



2022 Mortgage Session

What's new – the future

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Agenda

- Looking forward
- Digital currency transactions
- The future of DFI

- Rates increased sharply in Q2 2022 and no indication of coming down soon.
- Already seeing and projecting more industry contraction versus growth – banks and non-bank lenders reducing mortgage production staff. Possible increase in M&A activity.
- Refinance activity is significantly down. Loan originators competing for the same purchase transactions. As competition increases for a smaller pool of loans, possibly see an increasing trend in ARMs and non-QM loans.



Looking Forward

Looking Forward – Innovative Solutions

- Do we need MLOs in the future?
- Artificial intelligence for processing loans.
- Digital currency (cryptocurrency) for real estate transactions.

What is cryptocurrency?

Cryptocurrency

- It is a form of digital or virtual units created through cryptography to secure transactions.
- No physical units.
- There is no central issuing or regulating authority.
- It uses a decentralized system to record transactions and issue new units.
- The decentralized system/network is a disparate network of computers.

What can you buy – today using exchanges

- Today, more than one-third of small businesses reportedly accept crypto payments and possibly more to adopt crypto payments.
- Fintech platforms make it easy to transfer crypto peer-to-peer and even between consumers and businesses.

Real estate transactions

- Home buying is an enticing proposition for crypto enthusiasts and innovators.
- Home buying crypto used as a private transaction between consumers.
 - Bitcoin (BTC)
 - Ethereum (ETH)



Real estate transactions

- Some mortgage lenders are experimenting with the option to allow customers to pay in crypto.
- For instance, United Wholesale Mortgage, the nation's second-largest mortgage lender, unveiled a short-lived plan August 2020 to start accepting bitcoin payments.
 - They quickly scrapped the program, citing the high costs and regulatory uncertainty.



Down payments.



Fintech platforms offer crypto-backed loans. APRs currently range from 1% - 6% back in March 2022.



Mostly used to purchase cars. But can be used for real estate.



Some crypto companies claim to help all consumers from unbanked to high-net-worth individuals expand their lending options by leveraging crypto assets.



Theory is that borrowers don't have to liquidate their crypto holdings in order to access financing. No need to cash out your crypto and therefore avoids a taxable event in buying a house.

Real estate transactions – Crypto as collateral Pros

Real estate transactions – Crypto as collateral

Cons 1 of 2

- Crypto as collateral is not available in all states
- Almost impossible to determine the loan-to-value (LTV) ratio because cryptocurrencies are highly volatile.
- Assuming you get a loan at a 1:1 ratio and use 1 BTC for collateral, you could theoretically get a loan for the market price of \$29,120 (05.18.22 value of BTC) vs. \$37,713 (05.01.22 value of BTC).
- Each lender will have a different LTV equation.
- Each coin metrics will have a different value.

Real estate transactions – Crypto as collateral

Cons – 2 of 2

- Stablecoins have not fared any better or been stable.
- Volatility in the value can benefit you (if the value rises to \$45,000, you now have an extra \$15,000 of value).
- A drop in prices could alter the LTV negatively, triggering a margin call. The lender would require you to deposit more crypto to bring the LTV back to the original level.
- Crypto believers believe that the real estate value will eventually become a large enough part of the collateral to help neutralize or even out the crypto down payment, even if the value of your original collateral drops.

Real estate transactions – Private sales

- Transmit crypto from buyer to seller
- Wallet to wallet transfers. Sell a home in exchange for crypto.
- Agree on the price. Be exact in the timing of the exchange (volatility).
- Be sure to have sufficient crypto.
- No real estate agent involved (no commissions).
- No traditional escrow process (no bank involved).
- No title verification.
- Not reversible.
- Must register the chain of title yourself.



Real estate transactions – Using NFTs



Non-fungible tokens (NFTs) mostly familiar as a way to own digital art collectibles.



Since these are smart contracts - new possibilities for both real estate deeds and payment.



An NFT contract seems to represent the “normal” sale of a piece of real estate.



Acts as a form of payment or collateral or both if the owner or financing institution accepts its value.

Real estate transactions – Using NFTs example

- Florida home sale: In May 2021, the real estate startup Propy sold its first NFT-backed property in the U.S.
- Purchased a 2,000-square-foot house for 210 ETH (\$653,000) and received an NFT as proof of ownership.
- Some industry professionals argue that NFTs are superior records to paper deeds, which can get lost and create ambiguity about a property's value, size, taxes, sale history and other details.

Real estate transactions – Using NFTs example

- Some quirks with the Florida transaction
 - The NFT had to be linked to a LLC which owned the property
 - The agreed upon value of the NFT was questioned as the valuation of the NFT dropped

Real estate transactions – Cashing out crypto

- Probably the easiest way to purchase real estate (closest to the “normal” transaction).
- Cash out for down payment or purchase and use the “normal” escrow process.
- Austin, Texas home purchase transaction.
 - Seller only accepted cash to complete the transaction
 - Took 10 minutes to process the transaction

Ask clients – why they want to use crypto to buy real estate.

Crypto is a decentralized asset. Mortgage is a structure of lending and financing.

Curious – why would clients want to use crypto to buy real estate?

Clients may have to take out a mortgage – repay with crypto?

Clients want to diversify their portfolio?

Clients exchanging a volatile asset for a less volatile one (BTC for real property)?

Clients betting the opportunity that crypto will outpace the value of the real estate?

Clients engaging in money laundering?

Crypto transactions
- Is this the future?

Crypto - Is this the future?

- No specific law governing cryptocurrency.
- Approximately 12 states have guidance like Hawaii – VC is supervised as money transmission (HRS Ch 489D)
- Approximately 16 states have laws like Hawaii – but silent in their supervision
- Approximately 14 states specifically exclude VC as money transmission.
- 1 state has a bitlicense (companies also need a trust license and money transmitter license)
- 2 states have a special bank charter (no bank charters issued)
- 2 states do not have money transmitter licenses

Is this the future?

- DFI/HTDC pilot project – DCIL ending June 30, 2022; wind down activity to conclude December 31, 2022.
- DFI bill failed to pass the legislature (SB 3025) license, supervise, examine VC companies.
- DFI alternative bill failed (SB2697) exclude VC from HRS Ch 489D.
- Task force created to study the DCIL and blockchain (SB2695).

Other Issues – Work for DFI

- Positions open at DFI
- Compliance examiners perform compliance examinations of banks, mortgage loan originator companies, mortgage servicers, and escrow depositories.
- Refer to job postings on DFI's website: <https://cca.hawaii.gov/dfi/career-opportunity/>

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Questions

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Find us

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