to develop and achieve what we wanted. However, we believed that the turtle approach would be much more effective than the jumping frog approach. A turtle goes slowly to its target; and if a hurdle stands in its way and prevents it from progressing, it takes a side step and proceeds. Compare this to the frog, which jumps up and down and back and forth and often ends up where it started. Yes, it took us a long time, but that time helped us develop a system, learn from our mistakes, sharpen our models, train a new generation of Americans who believe in our LARIBA concepts, and prove ourselves to the community at large.

We started LARIBA in 1987 (in the month of Ramadan) out of a box. We slowly grew it out of the box and moved it to the apartment above the garage in my house. Then we moved to its current location in Pasadena, where we expanded three times, ending with almost four times the initial square footage. We started with one part-time employee and grew to 22 employees. One thing that helped us grow was the Internet. In 1997, LARIBA was contacted by a young man who was doing his masters degree at USC (University of Southern California) in computers and Web development. He needed a \$3,000 loan to buy a computer to help him in his studies, but no one would finance him. We financed him at LARIBA. We asked him to develop the first LARIBA portal, www.AmericanFinance.com, which later became www.LARIBA.com. The LARIBA site became very popular. From the time we started keeping track of the number of unique visitors in the year 2000 through July 2009, the LARIBA site has attracted more than 1 million unique visitors. It became the most information-rich site available on the subject of riba-free Islamic banking.

In 1994, I authored and self-published my first book: *LARIBA Bank—A Foundation for a United and Prosperous Community*. It was a simple book that summarized what I had learned and read over the years about Islamic banking, and in it, I also articulated our community dreams. The demand for the book was great. We printed it twice and distributed more than 6,500 copies in the United States. A publisher in Malaysia acquired the printing rights and continues to distribute it on a large scale in Malaysia and Indonesia. LARIBA became an important household name in the United States and Asia, as well as the Middle East. The brand name LARIBA is now considered to be like “Coca-Cola”—recognized throughout the world as the brand of Islamic finance. We were invited to speak at universities such as Harvard University, the University of Illinois, the University of California at Los Angeles (UCLA), Claremont Graduate College and many others, in addition to Islamic centers, churches, and synagogues all over the United

States and Canada. In addition, we were invited to present at international conferences in Malaysia, Bahrain, Brunei, Saudi Arabia, Kuwait, Singapore, Canada, England, Turkey, South Africa, and Egypt. The media began taking notice. ABC Nightly News (with Peter Jennings) had a segment on LARIBA, as did the Voice of America, Malaysian television, National Public Radio (NPR), and American Public Media's *Marketplace*. The *Los Angeles Times* had a front-page article on LARIBA, with a full-page inside report. Since that time, we have been reported about in *USA Today*, *The Dallas Morning News*, *The Wall Street Journal*, *The Washington Post*, *The Houston Chronicle*, *The Chicago Tribune*, and *The Detroit Free Press*, to mention a few.

One day, we received a phone call from the U.S. State Department to thank us at LARIBA. They explained that when they had published an article about LARIBA in their newsletter to the Middle East, many media outlets in the Middle East had picked up the story and republished it. The caller remarked that this was one of the few times they had been able to forward a positive story from the United States that appealed to the press in the Middle East.

In our effort to popularize the concepts we used, we started a new tradition. The tradition was to have an annual recognition award for significant distinguished contributors to the field of riba-free Islamic banking in the world. We awarded every "who's who" leader in the field, and we tied the award dinner to an annual seminar on Islamic Banking. This effort ran for 12 years. The event was designed to be graceful, but full of subliminal notions that underlined our American affiliation and our respect for the United States political system and its laws. For example, we invited color guards to start our events. We were the first Islamic organization in the history of American Muslims to start its events not only with an invocation and recitation from the Holy Qur'aan but also with the national anthem, sung by a professional singer and later by a wonderful young lady from the community. We invited our congressmen, state representatives, mayors, and many other public figures to the dinner. The awards that were handed out were not only awards from LARIBA but also included Certificates of Commendation from the Congress of the United States, the California State Assembly, the Los Angeles Board of Supervisors, and the Mayor of Pasadena, California (a city 20 miles northeast of Los Angeles, where our LARIBA offices are located).

We also did something very bold in the year 2000. After the currency crisis of Southeast Asia, Malaysia, under the leadership of Dr. Mahathir Muhammad, was the only country in the region that weathered the storm and was able to contain the problem without sacrificing its foreign currency reserves or resorting to heavy borrowing from the IMF. The Board of

LARIBA decided to create a new award called the Life Time Achievement Award, and we gave it to then-Prime Minister of Malaysia Dr. Mahathir Muhammad. Dr. Mahathir came to Chicago to receive his award. We at LARIBA also did something unique for the ceremony. Instead of holding the function at a local hotel, we held it in a Chicago suburb, in the auditorium of a prominent and well-appointed Islamic Center built by American Muslims who emigrated from Bosnia. This move gave LARIBA wide coverage in the community and in the world press, as well as good political and operating credibility.

LARIBA had very humble means and it lacked enough capital. We used to finance a home once every two to three months (the terms of financing were onerous: 40 percent down and a seven-year term) and a car every month, because we had a tough time convincing our friends to invest in the company. The U.S. regulations regarding solicitation of funds are strict and in general do not allow solicitation unless an offering is registered with the government. The process of registering for a public offering with the United States Securities and Exchange Commission (SEC) is lengthy and very expensive. However, we persevered, and our patience paid off. The community learned more about us, and the volume of calls started to increase. However, we could not meet all that growing demand.

In the year 2000, we received an e-mail from a banker who used to work for Freddie Mac to obtain information about LARIBA. We explained to him what we do. In response, he introduced us to an executive at Freddie Mac who was interested in growing its mortgage finance activities among minorities in America. We talked, and he loved what we were doing. A delegation from Freddie Mac came to evaluate the company and its operations. We explained to them that for every home we finance, we and the customer each have to come up with three rent estimates for a similar home in the same neighborhood to evaluate the rate of return on investing in the house as if it were a commercial venture by using the market measured rental rate to ascertain the economic prudence of the investment. We explained that we do this because our faith prohibits us from renting money at a price called an interest rate, but allows us to rent a tangible and rentable asset like a car, a home, or a business. If the investment (not the lending) makes economic sense, we finance the house mortgage; if not, we do not finance. The analyst in the team was apprehensive; he asked if they could review some of the financing files. They were all impressed when they audited the files.

Freddie Mac gave us approval in less than six weeks (they put out a press release about it on March 26, 2001). This was a record for approval time by Freddie Mac, which usually took an average six months under normal circumstances. We then were confronted with the issue of the format of the operating relationship and how to do business with them without

charging or paying interest. We at LARIBA agreed with Freddie Mac that we would look at them as an investor in each deal, and that we would *not* borrow money from them. We felt that it would be hypocritical to borrow money from Freddie with interest and turn around and claim that we were financing mortgages riba-free! This *first time ever* event in the history of the United States and the American Muslim community helped make LARIBA an important factor in mortgage financing in general and in Islamic riba-free financing in particular.

In 2002, we were contacted by the larger Fannie Mae, and they also approved us. LARIBA, a year later, became the *only* riba-free company in the history of the United States that issued riba-free mortgage-backed securities (RF MBS *sukuk*—*sukuk* means *Riba Free asset-based bonds*) with Fannie Mae. We are all grateful to God and to the many dedicated men and women fellow associates at LARIBA for their dedication and quality work, which made LARIBA among the top one percent quality producers for Freddie and Fannie.

It had always been difficult to raise capital for LARIBA. Many of the community members indicated that they would be willing to support us if we were an FDIC-insured bank. We, the shareholders of LARIBA, were very interested in buying a bank. We wanted to find a small bank that we could afford and that we could manage and grow slowly. After investing seven years in the search for a bank, we found the Bank of Whittier, National Association (NA). The project of acquiring and working on the change of control of the Bank of Whittier plunged me into another valuable and educational experience. The process was enhanced by the support and encouragement of an expert attorney in the field, Gary Steven Findley, Esq. The Bank of Whittier, being chartered as a National Bank, is regulated and supervised by the U.S. Department of Treasury. We learned many lessons in dealing with the United States government for the first time. We learned why the United States is what it is, and we all learned why the American banking system has no equal in the world.

We are aware of the unfortunate financial meltdown of 2008. It is known that many politicians claimed that it resulted from the lack of sufficient regulations. That may be partially true in particular and specific situations, but not in general. It is historically known that one of the most important results of the Great Depression was the ratification of the Glass-Steagall Act, which prohibited commercial banks and investment banks from combining their businesses. This act was repealed by the Congress during the Clinton administration. At Smith Barney I was one of those who witnessed the attempts made to combine the two cultures without much success. It is also important to stress here that all the regulations that man can exert in the system will not be able to stop fraud, dishonesty, greed, and