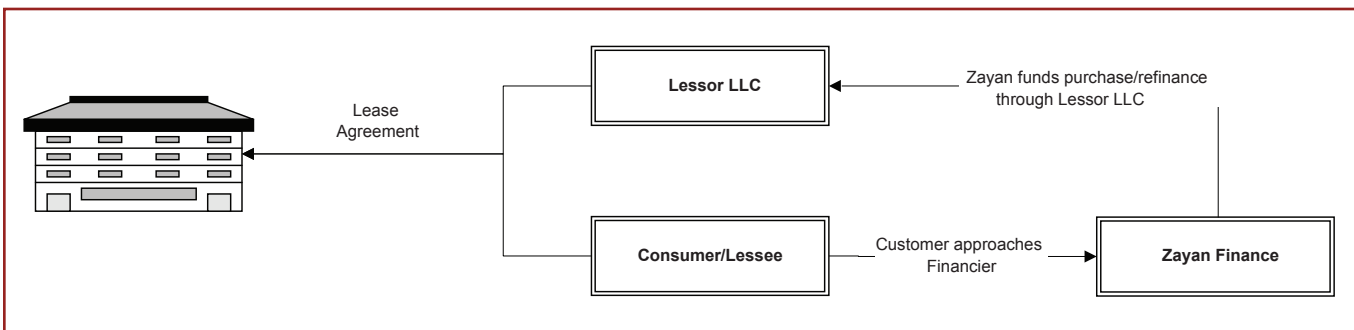


## IJARA FINANCING PROGRAM




For small balance commercial real estate financing transactions Zayan Finance, LLC (“Zayan”) offers an Ijara (Lease to Own) financing option to its Consumers. The Ijara model of Islamic finance shares similarities with traditional finance lease structures such as Sale Leasebacks and Synthetic Leases. Shari’ah compliant Ijara transactions have been utilized in the United States for the past twenty years. As of 1997 the Office of the Comptroller of the Currency (the “OCC”), one of the regulatory agencies overseeing national banks, determined that Ijara financing is acceptable under US banking laws and regulation. Other widely used and recognized models of Islamic finance include Murabaha (cost plus mark up), and Musharakah Mutanaqisa (diminishing partnership). Although the mechanics of these various models differ, the constant among all Shari’ah compliant finance models is that the financing is asset-based rather than credit-based. For example, the Ijara financing arrangement does not create a debtor-creditor relationship since neither party borrows nor lends money. Instead the parties establish a lessor-lessee relationship in which the consumer leases the property from the financier with an option or obligation to subsequently purchase the property for an agreed amount. This structure can be equated with traditional automobile leasing. Under this scenario the financier earns a return through rental receipts from an asset in which it has ownership rights, rather than through lending money. Shari’ah law authorizes this method of earning a return from a financing transaction. The remainder of this document describes the salient features of the Ijara Financing Program (the “Program”).

### The Ijara Program

Three parties will be involved at the closing of any financing extended under the Program: (i) the “Consumer” or “Lessee”, who will identify the Property it wishes to finance, and who will be the lessee with beneficial ownership rights in the Property pursuant to a Lease Agreement; (ii) “Zayan Finance” or the “Financier”, which is the entity originating each transaction; and (iii) the “Lessor LLC”, a special purpose entity wholly owned by the Financier or its partner/affiliate, which holds legal title in the Property during the term of the financing and is the lessor under the Lease Agreement.



Under the Ijara Program three primary documents govern the transaction:

-  the Lease Agreement;
-  the Promise to Purchase; and
-  Memorandum of Lease

A Consumer initiates a transaction by applying to Zayan Finance through its application process. In purchase transactions, the Consumer obtains the Seller's written consent to rename the Lessor LLC as the purchaser of the property under the Sale Contract prior to closing. At closing legal title to the Property is transferred from the Seller to the Lessor LLC. The Consumer's leasehold rights and interests to the Property are contained within the Lease Agreement. The down payment made by the Consumer in purchase transactions is deemed "Advance Rent" to be credited against the Purchase Price. The Purchase Price is the amount the Financier paid to acquire the Property. In refinance transactions the Consumer, while retaining beneficial ownership rights, will transfer legal title in the property to the Lessor LLC. The Lessor LLC will then simultaneously enter into the Lease Agreement and Promise to Purchase with the Consumer.

The Lease Agreement will convey to the Lessee occupancy rights in and to the Property for a specified number of years. The Lease Agreement will require that the Lessee maintain the Property, and pay charges, costs and expenses attributable to the Property. The Lessee has the right to claim depreciation. Monthly lease payments will be sufficient to cover rent, insurance and property taxes. A portion of each lease payment is accounted against the Purchase Price Balance (the "On Account Payment"). The remainder of the lease payment is accounted as rental profit to be received by the Financier ("Basic Rent"). In case of a material default under the Lease Agreement, the Financier will have remedies against the Lessee for nonpayment similar to those available to a financier under a "traditional" mortgage. Pursuant to the Lease Agreement the Financier will provide notice of default to the Lessee and give the Lessee an opportunity to cure the default. If the Lessee cannot cure the default within a specified time, the Financier may pursue foreclosure proceedings.

Upon closing either a purchase or refinance transaction the parties will record a Memorandum of Lease. The Memorandum of Lease references the general terms of the Lease Agreement and recognizes the Consumer's purchase option rights. The Memorandum of Lease serves to protect the Consumer's rights in the Property with respect to any potential third party purchasers or lien creditors.

At any time during the term of the Lease, the Consumer may elect to sell the Property to a third party. Prior to the third party sale the Consumer must provide notice to the Lessor (the "Deed Notice"). The Deed Notice states that the Consumer wishes to accelerate transfer of legal title to the Property by paying the Purchase Price Balance. The Consumer may make this payment either in conjunction with the closing of the third party sale or at an earlier date. At the point that the Consumer sells the Property to the third party, the Consumer will be the sole owner (legal, beneficial or otherwise) of the Property. As a result, the Consumer captures the appreciation of the asset and any capital gains derived from the third party sale.

The Promise to Purchase obligates the Consumer to become the legal title holder of the property upon fulfilling the terms of the Lease Agreement. The Consumer becomes the legal title holder once the On Account Payments satisfy the Purchase Price Balance. This will occur either as a result of the Consumer: i) making the final lease installment payment at the end of the lease term, or ii) making a lump sum payment prior to the expiration of the lease term (such as with a third party sale as described above). Upon either of these events occurring legal title to the property will transfer to the Consumer. The Consumer will have the choice of gaining legal title to the property by either: i) becoming the owner of the Lessor LLC, or ii) having the Lessor LLC execute a deed transfer into the name of the Consumer or its designee.

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<sup>1</sup> For example, if a seller were selling a property for \$1,000,000 and the consumer was contributing \$200,000; the financier would purchase the property from the seller for \$1,000,000 (the "Purchase Price"), and at closing the financier would credit the consumer \$200,000 against the Purchase Price. Consequently, in order to acquire the property the consumer would need to pay the financier \$800,000 (the "Purchase Price Balance").

The following chart summarizes the key characteristics of the Program:

TOPIC	THE IJARA PROGRAM
<b>Title</b>	<ul style="list-style-type: none"> <li>• Financier holds legal title in the property through a Single Purpose Entity (“SPE”)</li> </ul>
<b>Roles and Responsibilities of the Parties</b>	<ul style="list-style-type: none"> <li>• The Consumer has leasehold/beneficial ownership rights in the property</li> <li>• The Consumer is responsible for maintenance and upkeep of the property</li> <li>• Consumer has exclusive use and enjoyment rights in the property</li> </ul>
<b>Transfer of Property</b>	<ul style="list-style-type: none"> <li>• Consumer is obligated to purchase the property at the end of the lease term</li> <li>• Based on an amortization schedule, a portion of each monthly payment is attributed to On Account Payment, to be applied to reduce the Purchase Price at termination of the Lease. The remainder is attributed to rental profit</li> <li>• Upon paying the Purchase Price Amount Consumer becomes sole owner of the property</li> </ul>
<b>Transaction Documents</b>	<ul style="list-style-type: none"> <li>• Lease Agreement</li> <li>• Promise to Purchase</li> <li>• Memorandum of Lease</li> </ul>

