

# Loan participation on Provenance

Blockchain has the power to significantly improve upon and grow the whole loan participation market. The distributed, trustless and immutable characteristics of blockchain can reduce costs, improve transaction speed, enhance diversification and enhance liquidity.

Provenance is the leading production blockchain for the financial ecosystem. Introduced in late 2018, Provenance has been used by firms such as Jefferies, Figure and Caliber Home Loans to reduce costs and improve execution in the loan origination, financing and securitization space. Over \$600 million of assets have been originated, financed and sold on Provenance, with industry participation and business use cases growing each month.

In this paper, we apply Provenance blockchain to the whole loan participation process. Specifically, we identify how loan pools are created, how participation interests are sold, how reporting works and how secondary markets trade. We'll tie these actions back to the value proposition of efficiency, speed, risk management and liquidity.

## **About Provenance**

Provenance is a proof-of-stake production blockchain for the financial ecosystem. Provenance combines the distributed, trustless and immutable characteristics of blockchain with the function of a ledger, registry and exchange. Introduced in late 2018, Provenance has been used by firms such as Jefferies, Figure and Caliber Home Loans to reduce costs and improve execution in the loan origination, financing and securitization space. Over \$600 million of assets have been originated, financed and sold on Provenance, with industry participation and business use cases growing each month.

## **Defining Pools and Participation**

Loan originators using Provenance generally integrate their loan origination system (LOS), custody and servicing into the blockchain. Doing so provides portfolio level credit, performance and related statistics as well as the ability to drill into a single loan packet, view an exception report, payment history, etc.

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From the portfolio view, an originator can define a pool of loans for participation, which sit in the participation vehicle. They also define the number of initial units issued against that pool, and the purchase agreement related to the participation interests.

LOAN ID	FICO	PROPERTY VALUE	CLTV	CURRENT UPB	OG TERM	STATUS
<input type="checkbox"/> 102	714	\$159,800	80%	\$23,213	74	Available
<input type="checkbox"/> 103	761	\$545,800	84%	\$100,000	84	Available
<input type="checkbox"/> 104	740	\$241,800	64%	\$33,416	84	Available
<input type="checkbox"/> 105	709	\$314,800	50%	\$44,156	98	Available
<input type="checkbox"/> 106	720	\$179,800	72%	\$26,141	122	Available

### Loan level inspection

Select the pool from your portfolio and drill down to the loan level to see all relevant details as well as the availability of the loan (whether it's been pledged to other sales or not)

**VALIDATION DATA**  
AB01C030-8257-4084-9C75

Avm VALID

Appraisal VALID

Autopay Agreement VALID

**LOAN DOCUMENTS**  
AB01C030-8257-4084-9C75

Cltv Junior Lien High PDF

Cltv Junior Lien Low PDF

Compliance Agreement PDF

Compliance Agreement PDF

Counseling Agencies PDF

Credit Disclosure PDF

Deed PDF

Dti-Fico 740 PDF

Acknowledgement of receipt PDF

HELOC Agreement PDF

Autopay agreement PDF

Signed-HELOC Agreement PDF

AVM Appraisal PDF

### Loan-Level Documentation

See validation results, origination and servicing loan documentation.

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<p>_____</p> <p>as the Initial Participant and FIGURE LENDING LLC as Seller and Servicer</p> <p><b>LOAN PARTICIPATION AGREEMENT</b></p> <p>Dated as of _____, 2019</p> <p>Fixed and Adjustable-Rate Home Equity Line of Credit Loans (Servicing Retained)</p>	<p style="text-align: center;">TABLE OF CONTENTS</p> <p style="text-align: right;">Page</p> <p>ARTICLE I. DEFINITIONS ..... 1</p> <p>ARTICLE II. AGREEMENT TO PURCHASE; PURCHASE PRICE; POSSESSION OF LOAN FILES; MAINTENANCE OF SERVICING FILES; BOOKS AND RECORDS; CLOSING CONDITIONS ..... 13</p> <p>Section 2.01 Agreement to Purchase; Pricing Procedures; Purchase Price; Possession and Ownership of Loan Files; Servicing Files. .... 13</p> <p>Section 2.02 Books and Records; Transfers of Participations; Alternative Pledge. .... 14</p> <p>Section 2.03 Record of Ownership; Delivery of Documents ..... 14</p> <p>Section 2.04 Closing Conditions ..... 15</p> <p>Section 2.05 Use of Technology; Quality Control Procedures; Contact Information Regarding Participants ..... 16</p> <p>ARTICLE III. REPRESENTATIONS AND WARRANTIES REMEDIES AND BREACH ..... 16</p> <p>Section 3.01 Seller Representations and Warranties. .... 17</p> <p>Section 3.02 Representations, Warranties and Covenants Regarding Individual HELOCs. .... 19</p> <p>Section 3.03 Repurchase. .... 24</p> <p>Section 3.04 Repurchase of HELOCs with Early Payment Defaults. .... 25</p> <p>Section 3.05 Audit Rights. .... 25</p> <p>Section 3.06 Servicer Representations and Warranties. .... 26</p> <p>Section 3.07 Participant Representations and Warranties. .... 27</p> <p>ARTICLE IV. SERVICING OF HELOCs ..... 29</p> <p>Section 4.01 The Servicer. .... 29</p> <p>Section 4.02 Collection of Certain HELOC Payments; Remittances. .... 30</p> <p>Section 4.03 Withdrawals from the Custodial Account. .... 32</p> <p>Section 4.04 Maintenance of Hazard Insurance; Property Protection Expenses. .... 33</p> <p>Section 4.05 Assumption and Modification Agreements. .... 34</p> <p>Section 4.06 Satisfaction of Security Instrument; Participant to Cooperate. .... 34</p> <p>Section 4.07 Realization Upon Defaulted HELOCs. .... 35</p> <p>Section 4.08 Title, Management and Disposition of REO Property. .... 36</p>
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**Master Participation agreement is memorialized in Provenance**

NEW PARTICIPATION AGREEMENT

Agreement 1

Name

Seller ▼

Cash flow owner ▼

Participants ▼

0.0025

Servicing fee

Master agreement

CREATE

NEW PARTICIPATION INTEREST

ASSETS: 198  
UPB: \$14,00,291  
UNIT VALUE: \$70,501

Agreement 1 ▼

200 unit count

CREATE

**New participation agreement & vehicle into which the pool of loans will be added with unit volume defined**

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## **Buying Participation Interests**

Once created, participation interests can be pre-sold, sold in auction (or Dutch auction) form, or sold ad-hoc, each through permission and by logging on to [www.provenance.io](http://www.provenance.io). Prospective investors can use Passport for verification/BSA/AML, or the loan originator can conduct such work at point of sale.

When an investor buys a participation interest, they push fiat into an omnibus bank, that bank delivers a settlement token on chain to the investor, the investor swaps the token for the participation interest and signs the purchase agreement. The record of purchase and signing is held in immutable form on Provenance, and available for retrieval at any time.

Because Provenance is a registry, loans in the participation vehicle cannot be resold or pledged. Participation interests are unique and cannot be duplicated. Certain lenders may be willing to provide leverage on participation units, such as Jefferies for Figure loan-backed participations.

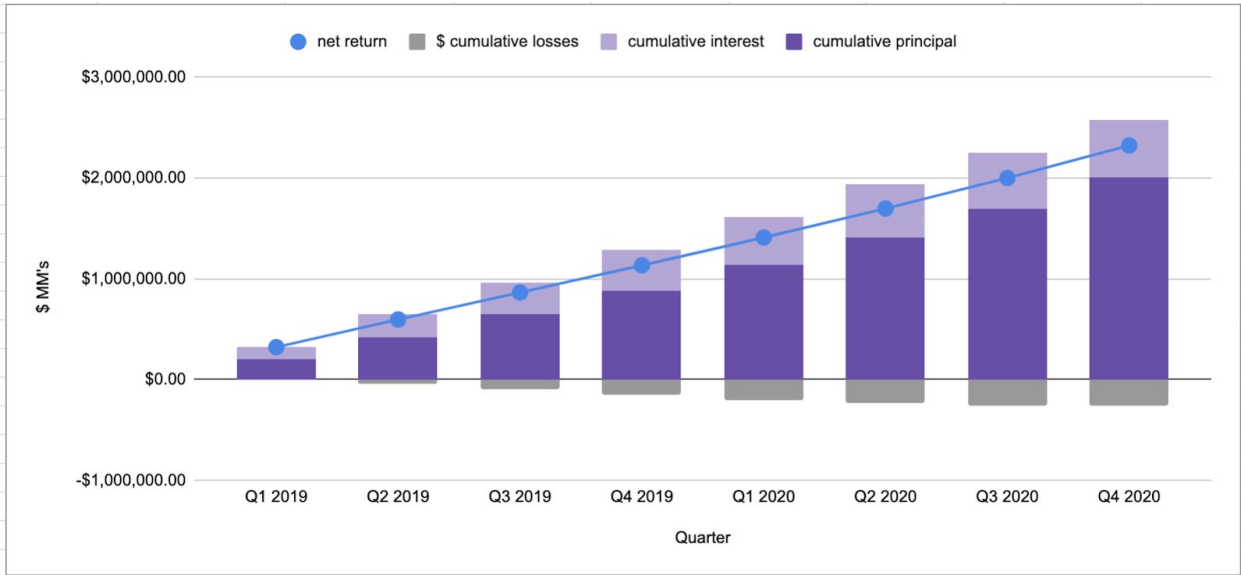
## **Ongoing Servicing and Reporting**

Participation investors can log on to the participation portal at any time to see underlying performance and related data. As loans are serviced on Provenance, cash flows come through as they occur. For example, when a loan pays, fiat is delivered to an omnibus bank. A settlement token is delivered to Provenance that amortizes the loan and recognizes payment. The token is redeemed by the participation vehicle, and the fiat is distributed pro-rata to the participation investors.

In addition to ad-hoc reporting, Provenance produces monthly and annual reports on the participation vehicle, including principal, interest, delinquency/charge offs, etc. These reports can be customized by the loan originator.

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**\$0.7 MM principal outstanding 12% IRR**  
**Participation Performance Report**

**PAYMENT HISTORY**  
 AB01C0E0-8257-40B4-9C75-04A171ADD9E1

PAYMENT TYPE	PAYMENT POSTED	PAYMENT EFFECTIVE	PAYMENT AMOUNT	PRINCIPAL PAID	INTEREST PAID	ENDING PRINCIPAL	ENDING TOTAL
MANUAL_PAYMENT	09/12/2019	09/12/2019	\$1,007.70	\$477.55	\$530.15	\$58,752.12	\$58,752.12
MANUAL_PAYMENT	07/19/2019	07/19/2019	\$2,015.40	\$708.32	\$1,307.08	\$59,229.68	\$59,229.68

**Servicing Payment History**

**Trading Existing Interests**

Participation holders have the ability to show BWIC and OWIC on their interests. Provenance has a native exchange that allows for such transmission and the crossing

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of these trades. New investors can use Passport for verification/BSA/AML, or can be approved by a combination of the loan originator and participation seller. Potential investors have the same pool information available to current participation investors.

Secondary Participation Interests (BWIC Pools)									
Highest Bid	Seller	Asset name	Pool loan count	Total USB	WA Credit score	WA Gross coupon	WA Original term	WA CLTV	WA DTI
1.04	Figure lending	HELOC	198	\$14,100,291	762.44	8.02%	139.1	54.59%	6.29%
1.03	West	C&D Loan	99	\$7,050,145	772.44	7.58%	101.1	52.49%	6.99%
1.02	Bank of SF	FNMA MTG	132	\$9,400,194	767.44	7.90%	120.2	51.59%	6.13%
1.01	SF Credit Union	C&D Loan	79	\$5,640,117	720.12	8.58%	113.1	57.59%	7.50%
0.99	Figure Lending	FNMA MTG	110	\$7,833,495	701.05	9.18%	139.2	61.59%	7.19%
1.04	Home loan lender	Jumbo MTG	165	\$11,750,243	810.12	6.98%	99.1	44.59%	5.29%

**Trade existing interests through a BWIC**

Trades are settled bilaterally, directly between buyer and seller. Once a price/size is agreed, the new investor moves fiat into an omnibus bank. That fiat triggers a settlement token delivered to the new investor on Provenance. The settlement token is exchanged with the current investor for the participation interest and the registry is updated real time. Participation interests can be sold in whole or part.

**Value Proposition**

<p>Provide an immutable ledger and registry for the construction, sales and servicing, reporting and secondary market for whole loan participation interests</p>	<ul style="list-style-type: none"> <li>• Reduce the time and cost related to the construction of participation vehicles</li> <li>• Reduce the ongoing expense of custody, servicing and auditing</li> <li>• Increase accessibility to participation pools to a greater number of investors</li> <li>• Improve transparency and timeliness of participation reporting</li> <li>• Provide secondary market liquidity for participation interests</li> </ul>
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