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 $1 billion 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.
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.

<table>
<thead>
<tr>
<th>LOAN ID</th>
<th>FICO</th>
<th>PROPERTY VALUE</th>
<th>CLTV</th>
<th>CURRENT UPB</th>
<th>OG TERM</th>
<th>STATUS</th>
</tr>
</thead>
<tbody>
<tr>
<td>103</td>
<td>761</td>
<td>$545,800</td>
<td>84%</td>
<td>$100,000</td>
<td>84</td>
<td>Available</td>
</tr>
<tr>
<td>104</td>
<td>740</td>
<td>$241,800</td>
<td>64%</td>
<td>$33,416</td>
<td>84</td>
<td>Available</td>
</tr>
<tr>
<td>105</td>
<td>709</td>
<td>$314,800</td>
<td>50%</td>
<td>$44,156</td>
<td>98</td>
<td>Available</td>
</tr>
<tr>
<td>106</td>
<td>720</td>
<td>$179,800</td>
<td>72%</td>
<td>$26,141</td>
<td>122</td>
<td>Available</td>
</tr>
</tbody>
</table>

**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)

**Loan-Level Documentation**

See validation results, origination and servicing loan documentation.
Master Participation agreement is memorialized in Provenance

New participation agreement & vehicle into which the pool of loans will be added with unit volume defined
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. 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.
$0.7 MM principal outstanding 12% IRR

Participation Performance Report

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)

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

### 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

| Provide an immutable ledger and registry for the construction, sales and servicing, reporting and secondary market for whole loan participation interests | • Reduce the time and cost related to the construction of participation vehicles  
• Reduce the ongoing expense of custody, servicing and auditing  
• Increase accessibility to participation pools to a greater number of investors  
• Improve transparency and timeliness of participation reporting  
• Provide secondary market liquidity for participation interests |
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