

HomeCoin Whitepaper

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Why HomeCoin?

We asked the questions: “What if we could put the power of mortgages into the hands of anyone who can buy crypto? What if we could use that power to vastly reduce the cost and increase the ease with which someone can purchase or refinance a house?”

Our hope is that this protocol will help consumers, homeowners, and people who make loans around the world. We give consumers access to the same financial products banks, governments and institutions use to preserve and grow wealth. We help homeowners by giving them faster, more flexible and uniquely beneficial loans. We help people who make loans by providing a much faster, flexible funding vehicle for the loans they make.

Introduction

Since about 1190, a mortgage has been the way for people to be able to afford to buy a home or piece of property. It is also the most often used source of money to start a business. Housing is our most basic need and it plays a core role in economies around the world. A home bought with a mortgage is the easiest way most people can grow wealth. As a home’s value grows over years, a mortgage makes it possible to use that wealth to send our kids to college, pay off debts, travel, and remodel our kitchens.

Mortgages have also been a cornerstone of our financial systems. Banks, insurance companies, and governments buy trillions of dollars of mortgages each year to make money in a simple way. For example, Wells Fargo currently owns \$275 billion worth of mortgages generating over \$8 billion a year in income with little risk.

HomeCoin is a brand-new type of decentralized system to fund loans against houses (what most people call mortgages). It makes mortgages cheaper, faster, and more flexible for homeowners. Its native utility token, HOME. HOME can provide the stability and growth of mortgages to the crypto community. At launch, HomeCoin only accepts the same kinds of loans and homes that banks and governments buy.

Mortgage Basics

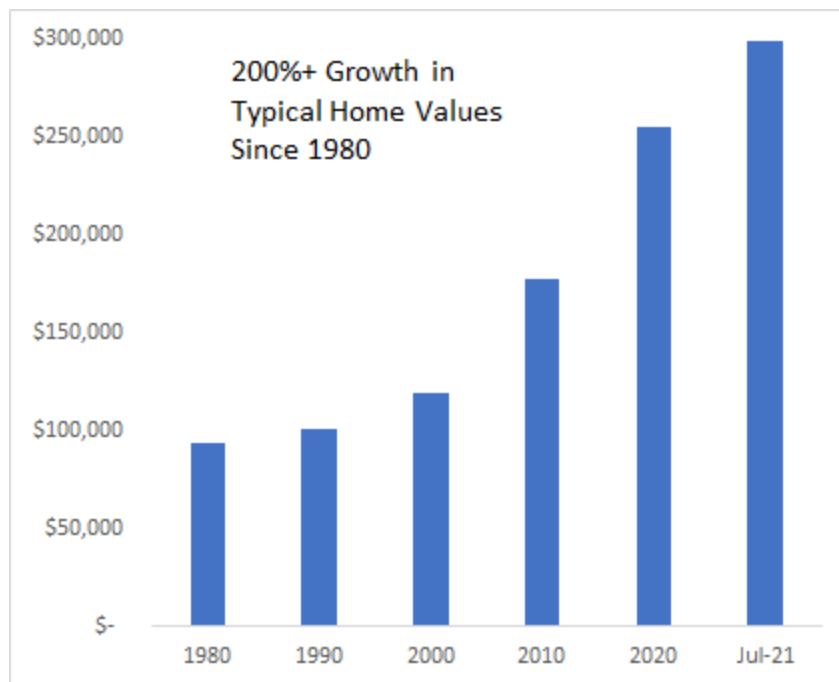
Mortgages on real homes in the US are the foundation of the benefits HomeCoin provides. A mortgage is a loan secured by the value of a home. It's a promise to repay a certain amount of money, a little bit each month, to a bank or investor over many years or decades. It's also a promise to give the bank your home if you can't repay the debt.

Because a mortgage is secured by a home, it's rare for the lender to lose money. This protection makes interest rates for secured loans much lower for the borrower than unsecured loans like credit cards – usually 3-8% instead of 20-30% (source: [Investopedia](#)).

Secured loans are very desirable for lenders because there is far less risk of losing money. In the worst case, the lender can sell the house and use the money from the sale to repay the loan. Usually the loan amount is only a fraction of the value of the house. This is why there are \$2 trillion worth of mortgages purchased by banks, companies, and governments each year. In fact, the US government currently holds \$2.38 trillion worth of mortgages.

Mortgages are especially profitable for banks. They make money by lending out the money their customers keep in their checking and savings accounts. For example, a bank takes deposits from people like you and uses your money to purchase mortgages. Those mortgages will earn around 5.0% in interest at 2022 rates. The bank only shares 0.50% or less of that interest with you. They keep the other 4.50% interest for themselves as profit. That means that Wells Fargo, who holds almost \$275 billion in mortgages, will earn over \$8 billion each year from *your money* deposited in their accounts.

The U.S. housing market has been consistent over many centuries and has grown over 200% since 1980. The few country-wide disruptions have been short-lived and seen housing prices surpass their previous highs quickly. As is often said, people always need a place to live. Historically low mortgage rates in the past 20 years also show how desirable these loans are to the market.



Source: US Census Data and Zillow Home Value Index

What if we could put the power of mortgages into the hands of anyone who can buy crypto and use that power to vastly reduce the cost and increase the ease at which someone can purchase or refinance a house?

HomeCoin Protocol

HomeCoin brings the same power and value that mortgages give banks, financial institutions, and governments to *anyone who can buy cryptocurrency*. No matter where you live, you can purchase the HOME coin and enjoy the stability of mortgages backed by real homes and receive benefits from interest payments on those mortgages.

HomeCoin is a decentralized system built using smart contracts on the Ethereum blockchain. Anyone with a crypto wallet can lend money and earn interest and most importantly, see exactly which homes they are lending against. Anyone with a home that meets the protocol's criteria can create an NFT and use it as collateral to borrow USDC.

HomeCoin has several important pieces:

- **Pans** — smart contracts that pool funds, mint the Home coin and fund loans that match the Pan's criteria.
- **HOME** — the first of many expected StableCoins.
- **Eggs** — NFTs that hold information about the home and represent a lien on the house
- **BACON** — a governance token that controls the parameters and structure of the protocol

To make HomeCoin powerful and flexible, we broke apart a traditional mortgage and separated it into two pieces that normally are tightly connected:

1. The right to claim part of the value of a house, called a lien
2. A loan secured by that lien and an agreement to repay the loan

Separating these two makes it possible to keep the connection to real-world legal contracts incredibly small and simple. Everything beyond that small real-world interaction moves onto the blockchain as smart contracts that are open, predictable, and, most valuably, decentralized and composable. A decentralized group of Originators are incentivized by the protocol to handle the small real-world relationships. The amount of trust required of any one, off-chain party is minimized.

HOME

HOME is a stablecoin powered by HomeCoin's mortgage lending. It is backed by on-chain mortgages and the value of the homes used as collateral. HOME is also unique in providing rewards even when it's only held in a wallet. Staking HOME for longer periods can boost the possible rewards. HOME's stability comes from the value of

liens against real homes in the US. Its growth comes from interest payments made by borrowers.

As loans are repaid, over time, interest payments flow into the protocol. Interest payments power the rewards provided by the protocol's smart contracts and provide liquidity to HOME holders as they exchange in and out of HOME. HOME's value stays pegged to the US Dollar and it's stability is increased based on the amount of payments that flow back into the protocol from borrowers payments. This plus piece is why banks and governments use mortgages they hold their value and return value over time.

HOME is the token minted by the first Pan in the protocol. The mortgages backing HOME all meet the Fannie Mae and Freddie Mac Conforming Loan guidelines. These include requirements about the loan amounts, home value, borrower credit, borrower income, and all state and federal regulations. These are the basic criteria from Fannie Mae that will be used by the first HOME mortgages:

Borrower FICO Score	640+
Borrower Debt to Income Ratio	< 45%
Egg Value to Home Value Ratio (LTV)	< 80%
Maximum Egg Value	Fannie Mae Limit (\$647,200 in most counties in 2022)

Pans

Pans are the core smart contract for lending to the borrower and minting tokens.

At launch, there is only one Pan. Over time, the protocol may add new Pans that target specific kinds of homes or loans. Protocol Governance will vote on whether to create new Pans and which Pans to include or exclude from the protocol. These guidelines are read from an on-chain oracle and enforced by the Pan when an Egg is deposited to create a loan.

Like in traditional finance, HOME holders may be interested in buying and holding coins backed by specific kinds of homes or homeowners. HomeCoin uses Pans to mint stablecoins. HOME is the first Pan-minted token. Governance will be

responsible for proposing and voting on new Pans and their criteria for lending. For example, a new Pan could be created, BOSTON, that is backed only by homes in the city of Boston. Or, a JUMBO token could be created back only by homes that are worth more than \$1 million.

When a liquidity provider (someone with a crypto wallet) deposits USDC in the Pan, the Pan mints its corresponding stablecoin, like HOME, in exchange. A HOME holder can also withdraw USDC in exchange for their HOME. The exchange rate between the two is held fixed to 1:1 by the Pan. The amount of USDC in the Pan plus the amount of outstanding loans is always equal to the amount of outstanding HOME.

The Pan also acts as the lender to borrowers holding Eggs. A borrower that has an Egg can deposit their Egg into a Pan in exchange for a loan of USDC. The borrower then pays the interest and principal on the loan over time by sending USDC to the Pan. When no principal remains on the loan, the borrower can withdraw and destroy the Egg. The borrower is not able to take any action that would cause their loan or Egg to go outside the parameters the Pan requires.

Eggs

Eggs are ERC-721 NFTs that represent a lien on a specific house for a specific dollar amount.

One Egg might represent a \$10,000 lien on 123 Main St, Springfield, IL 62702. That Egg gives the holder the right to \$10,000 from the sale of 123 Main St, Springfield, IL 62702. That right can only be used if the owner of the house fails to make payments on any loans backed by the Egg. For example, they might have staked the Egg in HomeCoin and, in return, borrowed \$10,000 USDC. If they fail to pay back the \$10,000, the Originator can liquidate the Egg through foreclosure and return the \$10,000 to the protocol.

When a homeowner wishes to remove the lien from their property, they simply send a free and clear Egg back to the Originator. This is done by paying back the full amount borrowed. The issuing contract will signal the Originator to remove the lien from the public record. Oracles will be setup to watch the county lien records and report them to the blockchain to increase trust.

The Egg token contains basic data about the lien and the house. We only include data that is already on the public record at the county courthouse to balance the Egg owner's privacy with the stability that the data provides. Note that the Egg does not include the owner's name or any credit or other financial data.

The included data is:

- House address
- Amount of the lien
- Value of any liens that are "senior" to the Egg at the time it was created
- A image representing the house

This data is specifically chosen to let protocols that use Eggs determine the value of the Egg. The house address makes it possible to use an oracle to determine the specifications of the house like its current estimated value. That value and the value of the senior liens makes it possible to calculate the Egg's LTV (lien-to-value) and the total LTV of all loans on the house. These ratios are important to any protocols using Eggs that rely on maintaining strict collateralization ratios to maintain stability.

Originators

Eggs are minted by a variety of Originators. Originators are entities that are incentivized to mint Eggs on the protocol's behalf. Originators are regulated and licensed organizations that are elected by the community to provide this service. Today these organizations are regulated and licensed by states they operate in and the federal government to make mortgages and record liens. Originators are subject to reviews and audits on a regular basis.

Before minting an Egg, an Originator must:

1. Show that the house is worth enough to cover the value of the Egg.
2. Check that the person they are minting the Egg for is the rightful owner of the house.
3. Sign a Deed of Trust agreement with the owner to create a lien.
4. Record the lien on the public record with the county the house is in.

Once the lien is recorded, the mortgage is complete and it can be sold to the protocol and the payments for the loan can flow back to those holding HOME Coin as rewards. In the future you could imagine a world where the originator transfers the Egg to the owner, who is then free to use the Egg as they wish in any protocol that uses Eggs. Most borrowers will immediately use the Egg to borrow USDC from a Pan thru the Originator which is how it works today. Eggs will not be limited to use in HomeCoin and other protocols may also be interested in accepting Eggs as collateral.

Over the life of the Egg, the Originator is also responsible for ensuring that the owner maintains the house. The Deed of Trust requires the owner to maintain the house such that if it needed to be sold to pay off the lien, it would be valuable enough to do so. The owner agrees to keep the house in decent condition, to insure it properly, and to pay all taxes.

The trust the protocol places in the Originator to create, maintain, and, if necessary, enforce the lien is the only necessary connection to the real world. Our intent is to keep the real-world integration very small and strictly limited to Eggs. Doing this provides all the flexibility of the blockchain ecosystem to homeowners and limits the number of places blockchain participants have to place trust in an off-chain agent. The originator is highly incentivized in the real world to maintain this trust. If it was discovered by a state or federal agency this trust had been broken the originator would have its licenses revoked, pay hefty fines and lose the ability to conduct business in that state or states.

Fees

Originators are incentivized by fees they earn for the two functions they provide: minting Eggs and servicing loans. The Protocol also earns fees on each mint and servicing payment for serving as a platform. The Originator's share is sent to their wallet. The Protocol's share is kept in the protocol treasury for use as directed by the DAO.

When an Egg is used to take out a loan from a Pan, the Originator is given HOME worth 0.50% of the amount of the loan and the Protocol is given HOME worth 0.50%. When the Originator services a loan and sends a payment to the Pan, they

are given 0.50% percentage point of the interest and the Protocol is also given 0.50% percentage points.

For example, an Originator creates a \$100k Egg on a \$1M home. Then, the homeowner uses the Egg to get a 100k USDC loan at 3% interest. When that loan is created, the Originator and Protocol are each sent 0.50% of the loan amount or \$500 worth of HOME.

This loan requires the borrower to make a minimum payment each month of the interest due. The monthly interest is 0.25% (3.0% / 12) or \$250 per month. The Originator and the Protocol each receive 0.5% yearly (0.0416% monthly) as well for servicing the loan. When the borrower makes the \$250 monthly payment, all 250 USDC are sent to the Pan and the value of HOME increase accordingly. The Originator and the Protocol are each sent \$41.67 worth of HOME for their services.

This chart shows the breakdown of rates and fees.

Loan Amount	\$100,000	Interest Due (3.0% / 12)	\$250.00
Interest Rate	3.0%	Net value to Pan	\$166.66
Originator Fee (0.5%)	\$500	Servicer Fee (0.5% / 12)	\$41.67
Protocol Fee (0.5%)	\$500	Protocol Fee (0.5% / 12)	\$41.67

Smart Loans

HomeCoin allows a homeowner to exchange a lien on a home for an NFT representing a part of the value of their home that they can use as collateral broadly across DeFi. Most of the time, the NFT will be used as collateral in a loan from HomeCoin soon after the NFT is minted.

Here's how this would work for people who own a home.

1. You decide you would like to get some cash out of your home and sign up for a Smart Loan.
2. You enter your name and address.
3. An approved Servicer such as LoanSnap calculates how much your home is worth and finds any existing loans on your home.
4. LoanSnap shows the value in your home and lets you decide how much you want to borrow.
5. As quickly as one or two days later, you sign the Smart Loan agreement.
6. LoanSnap mints an NFT, called an Egg, and sends it to you.
7. You put your Egg in a Pan in return for USDC and in the future other cryptocurrencies
8. You make payments back to HomeCoin which will initially be handled by the company servicing your loan. You can pay as little as just the interest due or as much as you want with no penalties.

Your house becomes part of the group of houses that back HOME and you get dollars deposited into your account.

In future versions you can get HOME coins or cash, but for now you get cash that you can use for whatever you want just like a mortgage from a Bank. The difference is that you get to choose how fast you pay the money back.

This has two main advantages over a traditional mortgage:

1. The rate will be lower which means your payments will be lower
2. You no longer have to refinance your home to get more money. You can just sign a new Smart Loan agreement to increase your credit line up to 75% of the value of your home.

HOME requires a lien (a promise guaranteed by your house), but you get cash which you can repay as fast or as slow as you'd like as long as you make the monthly interest payments. Best of all, the loans can be refinanced at the press of a button. When rates go down, the borrower can see that their monthly payment can be lower and choose to pay off the existing loan with a new one at the lower prevailing rate.

Automated Market Maker

HomeCoin uses an Automated Market Maker (AMM) to decide the interest rates borrowers will pay and that HOME holders will earn. This is similar to the AMM system used in many decentralized exchanges today. The AMM creates a simple supply-demand curve to incentivize borrowers and liquidity providers to participate in the system when needed.

The amount of liquidity waiting in the Pan to be lent out drives the current interest rate. The size of the loan is also taken into account. Larger loans consume more liquidity so they are given at higher interest rates.

When there is lots of excess liquidity, the AMM moves rates lower down the curve to entice borrowers into the protocol. Those borrowers will stake their Eggs in the Pan and borrow USDC, which reduces the liquidity.

When there is little liquidity in the contract, the AMM moves rates higher up the curve and loans are made at higher interest rates to borrowers. As the rates of new loans increase, the average rate for loans in the Pan increases. This higher interest rate will make holding the token and providing liquidity more attractive. This will lead liquidity providers to deposit USDC in exchange for HOME, which increases liquidity in the protocol and brings rates back down.

Rates will naturally find a balancing point that indicates the current price for liquidity and borrowing. The AMM currently targets a 80-90% utilization rate. We have found this to be a good balance between using funds actively and leaving USDC available in the Pan for liquidity providers to have flexibility.

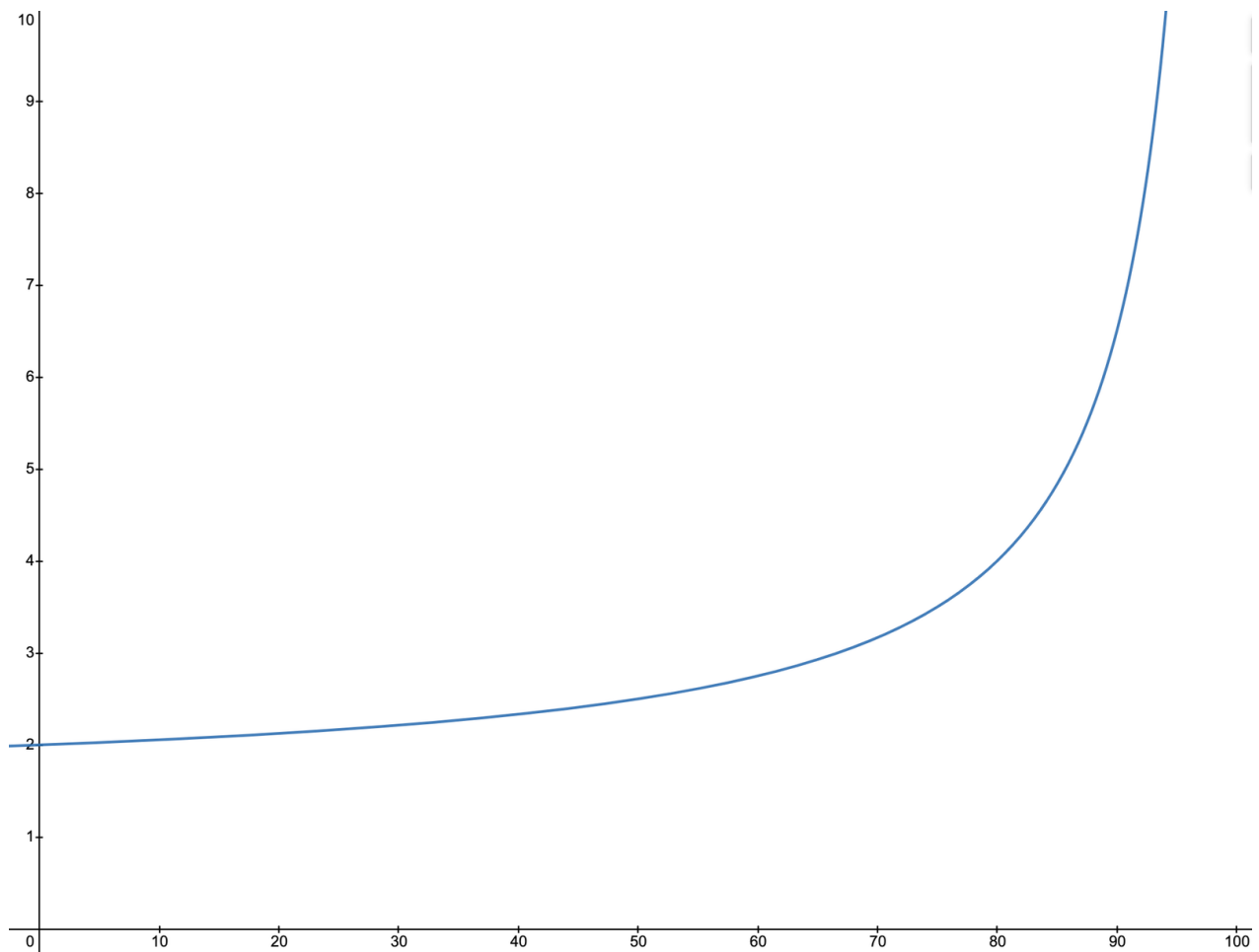
The AMM sets the rate for a specific loan based on the utilization of the Pan after the USDC is withdrawn by the borrower. This makes higher loan amount have higher rates since they consume more of the liquidity in the Pan.

The AMM uses this function to calculate the rate for a given loan:

$$Rate = \frac{Utilization - k}{Utilization - 100} - \frac{k}{100} + Base$$

Where

- **Utilization** is the current percentage of the Pan that is lent out. For example, if the Pan has received 10 million USDC and 7.5 million has been lent, the utilization is **75**.
- **Base** is the minimum rate. It is currently set to **2.0**.
- **k** determines how quickly rates increase with utilization. It sets the shape of the curve. It is currently set to **150**.



Graph of AMM for Rate % as a function of Utilization %

This chart shows the rate function. At 0% utilization, the rate is dictated by the Base to 2.0%. The curve stays relatively flat through the low utilization ratios to push Pan usage towards the 80-90% target. At 80% utilization, the interest rate is 4.0%, which is around current market rates for 30 year loans as of March 2022. At 90% utilization, the rate is 6.5%. Above that, the rates get prohibitively high intentionally to prevent the Pan from having 100% utilization so HOME holders have the ability to move liquidity in and out.

Handling Borrower Defaults

A borrower defaults on a loan if they fail to pay the minimum monthly loan payment. Most people prioritize the payment on their living space and most valuable asset. However, it does and will happen that a borrower fails to repay their loan. Historically, the delinquency rate has been around 2% (<https://fred.stlouisfed.org/series/DRSFRMACBS>). Because the mortgages stabilizing HOME are secured loans, the value of the house is available to make the related Pan whole if the borrowers aren't able to catch up on their payments.

HomeCoin's goal is always to balance the needs of the HOME holders with the rights and needs of the borrowers. In cases where the protocol must liquidate to maintain stability, HomeCoin will keep the borrower's Egg and recoup the lost value when either the borrower sells the home or the servicer sells the home through foreclosure. The dollars from the sale are converted to USDC and repaid using the emergency repay method on the Pan contract.

BACON

HomeCoin will have a corresponding governance token, BACON. Over time, as HomeCoin and its community grows, control and governance of the protocol will be decentralized. Voting by the BACON token holders will drive all major policy decisions.

The protocol treasury is also controlled by BACON token governance. The treasury controls a portion of the BACON — 10% of tokens vested over 4 years. It is expected the DAO will vote to use these funds to improve the protocol. Also, as described

above, the treasury earns a 0.50% origination fee and a 0.50% APY ongoing service fee. These fees are paid directly to the treasury in HOME and create a significant ongoing revenue stream for the protocol. For example, for each \$1 billion in originated loans, the treasury would earn \$5 million up front and \$5 million per year that the loans are active.

Governance through BACON may have these functions, control of the protocol, and other rights and responsibilities that the creators and community decide:

1. Creation of new Pans
2. Adjustment of AMM parameters
3. Changes to protocol behavior
4. Allocation of liquidity incentives
5. Usage of treasury funds
6. Bonding for servicers

Early HOME liquidity providers will be given BACON as a reward for helping to bootstrap the protocol. That group that receives BACON for their participation in the protocol will form the core of the community and decentralized governance.

Other utility functions are being considered for BACON. These include access to broader data for large holders and the ability to propose the creation of new Pans.

Tokenomics

BACON will also be made available to the various protocol participants for their contributions. During the first 4 years, 1 billion tokens will be minted and distributed.

A DAO will be established and funded that will be responsible for the long term care and maintenance of the protocol. All BACON participants are given a token unlock schedule to ensure that BACON holders are users or liquidity providers with a long term commitment to the growth and success of the overall Protocol. Tokens distributed to the LoanSnap investors and contributors will be minted and distributed on a 4 year vesting schedule.

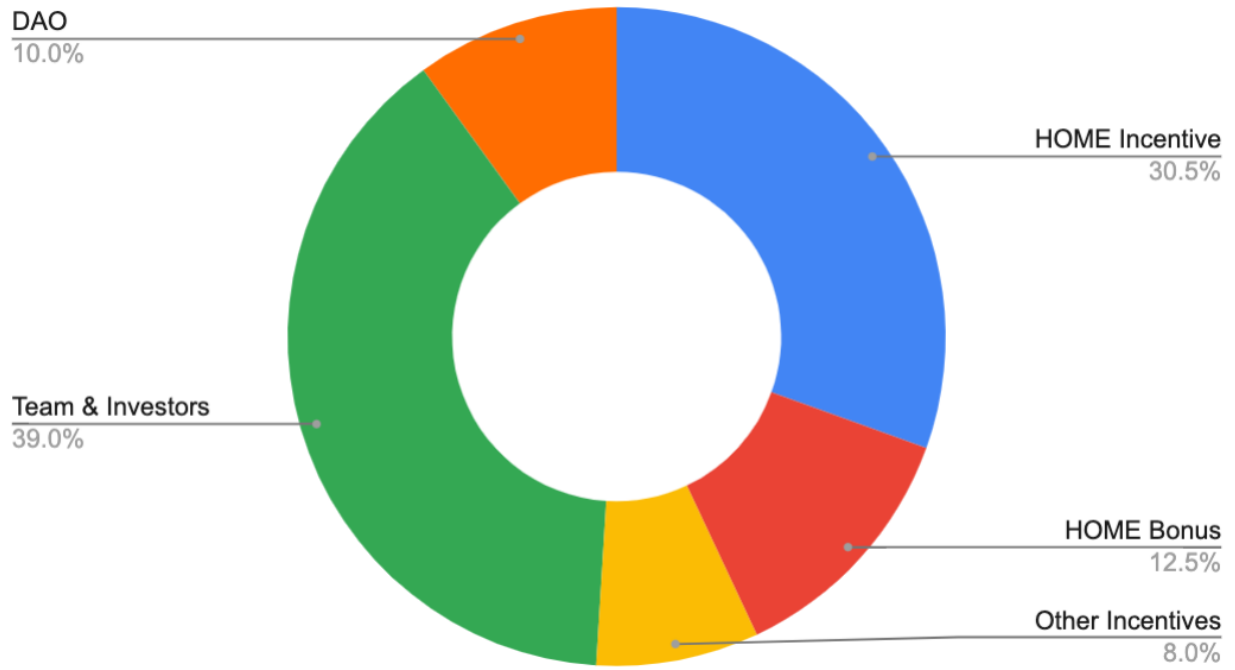
An ongoing liquidity incentive will be provided to all USDC contributors. This incentive will be distributed pro-rata across all liquidity in Pans at a rate of 50 tokens per block (~300k per day) during the first year. After the first year, the incentive will decay at a rate of 1% per week until the end of year 4 when it will target a 2% per year rate.

To give strong incentive to the earliest liquidity providers, an Early Liquidity Bonus will also be distributed pro-rata to the contributors of the first \$100M USDC. The bonus will be about 12% of pool and will be distributed over the first year the protocol is live. It is expected that the bonus will also be 50 tokens per block (~300k per day).

An early liquidity provider in the first \$100M would earn tokens from both the ongoing liquidity incentive and the bonus pool during the first year. That liquidity provider could earn up to 300k tokens per day from the bonus plus up to 300k tokens per day from the incentive, for up to 600k tokens per day.

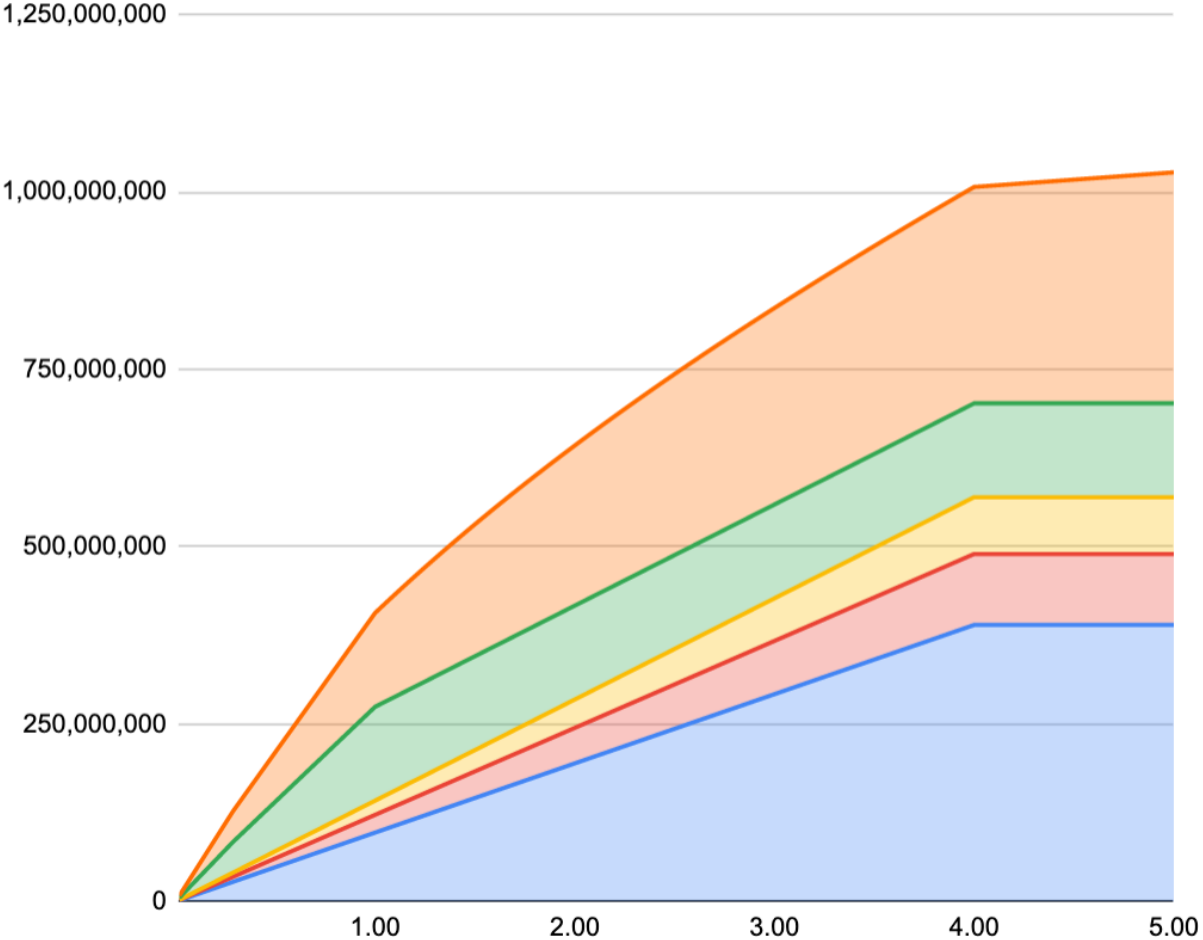
We anticipate the need to incentivize other liquidity and community distribution and participation over time and have reserved a portion of the community tokens for these programs. For example, once the BACON token is launched, there may be an incentive to provide liquidity on DEXs like Uniswap.

Holder	Percentage	Purpose	Unlock Schedule
Community	51.00%	Various Liquidity incentives	Minted per-block over 4 years. Bonus to first \$100M liquidity during first year. 2% inflation after year 4.
DAO	10.00%	Held for future use by the DAO	Continuous release over 4 years
Team and Investors	39.00%	Early Investors & Team	Continuous release over 4 years



Token Unlock Schedule

HOME Incentive HOME Bonus Other Incentives DAO Team and Investors



Team

Special thanks to Roque Ballesteros, Kurt Jacob, and Zane Witherspoon for their unique contributions to the invention of HomeCoin.