AN ALTERNATIVE BANKING MODEL TO THE PROBLEMS IN THE AMERICAN BANKING SYSTEM: ISLAMIC BANKING

SELİM TARTAN
Inonu University, Turkey
selimtartan@hotmail.com
NEVZAT TETİK
Inonu University, Turkey
ntetik44@hotmail.com

Abstract

After the 2000s, there were major banking crises in the United States that affected the entire world. The bankruptcy of three major banks between November 2022 and March 2023 caused a new unrest around the world. When these banks examine the reasons for the collapse, especially after the pandemic, the Fed can be shown to raise the interest rates repeatedly in order to stop the inflation that is catching the exit trend. This has seriously reduced the revenues of banks that have too many government bonds in their hands to generate income. Another reason is the decline of the cryptocurrency in 2022. The decline in crypto has caused the crypto-friendly Silicon Valley (SVB), Signature (SBNY) and Silvergate banks to lose confidence. Customers rushing into banks to withdraw their money with a loss of trust resulted in banks becoming bankrupt. In this study, the current data and statistical data on whether Islamic banks can be an alternative to traditional banking are discussed.

Key Words: banking crises, bonds, FED, interest, crypto

JEL Classification: G21, G22.

1. INTRODUCTION

Banking crises have become one of the most discussed topics in the literature in recent years with the emergence of financial crises (Fischer et al., 1997). There are different approaches to defining the banking crisis. Caprio and Klingebiel define the loss of all or most of the capital of the banks in the system as systemic banking crises, while the existence of situations that negatively affect banks, such as the seizure of the state administration, the forced consolidation or closure of banks, and the excessive withdrawals of bank deposits, are broadly defined as banking crises (Hoggart et al., 2001).

This study aims to examine the Islamic Banking Model, an alternative model to the causes and mechanisms of emergence of banking crises in the United States.

The study does not delve deeply into a country as it was limited to the banking crises seen in the United States in March 2023, nor does it offer solutions to prevent banking crises.

In the first part of the research, the reasons for the collapse of three banks and banks in the USA are examined. In the second part, definitions of traditional and Islamic banking are made and the differences between them are explored in depth. Whether Islamic banks can be an alternative model to the traditional banking system is discussed within the framework of current data and statistical data.

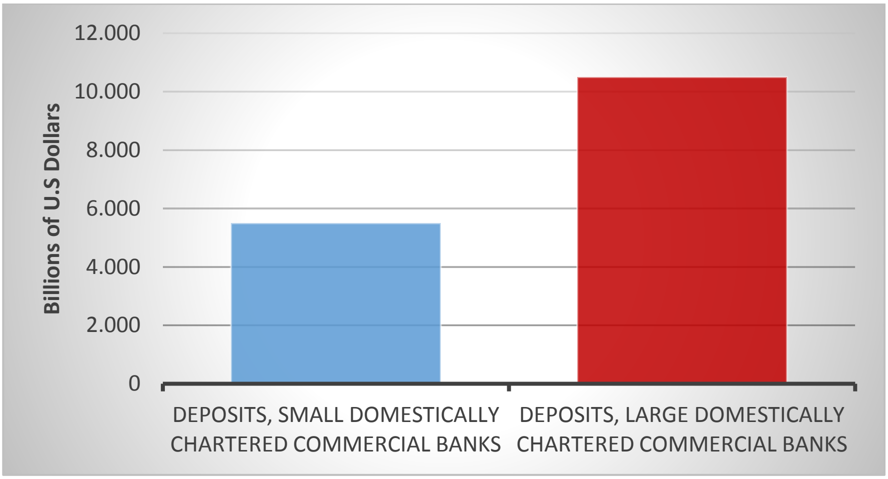

Figure 1: *Deposit Distribution of Small and Large Banks in USA*
Resource: Fred

Total deposits in the United States are $17,610.315 trillion as of February 2023. Approximately 6 trillion are deposits of small banks, while about 12 trillion are deposits of large banks. While small banks can offer a more personalized customer experience, large banks can be more comprehensive by offering a range of savings accounts, loans, insurance, financial planning and wealth management. According to the FDIC’s definition, small banks are banks with assets of less than $1.384 billion for any of the two calendar years prior to December 31, 2022. The assets of medium-sized banks are usually between $10 billion and $100 billion. banks with assets north of $100 billion are considered major banks.

2. LITERATURE REVIEW

In this section, the financial crises in commercial banking in the US are explained. When the reasons for these crises are analyzed; Commercial banks' lack of transparency, careless lending, conflicts of interest, lack of timely intervention by supervisory and regulatory institutions can be shown. Compared to all these, Islamic banks have been observed to have survived the crisis periods more strongly in terms of financial performance due to reasons such as competition, stability, and not allowing speculation.

The 27 Islamic and 65 traditional banks in the Gulf Cooperation Council member countries compared the indicators in the 2006-2009 period (2006-2007 pre-crisis and 2008-2009 crisis periods) using a t-test to examine the impact of the financial crisis on profitability. As a measure of performance, active profitability, equity profitability and net interest margin were used. As a result of the research, it was determined that the financial crisis had negative effects for both types of banks, although it is not statistically significant, Islamic banks had higher profitability levels during the crisis period. In addition, during the crisis period, Islamic banks' capital structures and traditional banks' liquidity and leverage rates were stronger. However, they note that Islamic banking has failed to find any strong evidence that it has survived the crisis more easily than traditional banks in all indicators (Amba and Almukharreq, 2013).

The performance of 5 Islamic banks operating in Pakistan was examined by t-test and simple regression method for the period 2008-2013-15. The analysis found that Islamic banks performed lower than traditional banks in terms of business model and activity effectiveness but were better off in terms of asset quality and share price volatility (Aman et al., 2016).

He comparatively examined the impact of different capital structures on profitability in Islamic and traditional banks. For the period 1999-2013, the annual financial statement data of approximately 656 banks, 116 of which are Islamic banks from 33 countries, were examined with regression analysis. The results of the analysis showed that more robust capital structures had positive effects on profitability and that this effect was stronger in traditional banks (Bitar et al., 2016).

He revealed that Islamic banks have made the banking industry more stable, consistent with the theory of competition-stability. The study shows that the banking system of Islamic banks improves both lending and deposit growth, and Islamic banks contribute to stability through both asset and debt channels (Rizvi et al., 2020).

It has shown that Islamic banking in MENA countries not only leads to economic growth, but also positively and significantly affects traditional banking development (Belkhaoui, 2022).

It has shown that Islamic banks perform better than traditional banks and contribute more effectively to the stability of the financial sector. Overall, the results showed that the contribution of Islamic banks to financial stability was reasonable and forward-looking (Rashid et al., 2022).

Allowing mortgage loans to be turned into speculation, failing to supervise subprime lending, failing to limit excessive leverage, failing to oversee conflicts of interest, and failing to regulate venture capital led to the 2008 financial crisis (Robert et al., 2013).

The credit crisis that emerged in the US as a result of sloppy mortgage lending, insufficient transparency, inadequacies of credit rating agencies, and the failure of regulatory and supervisory agencies to intervene at the right time, eventually turned into a global financial crisis (Alantar et al., 2008 and Swan et al,. 2009).

3. BANKRUPT BANKS IN THE USA AND THEIR REASONS

The banking sector can be exposed to different risks. Credit risk, liquidity risk and interest rate risk are among the top of these. Today, Silicon Valley (SVB), Signature (SBNY) and Silvergate banks can be shown as examples of a systematic downturn. Indeed, a systemic banking crisis can arise with a high proportion of problems with the ability to pay simultaneously or with the liquidity of several banks in a given country (Pehlivan, 2017).

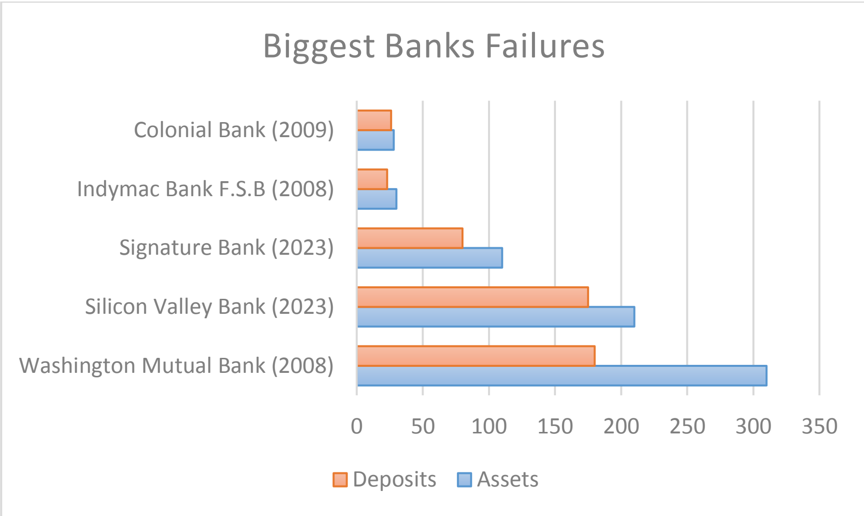

Figure 2: *The Biggest Bank Crisis in USA*
Resource: FDIC, New York Financial Department Service

Figure 2 shows the biggest bank crises in the United States in terms of total deposits and assets. Following the 2008 mortgage crisis, the largest banking crises in 2023 were those of Silicon Valley and Signature. Signature Bank ranks first among bank failures in 2023.The bankruptcy of Silicon Valley Bank in particular can be considered the second largest bank bankruptcy in the history of the United States.

Silvergate Bank, Silvergate Bank, Silvergate Capital Corp, is a provider of various financial infrastructure solutions and services. Solutions and service offerings include Silvergate Exchange Network, Cash Management Solutions, and deposit account Services. Its clients include global investors in the U.S. stock exchanges and the digital currency industry. Moreover, the company also offers financial services such as commercial banking, business loans, real estate loans for commercial and residential purposes, and mortgage repository loans. One of the services that Silvergate Bank operates unlike other banks is the Silvergate Exchange Network, an instant payment platform that allows Silvergate customers to send US dollars to any Silvergate account, even if traditional banks are closed at night and on weekends. in 2016, it started to serve cryptocurrency users. In crypto exchange, it has attracted new customers by acting as an open clearing room 7/24. In crypto exchanges, customers are permitted to exchange their digital currencies for other digital currencies or traditional money. By 2017, it had reached $1.9 billion in assets and more than 250 international customers.

The first public offering was made in 2019. The bank grew rapidly after the offering. In 2021, the stock price rose by 1,580% to $219, while the price was $13 due to the cryptocurrency bubble. In 2022, the cryptocurrency market crashed for two trillion dollars in May. In November, it was hit hard by the bankruptcy of FTX, the biggest banker in crypto industry, because FTX was a big supporter of Silvergate. Silvergate Bank has strong relationships with the CEO of FTX, Sam Bankman-Fried. As Bankman-Fried once said of Silvergate, “life as a crypto company can be divided into pre-Silvergate and post-Silvergate.” “It’s hard to overstate how much blockchain companies have revolutionized banking.” However, the FTX CEO’s subsequent encounter with allegations of fraud and abuse has put Silvergate Bank into a serious vortex. As soon as the news was heard, the high-profile customers like Coinbase, Paxos, MicroStrategy, Circle, Crypto.com, Bitstamp, Galaxy and Gemini immediately wanted to withdraw their deposits from the bank. Silvergate initially requested additional time to allow an audit, including “assessing the effectiveness of the company’s internal control over financial reporting” (Huang, 2022).

The second shock that Silvergate Bank experienced apart from crypto was that the US Central Bank (Fed) raised interest rates repeatedly in 2022 to stop rising inflation, especially due to the pandemic. This caused the price of government bonds held by Silvergate Bank to fall. Bonds are generally considered relatively safe, but 2022 was the worst year on record for U.S. bond investors because bond prices reversed interest rates and fell as interest rates rose. Basically, this is because the value of a bond that you currently hold will drop when new bonds are issued at higher interest rates. These new bonds make existing bonds less valuable by making larger interest payments thanks to their higher yields. This will lower the price of your existing bond and reduce the return on investment. Suppose a bank purchases a $100 medium- and long-term treasury bond at a 4% interest rate. If the bank takes the bond to the treasury at the end of the year, it will be $104. However, due to certain reasons, the US government decided to increase interest rates to 7%. In this case, the value of the bonds held by this bank will no longer be $100 because the treasury’s new bond will be worth $107 at the end of the year, while the bank’s bonds will be worth $104. In this case, if the bank wants to sell the bonds in its possession, it will not be able to sell them on the secondary market for $100. The bank should sell the bonds in a cheaper way so that the buyer can get 7% interest. Otherwise, he will go and buy the new bonds issued by the treasury at 7% interest. If this bank does not sell the bonds to the secondary market and holds the bonds until maturity, it will receive 105 instead of 107 dollars at the end of the year. In that case, the bank will be corrupted. The same goes for Silvergate Bank. Government bonds lost 10.6% in 2022. This is the biggest drop on record for treasures dating back at least 1926. When a bank liquidation occurs, the institution usually needs to start selling assets to meet the request to withdraw funds from depositors. That is exactly what Silvergate did. It has drained a significant portion of its securities portfolio. It is unclear what exactly it sold earlier this year, but its portfolio includes U.S. government bonds, agency bonds, and municipal bonds. Bond fund managers bought by Silvergate Bank eventually suffered losses by selling low as inflation began to surface (Regan, 2023).

Table 1. *USA Interest Rates*

Time	Interest Rate Hike	Interest Rate Range
17.03.2022	25	%0,25-%0,5
04.05.2022	30	%0,75-%1,0
16.06.2022	75	%1,50-%1,75
28.07.2022	75	%2,25-%2,50
22.09.2022	75	%3,00-%3,25
03.11.2022	75	%3,75-%4,00
15.12.2022	50	%4,25-%4,50
02.02.2023	25	%4,50-%4,75
22.03.2023	25	%4,75-%5,00

Resource: Tradingeconomics.com

Faced with the worst banking crisis and the highest inflation rate since 2008, the Federal Reserve has chosen to fight price increases. For this reason, the Fed recently raised interest rates by 0.25%, making it its ninth consecutive rate hike. This interest rate range has reached 4.75% to 5%, the highest rate since 2007.

Table 2: *2022 US Treasury Bond Return*

2022 Return	
Middle Term US Treasury	-% 10.6
Total Return	-% 13.1
Long Term US Treasury	-% 29.3
Long Term Investment Rate	-% 27

Kaynak: Investopedia

The biggest reason for the fall in the US Treasury bond price is thought to be that the Federal Reserve raises interest rates. Especially Silvergate, Silicon Valley and Signature banks are thought to have suffered large losses due to their long-term bonds.

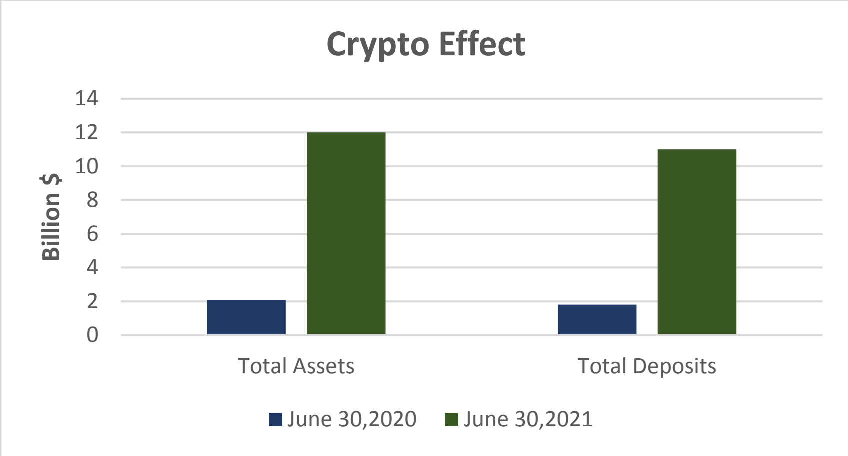

Figure 3. *Silvergate Bank's Services and Growth Rate for Crypto and Bitcoin Investors*
Resource: Silvergate Bank

According to the bank's latest financial update, Silvergate has 104 digital asset exchanges on its customer list for the fourth quarter of 2022. Silvergate also had 1,025 institutional digital asset investors in its customer base, but it is clear where the money is being made: More than 75% of the $3.8 billion of deposits held by crypto clients came from digital asset exchanges (Farrighton, 2023).

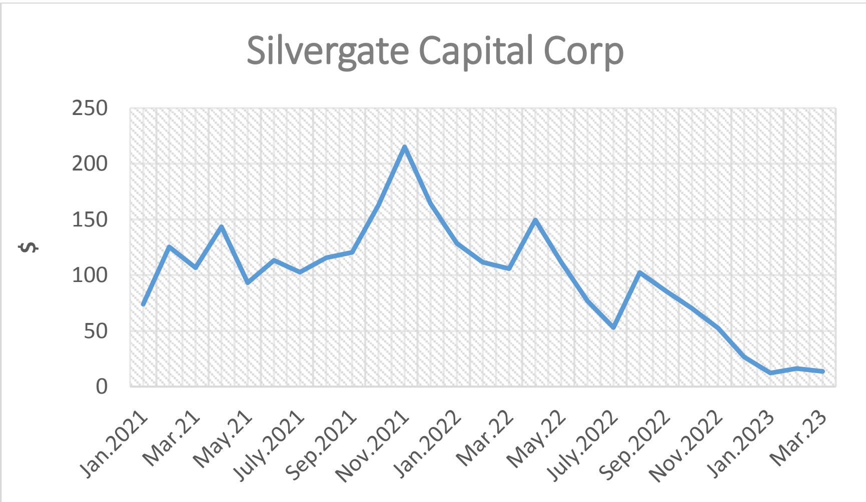

Figure 4. *The Capital of Silvergate Bank*
Resource: Google.com/Finance

Earlier this year, the bank reported a loss of $1 billion in the fourth quarter as investors withdrew deposits following the bankruptcy of FTX, once one of Silvergate's biggest customers. In January, the company laid off 40% of its employees. "In light of the latest industry and regulatory developments, Silvergate believes that an orderly liquidation of the Bank's operations and the Bank's voluntary liquidation is the best way forward," the bank said in a statement. "The bank's liquidation and liquidation plan include full repayment of all deposits." (Dave, 2023).

In just over a year, Silvergate Capital's stock price has fallen by nearly 95% since its record peak in November 2021. At Silvergate, a significant portion of uninsured deposits came from funds from crypto exchanges that used banks to transact with each other.

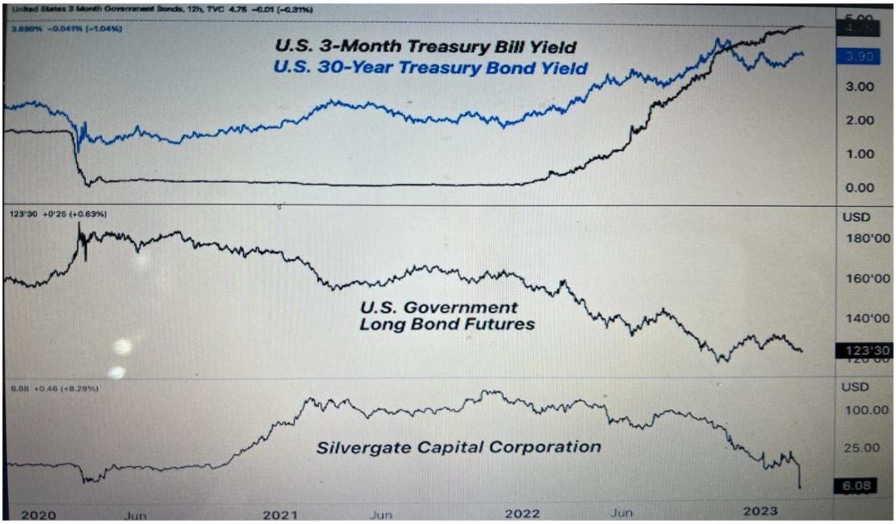

Figure 5. *Crypto Banking Troubles: Silvergate*
***Resource**: Tradingview*

Silicon Valley Bridge Bank: Bill Biggerstaff, executive director of Wells Fargo, and Stanford University professor Robert Medearis founded wells Fargo to focus on the needs of startups. Two former Bank of America executives and tennis friends came up with the idea while playing poker at Pajaro Dunes in California. Founded in 1983 and headquartered in Santa Clara, California, the company serves more than 9,500 customers nationwide through its 27 regional offices (www.svb.com). It is the sixteenth biggest private bank of USA. Total assets $212 billion, total client funding $342 billion, total loans $74 billion, equity return rate (ROE) as of 2022 is 12.14%. In addition, it has achieved a total public supply of 44%. While the SVB obtains most of its earnings through interest income, loans and their fixed-yield investment securities, a large part of its cost consists of interest expenses on customer deposits. Due to the increase in customer deposits, SVB managers have invested the bulk of these deposits in long-term 10-year treasury bonds and mortgage-based securities with an annual return rate of 4% to generate interest income. The timing error was made because the SVB bought these bonds when yields were low and just before the Fed began the rate hike cycle. During 2022, interest rates rose rapidly, while the value of the SVB's bond portfolio fell significantly. As a result, the deposit base of the SVB has dropped significantly throughout 2022. SVB decision-makers had to sell their ready-to-sell bonds in its portfolio at a loss of US$21 billion in order to reposition the bank balance sheet for the high-interest environment and improve its liquidity position. This loss was more than the bank's annual net income, at $1.8 billion in 2022. Despite the sale of its bonds, the bank still needed additional capital, despite raising about US$2.25 billion through ordinary stock and mandatory convertible concessional stock issuance. This situation was starting to scare off customers who were worried about SVB's financial stability. It caused many customers to rush into the bank to withdraw their deposits, eventually causing the bank to go bankrupt (ir.svb.com).

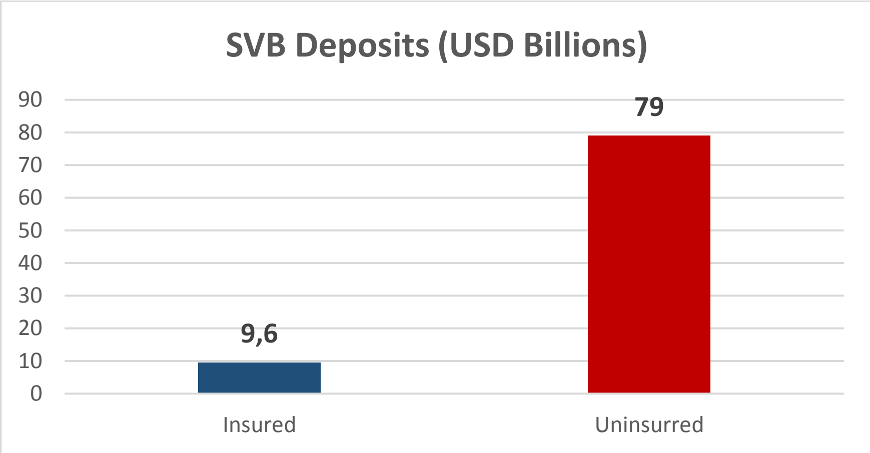

Figure 6. *Insured and Uninsured Amount of SVB Deposits*
Resource: SVB Filings 2022, iFAST Compilations

The $250 of company deposits is insured by FDIC. Deposit insurance provides three important benefits to the economy: The first of them is that it guarantees small depositors that their deposits are safe and that their deposits will be readily available to them if their bank fails. The second benefit is that it maintains the public's trust in the banking system and thus promotes economic stability. The third and final benefit is that without the public's trust, banks cannot lend, but they have to keep depositors' money in their hands at all times in cash. By this way, it supports the banking structure. Deposit insurance makes it possible for the United States to have a system of both large and small banks. Without deposit insurance in the banking sector, it would probably be possible to collect it in the hands of very few gigantic banks. As Figure 6 shows, SVB has insured only $21.7 trillion of the total deposits, but has not insured the 151.5 trillion, a large portion of the deposits. In the case of Silicon Valley, many uninsured deposits were from technology companies.

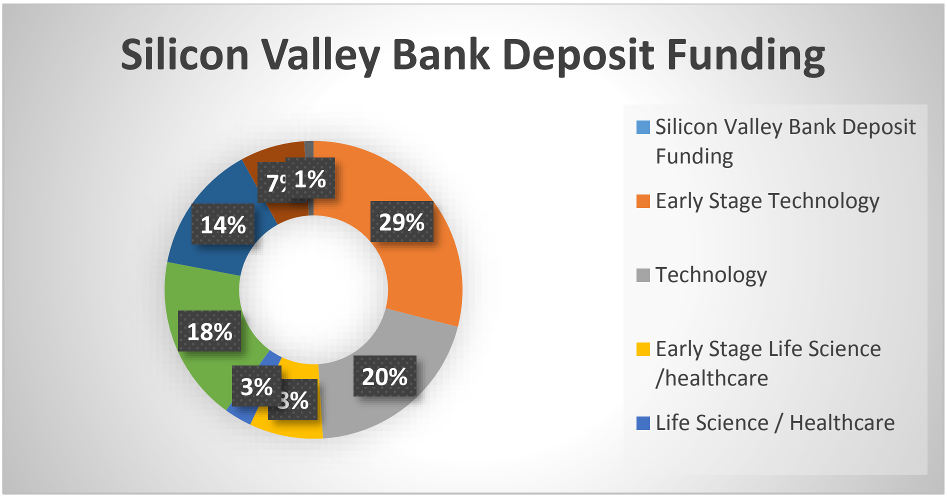

Figure 7. *SVB Deposit Funding Percentage*
Resource: iFAST Data Collections

As it can be seen in Figure 7, the customers of the SVB bank consist of; 29% early stage, 20% technology, 8% health, 3% biotechnology, 18% international, It is comprised of 14% Global, 7% Private Bank and 1% other companies.

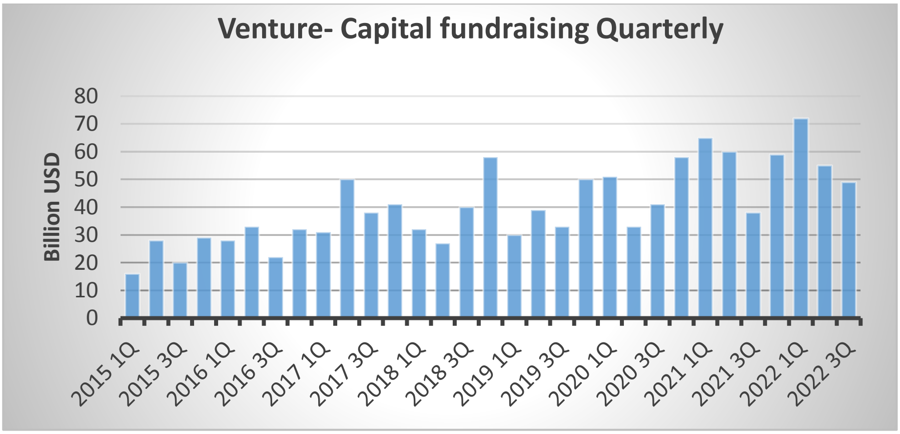

Figure 8: *SVB Quarterly Venture Capital Funds*
Resource: Pregin

As shown in Figure 8, SVB 2022 increased to 72% for venture capital to newly established companies in the first quarter. That is, it used $72 of $100 to fund startups.

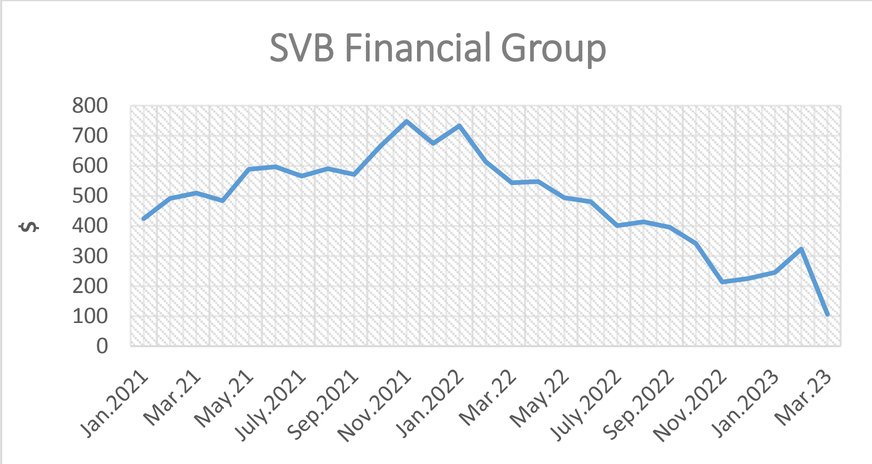

Figure 9: *SVB Hisse Stock Prise*
Resource: Finance.yahoo.com

As shown in Figure 9, while the stock of the SVB bank was above $400 in mid-2021, especially towards the end of 2021 it was above $700. After the first quarter of 2022, it dropped in, and the prices plummeted completely in 2023.

Signature Bank (SBNY): Signature Bank was founded in 2001 by Joseph DePaolo, John Tamberlane and Scott Shay. SBNY is the 42nd largest in the United States. Besides that, it is a member of the S&P 500 index. SBNY derives the vast majority of its income from loan interest income, and the small part from deposits and non-interest income. Therefore, the company is largely dependent on its credit portfolio to generate revenue. More than 80 percent of deposits are made up of middle market businesses such as law firms, accounting practices, healthcare companies, manufacturing companies and real estate management firms, which have helped rapid deposit growth in recent years by opening itself up to the crypto industry in 2018. The bank has created 7/24 payment networks for its crypto clients and has received $16.5 billion in deposits from customers related to digital assets. As of December 31, 2022, Signature Bank's total assets were $110.4 billion, and its total deposits were $88.6 billion. According to Silvergate's report, they gradually invested up to 80% of their deposits in long-term bonds, and the vast majority of them were, surprisingly, bonds that were more than 10 years old. SVB's data showed that they sold all bonds that could be sold for $21 billion and recorded losses of $1.8 billion, most of which are U.S. government bonds. Rapid rate increases put pressure on corporate customers, increasing the demand for liquidity for customer deposits and the default rate for unpaid loans. A series of blows forced Silvergate to liquidate these HTM bonds at market prices, resulting in immediate recognition of losses. In the end, the accumulated losses became so severe that the only option was bankruptcy (Hsiao, 2023).

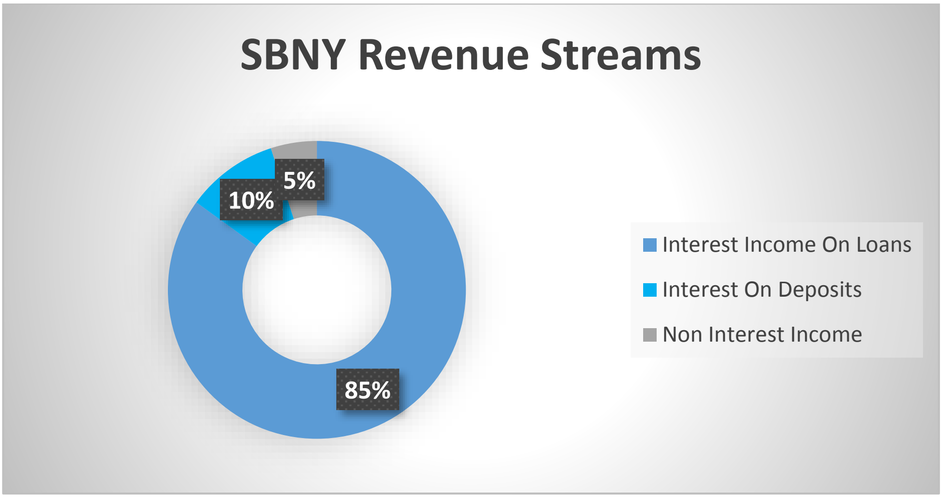

Figure 10. *SVNY Revenue Streams*
Resource: seekingalpha.com

When we examine Figure 10, 85% of the income flows of the SBNY business consist of loan interest income, 10% of deposit interest and 5% of deposit interest income.

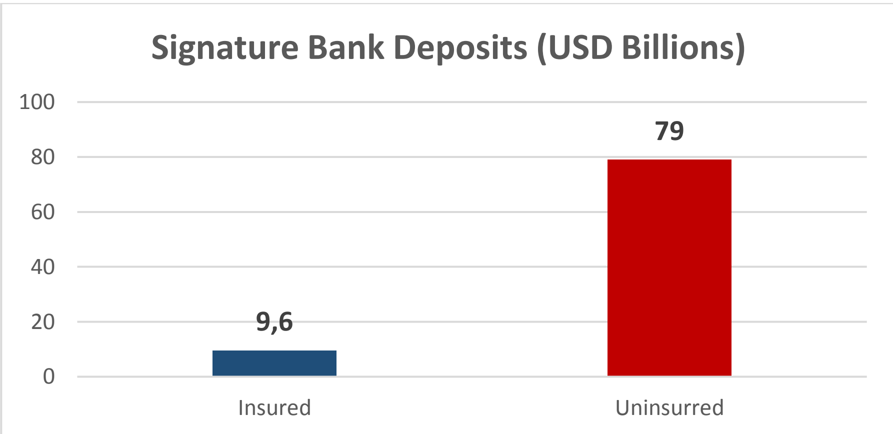

Figure 11: *SBNY Insured and Uninsured Fund Amount*
Resource: FDIC

More than $79 billion (about 90 percent) of Signature Bank's deposits are not insured by the FDIC, while only about 10% are. About 90 percent of Signature deposits were uninsured and about 18 percent of its total deposits were related to digital assets, but it is not clear how much of digital assets-related assets are uninsured.

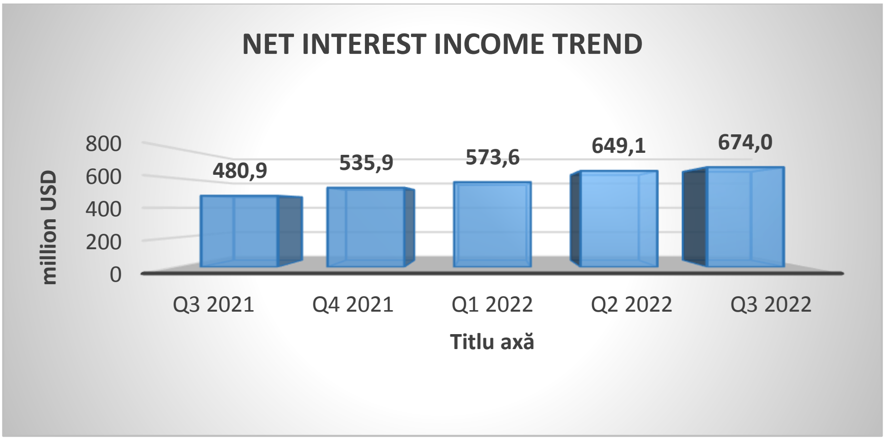

Figure 12: *Net Interest Income Trend*
Resource: seekingalpha.com

When we examine Figure 12, the net interest income of Signature Bank increased to $ 480.9 million in the third quarter of 2021 and $ 674.0 million in the third quarter of 2022. It can be said that there is a ceaseless increase in the interest income of the bank.

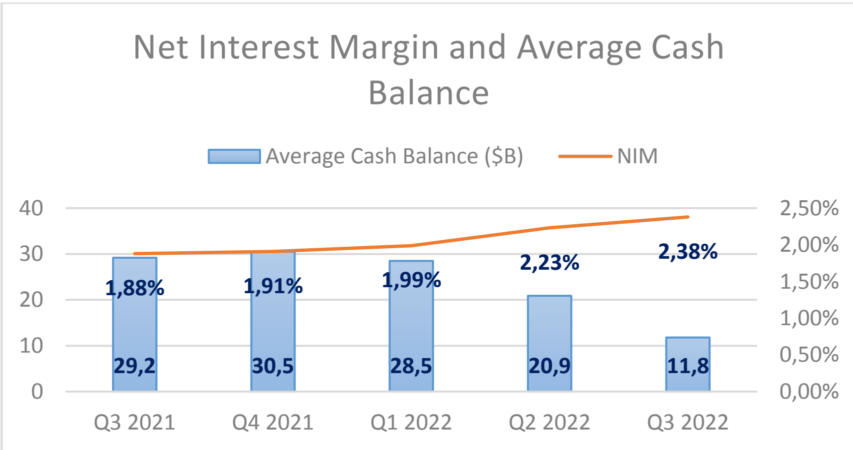

Figure 13: *Net Interest Margin and Average Cash Balance*
Resource: Yahoo.com

When we examine Figure 13, it can be said that Signature Bank has a continuous increase in Net interest Margin. While it was 1.88% in the third quarter of 2021, in the third quarter of 2022 this rate increased to 2.38%. The average cash balance of the bank peaked at $28.5 million in the first quarter of 2022, and then a steady decline was observed.

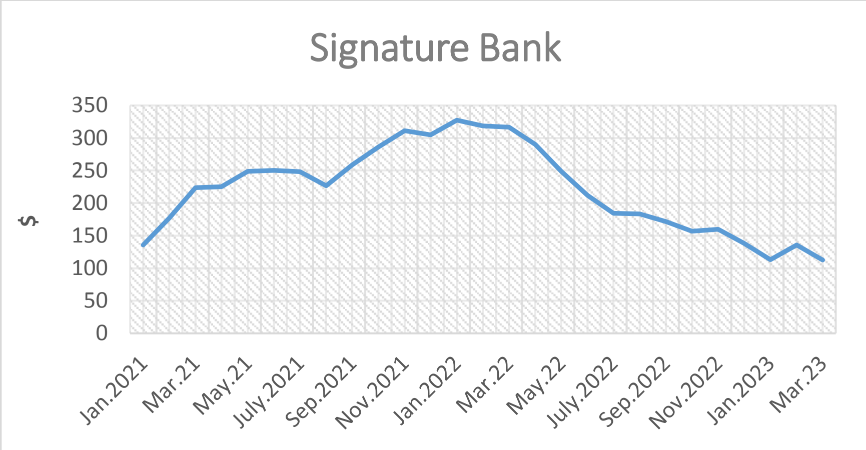

Figure 14: *Signature Bank Stock Price Change*
Resource: Finance.yahoo.com

As shown in Figure 14, the stock price of Signature Bank reached its highest levels at the end of 2021 and the beginning of 2022. After the second quarter of 2022, a steady decline was observed.

4. THE DIFFERENCE OF ISLAMIC BANKING AND TRADITIONAL BANKING

4.1. OVERVIEW

According to the Federal deposit Insurance Corporation (FDIC), there are more than 4000 banks in the United States. The number of Islamic banks that started to develop in America after 2000 has now exceeded 20. University Islamic Financial is the first and only Sharia-compliant bank in the United States. Devon Bank in Chicago is the only other bank that regularly offers Islamic financing products. Guidance residential is the largest non-bank financial institution offering Islamic financial services in the competition with more than $3 billion in assets. LARIBA is another major Islamic mortgage lender and also provides business financing. It has provided mortgage financing in 22 states since its doors opened in 2002. Interest-free banking has developed quite rapidly since its inception, and this has led to the fact that the feasibility of the system and whether it is a valid model is often on the agenda for both practitioners and economists. This practice has become increasingly common not only in Islamic countries but also in other countries, such as the United States (Milhem and Istaiteyeh, 2015).

Islamic finance is equity-based, asset-based, ethical, sustainable, environmentally and socially responsible finance. It promotes risk sharing, links the financial sector with the real economy, and emphasizes financial inclusion and social welfare. The way Islamic banks and financial institutions work in the US is as follows: One of the most common contracts is the forex, in which the lender and the client have an asset together; the debtor's share of the property increases gradually by paying until they fully assume the ownership through the sharing of profit and loss. In a governess contract, the lender buys an asset, a house, or even commercial equipment on behalf of a debtor who gradually repays a profit margin agreed on the principal plus and eventually assumes ownership. Ijara contracts are similar to a lease agreement, which includes both the repayment of the principal and a rental fee for the exclusive use of the asset. (Haltom, 2014). Traditional banks are commercial banks, savings institutions and credit unions. In the United States, commercial banks are often joint stock companies whose main obligation is to generate profits for their shareholders. Commercial banks mostly specialize in short-term business loans, but also give out consumer loans and mortgages and have a wide range of financial strength.

4.2. DİFFERENCES BETWEEN ISLAMİC BANKİNG AND TRADİTİONAL BANKİNG

- **Working Methods**

Interest is defined as the return of money to money due to the preference of time and is strictly prohibited in Islamic banks. Money is not subject to being bought and sold as a product, and money can only be used as a medium of exchange. At the same time, the methods of fundraising and fundraising, which are essential in Islamic banking, are valid.

Commercial banks earn most of their earnings from the difference between the interest rate they pay for deposits and the interest they receive from the loans they give. They will also be able to earn money from the assets they have in their hands. Therefore, money trading is involved because money is considered a product.

- **Money/Profit Function**

Islamic banks deal with depositors on an investment basis. In this sense, Islamic banks themselves are considered modarabas companies in the Islamic pact. In this system, depositors are considered financiers, while bank management (or shareholders in general) are considered entrepreneurs. As a result, the profits should be shared between the depositors and the bank. In Islamic banking, Icara can also profit from the asset sold to the customer by buying an asset or by renting it to the customer by intermediating the bank. On the other hand, in commercial banks, besides banking services, the depositor and the bank provide profit in exchange for the use of money as a product for a certain time. The bank can mediate between depositors and those who use the money. The bank may also make a profit on its securities or banking services.

- **Funding**

In Islamic banking, it provides funds from holders of funds as a current account or joining account. The most important type of account that distinguishes Islamic banks from commercial banks is the profit loss participation account. When it comes to commercial banking, it provides funds with a predetermined interest rate under the name of commercial account and deposit account. Therefore, there is no partnership between the bank and the fund holder.

- **Fund Handling**

In Islamic banking, cash loans are not allowed. The fund, murabaha, icara, musarake and cash value are used. Therefore, there is a commercial link between the fund users and Islamic banks. The profitability of the project is important when using the fund. Maturity is long. Unethical investments are also prohibited. Islamic banking is also characterized by ethical norms and social commitments. Therefore, alcohol, gambling, tobacco, pork products, Non-Islamic hotels or resorts, sensual entertainment, etc. investments in all unethical activities such as those are prohibited in the Islamic banking system. In commercial banking, funds are used in exchange for interest. It does not matter where the bank’s assets are used. Money can also be used outside of production.

- **Finance Lease**

Islamic Banks can provide resources directly to their customers through the financial leasing method. That is; they have the right to lease. As for Commercial Bankers, they may not lease directly, but they may set up a leasing company.

- **Risk and Trust**

In Islamic Banking, customers accept risk in advance because they are partners in profit and loss. Therefore, trust is the key in this system. In addition, the solidity of the project that is shared in this system as well as collateral and mortgages is important. Freedom from Al-Garar, any contracts and transactions in Islamic banks should be free from excessive uncertainty. Purification from Al-Darar, contracts in Islamic banks should not be harmful to any party. In commercial banks, there is no risk because there is no profit-loss partnership and it is based on an interest basis. Thus, trust is resolved with mortgage and guarantee.

- **Cost of Fund**

The amount that the customer who uses the fund in Islamic banking will pay on a certain date is predetermined and does not change according to certain conjunctions. On the other hand, in commercial banking, loan costs may vary depending on specific financing instruments. This suggests that the loan costs may change later.

- **Duration of Fund**

While long-term investment projects are financed in Islamic Banking, in commercial banking, short-term projects are financed for commercial purposes.

- **Economic System**

Islamic banking is based on the Islamic economic system. In Islam, money must be used productively to ensure productivity, and wealth is earned through legitimate trade and investment in assets. This is only possible with companies that make Musharaka and mudaraba, which improve production and increase quality. As a result, the Islamic banking system leads economic growth by promoting productive projects and supporting trade in goods and services.

In the Islamic system, investors are prevented from making mistakes that will harm their own interests. For example, investors may be given a period of time to cancel an impulsive transaction. Investors also have the right to equal access to certain information and equal power in the negotiations that lead to a transaction. Consequently, investors who have privileged access to "Inside Information" should be prevented from using this information in their transactions.

Zakat, as one of the Islamic financial instruments, provides support for the realization of socio-economic goals and the creation of a just society. Islamic banks, like other Islamic institutions and even Islamic individuals, are obligated to pay zakat. Zakat is defined as a mandatory periodic tax levied on all Muslims with wealth or income above a certain minimum level, directed towards certain categories of poor and needy people. In commercial banking, it operates on the basis of the capitalist economic system (El-Galfy and Khiyar, 2012).

4.3. ADVANTAGES OF ISLAMIC BANKING AND COMMERCIAL BANKING SYSTEM

The "profit sharing" feature in Islamic banking is that it increases the competition between Islamic banks and maximizes profitability in both the short and long term. Another advantage of Islamic banks is that they are more stable. Sharia knowledge combined with a high level of cultural talent strengthens the credibility of the Islamic bank and creates a competitive advantage. The last advantage of Islamic banks is that they are more conducive to poverty reduction. Since the most important criterion for financing projects in the conventional banking system is the ability to repay loans, collateral and guarantees, only the rich will have the most access to the financial market. On the other hand, Islamic finance provides funds based on the principle of profit and loss sharing and attaches importance to profitability. Therefore, people who are not wealthy and have the necessary skills to succeed in the project, such as scientists, engineers or artisans, will have a better chance of obtaining funding (Goaied and Sassi, 2010).

5. RESULTS

An alternative banking system to the crises in the United States is Islamic banks. Islamic banks are, in principle, less fragile during financial crises. In practice, Islamic banks survived the crisis of 2008 and the subsequent crises with less damage. The volume of Islamic finance has grown rapidly over time, reaching a volume approaching 3.5 trillion dollars as of the end of 2021. Islamic banking accounts for about 70% of the volume of Islamic finance and has a volume approaching $2.349 trillion. By the end of 2025, it is estimated that Islamic finance will reach $4.94 trillion and Islamic banking will reach $3.5 trillion. The estimated growth rate for 2020-2025 is projected as a fairly high figure of 46%. The Islamic banking system includes a greater function and benefits, beyond the fact that the commercial banking system serves economic growth and development through the financial system.

When it comes to list the cases, the first case is that in commercial banking, there is the practice of lending and borrowing money with interest on a mortgage loan. The house buyer borrows money to buy a house and agrees to pay it back at additional interest within a certain period of time. The Mortgage crisis of 2007, which caused a worldwide financial crisis, is an example. In the United States, commercial banks have given credit to everyone because they take more risks. Borrowers would be able to borrow more than ever, and people with low credit scores increasingly qualify as high-interest borrowers. Commercial Banks have approved “undocumented and low-documented” loans that do not require verification of the borrower’s income and assets. In 2006, home prices declined and most of those who took out more loans than they could afford to pay off were unable to pay off their debts. What is worse, there was no responsibility or incentive to ensure that borrowers could not repay the loans. At the same time, as interest rates rose, monthly payments on mortgages increased. As a result of this, borrowers had to stop their mortgage payments. Commercial banks have suffered heavy losses due to defaulted loans. This caused the bankruptcy of the banks and a panic all over the world. This is not an acceptable commercial practice according to Islamic principles. One reason for this is that in Islam lending is regulated as a charitable act, meaning that one person helps another who is in difficulty. This is noble behavior and requires the borrower to pay back only what he borrowed, and the lender to expect only the same amount as the loan. Borrowing is not a way to make money. First of all, Islamic finance, especially its adherence to the principles of profit and loss and risk sharing, has been strengthened by the crisis.

As to the second case, when the banks that collapsed in late 2022 and early 2023, “Silvergate and Signature,” and the “Silicon Valley,” which sank in 2008, are examined, we can see that they all have a lot of government bonds in their hands. The U.S. government’s recent increase in interest rates with the rise of inflation has greatly reduced the value of government bonds held by these banks and caused a great deal of damage to banks.

Finally, the third case is that cryptocurrencies and the blockchain industry have grown in popularity, especially in 2017 and 2022. Silvergate, Signature and Silicon Valley banks are considered crypto-friendly, although each has its own diverse deposit base that goes far beyond the digital asset industry. Silvergate and Signature have provided significant infrastructure supporting the digital asset industry in the form of 7/24SEN and Signet payment networks, as well as many banks in the crypto ecosystem. SVB was the primary bank for many venture capital, technology and digital asset firms, including Circle, Roku, BlockFi and Roblox. They have a lot of cryptocurrencies in their hands, especially in 2022 when the TFX collapsed, a big decline in cryptocurrencies was observed. And this has undermined the trust in crypto currencies. As a result, these cases were the end of three banks in the United States. The fate of these banks was quickly resolved. On March 8, 2023, Silvergate Capital announced that it would liquidate its operations and liquidate its bank after announcing that it would not submit its annual report. On March 9, 2023, Silicon Valley Bank collapsed after depositors withdrew more than $42 billion after the SVB announced it needed to raise $2.25 billion to support its balance sheet. On March 12, 2023, Signature Bank, which also had a strong crypto focus but was much larger than Silvergate, was unexpectedly taken over by banking regulators. Silvergate, SVB, and Signature may not be the only bank that has difficulty while you are reading this. It is possible that many commercial banks face similar pressures and we can see that more banks are experiencing difficulties. Cryptocurrencies prohibit uncertainty by Islamic banks, which can lead to deception and exploitation. This situation creates uncertainty for investors with extremely high volatility in the crypto market. One of the other things is gambling. Islamic finance prohibits excessive risk-taking, such as gambling and speculation. Therefore, Islamic finance emphasizes the need for investments based on material assets and productive economic activities. When it comes to cryptocurrencies, some people think that a high level of speculation is similar to gambling. The other reason is social and ethical responsibility. Islamic finance also emphasizes the importance of social and ethical responsibility and encourages investment in socially responsible projects that positively affect society and the environment. Cryptocurrency by its very nature does not promote social and ethical responsibility. Finally, it is asset-based finance. Islamic finance requires all financing transactions to be asset-based, that is, backed by tangible assets. This ensures that the investment is based on actual economic activity and helps to reduce risk. Cryptocurrency is not based on existence by nature. The interesting feature of Islamic banks is the emphasis on transactions that represent only a physical commodity. Therefore, since cryptocurrencies are an artificial and virtual product born of modern finance rather than a traditional physical product, new developments in the world of crypto finance are seen as hostile to sharia. Since cryptocurrencies are the subject of speculation, it seems unacceptable that they are subject to Islamic trade laws.

It is significant that decision makers in the United States support the development process of Islamic banks and introduce new projects. The example of the United States will often pave the way for the development of the Islamic banking sector all over the world, increasing and diversifying financial opportunities, and further contributing to the process of economic development. This study was conducted through the United States and it is important that similar analyses are made for different countries to further enrich the literature.

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