



PODCAST TRANSCRIPTION SESSION NO. 143-BLAKE COHEN

Welcome to the Lend Academy Podcast, Episode No. 143. This is your host, Peter Renton, Founder of Lend Academy and Co-Founder of LendIt Fintech.

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Peter Renton: Today on the show, I'm delighted to welcome Blake Cohen, he is the Co-Founder and Head of Business Development at SALT Lending. Now SALT Lending are not your traditional type of lender, not your traditional type of online lender. They are a brand new type of lender that is emerging today which is basically taking cryptocurrency assets and making secured loans against those assets. They have a really unique model, we delve into their membership model in some depth, we talk about their underwriting, we talk about how they are funding these loans and what the future holds for cryptocurrency and for blockchain. It was a fascinating interview, hope you enjoy the show!

Welcome to the podcast, Blake!

Blake Cohen: Thank you, Peter.

Peter: Okay, so I like to get these things started by giving the listeners a little bit of background about yourself. Can you just tell us what you've done in your career to date?

Blake: Sure, so my family has been in the real estate business in Denver for three generations and my father also is Principal of a consulting company called, Signet Partners, and I worked in the family real estate business and back in 2012, started looking at emerging markets as potentially other places for that consulting company to look for business and that is how I got into blockchain.

Peter: Okay, so just tell us a little bit about your history with blockchain and bitcoin.

Blake: Sure, so as I mentioned, I was really looking for emerging markets as a way for the small consulting company to have an advantage in terms of competing with some of the Big Five accounting and consulting firms. In 2014, started to kind of see articles about bitcoin and blockchain popping up here and there and just thought I should probably figure out what this stuff is.

I had a friend who posted about it on Facebook all the time, and I called him and said, hey, I'll buy you breakfast and you explain to me what this is. We did that and it sounded good to me and it sounded like a useful technology and a useful product and I asked him if he knew anybody who was trying to make an entrepreneurial play in the space. And he introduced me to



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my partners and co-founders at that time, or at least some of them, Shawn Owen, our CEO, and Caleb Slade, our Community Director.

Peter: Okay, so obviously from that point that was the genesis of SALT Lending, but I guess maybe we could talk about what did you see in this space that sort of led to the founding of SALT Lending?

Blake: Sure, so the first thing I did coming from the real estate business is I Googled blockchain, bitcoin and real estate. Even back in 2014, there were companies who were largely in developing nations, moving real estate title to the blockchain. You know, in this country we kind of take chain of title for granted; you buy a house and you have these kind of arcane documents which are being stored by the county or the city and these titles can go back dozens and hundreds of years in some cases.

In some cases, you'll be required by the lender to get title insurance, but in general, you can buy a piece of property here and be secure that it is yours and that it has been granted to you legally and when it comes time to sell it, you will be able to sell it and nobody is going to come out of the woodwork and claim it as their own. In other countries, it's not so secure. You know, corruption can come into play, money can come into play. If a wealthy person decides that they want a piece of property that a poor person owns, they can usually grease some palms and get that title transferred to their name so blockchain is obviously an ideal way to keep that from happening.

Blockchain is, the way I see it, it's chain of title, and it's an immutable chain of title so it's ideal for that application. So that was the first thing that I was looking at and it seemed like even though this was very useful in this country it would be hard to move title companies off of their mark or make them obsolete. I think that might happen eventually and/or title companies will adopt blockchain for their own purposes, but that was kind of how I got started.

Once I met my partners in March of 2015, you know, we really just decided that we'd take some time to survey the landscape and see what opportunities would make themselves known. My premise in emerging markets is that in an emerging market or an immature market you have fundamental products and services that have not yet been created or are not available. It's kind of the picks and axes approach.

Peter: Right.

Blake: And so that's what we did. We spent the first three quarters of 2015 just whiteboarding and coming up with ideas, brainstorming and came up with the idea for SALT Lending in October of 2015.

Peter: So tell us, you had the idea and what did you do over the next year or two prior to launch. When did you launch?



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Blake: Sure, so as I mentioned, the idea really arose in October of 2015 through a conversation with Erik Voorhees. You know my partners and I sat down with him and kind of asked him what he would be doing if he were not running ShapeShift and we banged around a number of ideas, including futures markets and using the blockchain for content, music content.

At some point, Erik said that he wished he could take a loan out backed by his bitcoin and it seemed crazy to me that he couldn't do that. I actually thought at the time, oh you know, Erik just doesn't have the right banking relationships. In the real estate world that's how you do business, you have relationships with banks and bankers, and you get lines of credit; you know, the entire real estate ecosystem is built on the back of asset-backed lending.

After that conversation I quickly realized that I was the naive one, not Erik and that you walk into a bank, you tell them that you'd like a loan and they say, great, what are you going to secure it with and you say bitcoin. Well here we are in 2018, and they still laugh at you, all the more so in 2015 and earlier. In fact, Shawn told me that he actually walked into a bank at one point to get a loan and had bitcoin on his balance sheet and they just basically zeroed that out. So it had been on Shawn's mind and I didn't think of it until Erik mentioned it.

But once I went home after that conversation, I Googled it and saw that nobody was in fact doing that and started to think of the reasons why. You have this new esoteric asset class, banks are notoriously conservative and risk averse and you had a real philosophical gap at that time between the traditional financial world and the cryptocurrency world and there are all of these barriers to this.

My heart kind of went a flutter and I thought this is the business that we should be pursuing, called Shawn, talked about it and he agreed. Pretty much from that moment forth, we were totally focused on building SALT Lending. Like I said that was October 2015 and we launched or I kind of prefer the term started our rollout in the last week of December of 2017.

Peter: Okay, so I mistakenly suggested in an email that we had earlier that you did an ICO and you said, no, you didn't do an ICO, you did a discounted membership sale. There is a SALT token, I'm looking at it right now on CoinMarketCap.com and you're one of the top 100 tokens or cryptocurrencies available today. So tell us about the discounted membership sale and why you went that route as opposed to the ICO route that many others were doing.

Blake: Sure, we had long thought of this platform to which we would charge membership or have a subscription so that had kind of always been the plan and I sometimes refer to it as an analogue to a dating site like Match.com. You know, Match.com, you have men and women, they want to meet each other, you have Match which is the platform, they come, they pay a monthly or yearly subscription, I don't really know how it works anymore, I have been married for too long to remember that (Peter laughs).

There are different tiers of membership, depending on how much access you want to have and we saw this in the same way only instead of bringing men and women who wanted to date, you are bringing together borrowers and lenders. So we had always contemplated this as a



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subscription service and having these subscriptions be among our revenue streams. Then I think we quickly realized that membership should be denoted in blockchain tokens or somehow accounted for using the blockchain.

We're a blockchain company, we should be harnessing all of the best aspects of this technology and all the efficiencies that it affords. So we started thinking about that representing memberships with some kind of blockchain asset. Then we realized that...I should say that we were contemplating ways to both have a membership discovery, a price discovery and a marketing effort, really a way to find out who is interested in using this service, how many people are interested in using this service, are they willing to pay for this service, and that was partly our own curiosity, although we strongly suspected that there was a huge need for this.

You have bitcoin which in October of 2015 I think was somewhere around a \$10 billion market cap and growing rapidly as we built this out. We saw that happening and we certainly recognized that you had a real inefficiency when you have a totally unleveraged asset, but in our early conversations with bankers, I naively thought that I would be able to convince some of these local banks to loan against bitcoin which did not materialize at that point certainly.

But one of the first questions that they had was what's the demand here, do you have any customers, does anybody want to use this service? And we realized that we needed something more than anecdotal evidence and circumstantial evidence, you know, it wasn't enough to say here is the market cap of bitcoin, it's totally unleveraged and here are five well known persons in the bitcoin space who have said that they will want to use this. We needed some real hard evidence if people wanted to use this.

So we did some calculations on the economics of membership, the economics of subscription and came up with some ideas of what a membership or a subscription might be worth and different tiers of membership and subscription. We thought well if we sell these memberships at a discount that could be a great way to really do some market discovery and some price discovery, find out who thinks enough of what we are offering to purchase it in advance and launch.

Peter: So how did that go then, what was the demand?

Blake: I would say it was as expected which was very good. (Peter laughs) I felt that we would have tremendous demand, but there's always that question in the back of your mind well what if we are just fooling ourselves and nobody really wants or needs this service. Now a service as fundamental as leverage in credit. Obviously people are going to need that.

I will say that that is one of the primary reasons why I was attracted to this business model is that it's very easy to understand, it's a tried and true business model, it's not esoteric, it's just asset-backed lending; the only difference being that the asset class that you're lending against is new. It's new, but it also happens to have ideal qualities of a collateral in that it is highly divisible, highly fungible, highly liquid. So the membership sale went very well, you know, we really reached out to known parties, people we knew personally, people who we met at



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conferences and they were aware of what we were doing, we offered our memberships with the understanding that this was the cheapest that they were going to purchase memberships.

Let's say they were contemplating using their crypto assets as collateral for loans in the future and were going to want our service, they would be able to essentially buy it at a discount. We did a lot of revenue in 2017, I think we kept our discounted membership sale open for 90 days or so, didn't advertise it, it was all word-of-mouth and we have a lot of happy borrowers and future borrowers right now who are going to be able to take out loans for very cheap for the foreseeable future.

Peter: Right, you were selling these memberships which were really a SALT token, right, and people were paying in ethereum or any kind of crypto or could they pay in US dollars, how did it all work?

Blake: Yeah, that's right, it's a SALT membership token, it's an ERC20 token, they were primarily paying in bitcoin, also ether and they were also able to use ShapeShift to pay using whatever crypto they had on hand and we did have a few cash buyers as well.

Peter: Right, what people were buying was really just a membership with the promise down the road if they want to use your service, they can. This wasn't sort of people who were suddenly putting up a loan immediately, this was just people who wanted to do this down the road, is that right?

Blake: Exactly, it would be like if a gym was opening up down the road and they were offering memberships at a discounted rate to attract as many users as possible in advance of actually opening their doors knowing that if you are a potential user for that gym, you know that this is the cheapest you're ever going to be able to buy a membership to that gym. So that's how people were looking at it.

You know, I think we have a lot of users who are aware that this was going to be a very valuable service. Really anybody who's holding crypto instantly understands the value proposition that we're offering here. If you purchased crypto and you are a holder and you have cash needs at any point, you really have only one option which is to sell it and selling it leads to two outcomes; one, you lose out on the continuing appreciating value of the asset inasmuch as it will appreciate; two, you will have a tax event, some kind of capital gains tax event, whether it's short term or long term, and both of those are expensive.

So the idea that you could use your crypto holdings, your blockchain asset holdings as collateral and not have to dispose of them, not be subject to taxable events and be able to realize some liquidity instantly makes sense to anybody who's holding and has had to sell to finance anything, whether it's to grow their business, to pay off student loans, to pay off medical bills, to buy a house or a car, to pay rent, to go on a vacation, whatever the use case is for those funds. Most people in crypto have had the experience of selling, seeing it appreciate and realizing that the thing you purchased with it is now much more expensive than it was at the time you paid for it.



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Peter: Yes, yes, I'm one of those people. I bought in January 2015 and I sold 40% of my holdings only before...I think the last time I sold it was at 11,000 and saw it go up but I sold it also at 2,000 and then at 4,000 or whatever so anyway, I've regretted selling that.

Anyway, I wanted to just get down to the nitty gritty here. Your SALT token right now, according to CoinMarketCap is trading at \$4.25. If you want to go and take out a loan or want to join your...now it's not a discounted membership, how much is membership today?

Blake: I think we're selling them directly from us for \$27.50, you know, what our tokens are trading for on the secondary market is not our concern, you can buy them wherever you want. If you use them to take out a loan or to purchase any other products and services that we offer on our platform, we will honor them at the \$27.50 price.

Peter: So does that mean to take out a loan you need to have one SALT token to take out a loan?

Blake: Well we have different tiers of membership which basically gives you access to the platform and then we also represent loan origination and servicing fees are denominated in SALT as well. So really all of our products and services, the price is denominated in SALT.

Peter: Okay, got it. Let's just get to an example. I want to take out a loan, I've got 100 bitcoin and I want to take out a loan for \$25,000 or what have you. What do I need to do to take out that loan? I imagine I need to move some of my bitcoin over to SALT for you to basically have it as collateral? How does that process work?

Blake: Sure, so the first thing you need to do is set up an account and then purchase a membership or your subscription, your yearly subscription, which is a minimum of one SALT. At that point, you will search for a loan. I'll add here that our rollout right now...within three weeks of launching we had over \$1 billion in loan demand and we have to date funded \$20 million of that so we're just scratching the surface. I don't want to set the expectation that people can get loans instantly.

Peter: (laughs) Right.

Blake: We're working through a lot of demand and a big part of our rollout is ensuring security. That's really job one in any financial services business and all the more so when it's involving cryptocurrencies so a big part of the reason for our conservative approach to rolling out these loans is ensuring at every step of the process that what we're doing is extremely sound and that not a single cent of borrower or lender money is at risk. However, the process, as I was saying, you make an account, you pay for your yearly subscription, then you will request a loan.

Right now, we're offering three products, 20, 40 and 60% loan to value loans with interest rates ranging I think from 12 to 20% and I believe 36-month loans. So you request the loan at whatever loan to value ratio you want. Once you've been notified that your loan is available, you will send your collateral to a multi-signature wallet where the borrower, lender, the SALT



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Lending Oracle, the SALT Oracle or the computer brain that monitors the collateral as well as the contract, holds the key and a third party essentially escrow agent holds a key.

Once your collateral lands in the wallet you will have cash wired to your bank account, not wired, but ACH transfer to your bank account. At that point, you will make your payments as prescribed per the terms of the loan, interest or principal and interest, and the Oracle will monitor the value of that collateral. If the value of the collateral is declining at a faster rate than you're paying off your loan there are triggers.

So if the loan hits that first trigger point, say 80% loan to value ratio, a margin call will be issued and the borrower will be given an amount of time to put in more collateral or pay the loan down further to get back to the original loan to value ratio. If the value of the collateral continues to decline, there is the next trigger point that which a liquidation event will be triggered and a portion of the collateral will be sold returning the loan to its original loan to value ratio.

Peter: Okay, you said you launched in December and given the volatility of the market, it has obviously been down quite a bit from a high, well over 40%. I imagine you've had to have trigger events with some of these early borrowers, right?

Blake: Yeah, we have had a number of margin calls. A number of borrowers have responded to those margin calls although, I would say the preponderance of loans have seen borrowers put in more collateral, I think as soon as 15 minutes, as long as 15 hours, but that has typically been the response. We have had, I think, at least one liquidation event and we have had at least one and possibly several loans simply paid and closed out.

Peter: Right, right. On your website you have a video there and I was just watching it. You said in the video that you do no credit checks so this is basically...you can have a FICO score of 450 and you can go and get a loan from you guys because it's based purely on the collateral. Is that correct and can you explain sort of the underwriting process?

Blake: Sure, that's right, no credit check, no personal guarantee; the collateral itself is sufficient to secure the loan.

Peter: Okay, so then I understand because you've got the margin calls, you've got the different things in place, you've got the security so where are you getting the money right now? You said you funded \$20 million, where are you getting that money to fund the loans? Are you planning on having a marketplace with investors, what's happening today and what are your plans?

Blake: Sure, so today we have created a fund that is the lender on the platform, the sole lender on the platform. Much of the capital in that fund to date is our own capital. You know, I think that you have to be willing to eat your own cooking and you have to have skin in the game. It's the first question a savvy investor has is...do you have skin in the game? So we wanted to demonstrate our confidence in this and really show that we were confident enough in this to put in our own capital and we have started to bring in limited partners to this fund as well. So we do



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have investor money continuously rolling in to this fund which is available to accredited investors.

Peter: Right, right.

Blake: Ultimately, this will function as we conceived it which is as a platform where we will have a peer-to-peer component where you can come in as an individual or an LLC and commit your own capital, set your own terms. Essentially, we will match borrowers and lenders, we expect institutions to come in as well as lenders. Ultimately, we think that large institutions such as banks may license our platform, meaning they'll essentially pay to use the software and our risk mitigation software and our interface, but it will be with the skin of whatever particular institution so they can offer this directly to their own customers.

Peter: Interesting, interesting. So then we are almost out of time, but I wanted to get a sense...I mean, we're recording this in mid February and bitcoin and most of the cryptocurrencies have recovered somewhat from the big selloff that they've had. I'm just curious, the volatility of bitcoin and some of the other currencies...I mean, is that tempering demand, do you think, or how do you view the volatility we've had over the last month and a half?

Blake: You know, for my part the volatility is wholly expected. In fact, it's the volatility which makes our service valuable. I do not think it has tempered demand at all, I think that the ecosystem, the market cap of cryptocurrencies is high enough and totally unleveraged that you still have a tremendous amount of pent up demand. I don't think that billion dollars in loan demand has shrunk, I think it has actually continued to grow.

You know, a lot of our customers or potential customers and future customers are exchanges and mining operations, etc. who are somewhat philosophically long on bitcoin and cryptocurrencies. I expect there will be more volatility, I expect there will be some more of those parabolic ramp ups and some of those sharp downturns. I think eventually, as the market matures and more financial products are brought into the ecosystem...we've seen the futures markets take shape, we'll see an ETF sooner rather than later and I think the volatility will smooth out to a certain extent, but that certainly doesn't affect the demand side.

Peter: Right, right. Last question then, what is your vision then for SALT Lending going forward? Is this something...do you expect that all lending will be done this way, I mean, not everyone is going to hold crypto, at least not for a long, long time, so what's your vision then for the future of your company?

Blake: Sure, I'm glad you asked that. You know, very early on in the development of this, I'd say even the first day we got together after deciding that this was going to be the business that we were going to pursue, we recognized that this wasn't a bitcoin play, this wasn't a bitcoin business. We weren't creating a platform where you could use bitcoin as collateral for cash loans. What we were creating was a platform where you could use any blockchain asset as collateral for a loan of any fiat currency or any other blockchain asset, our premise being that all value is moving to the blockchain.



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It's not just going to be native blockchain assets to such as cryptocurrencies but diamonds, gold, fine art, stock portfolios, video game points, real estate. Everything is moving to the blockchain and our platform could facilitate these types of transactions between any payers or even portfolios. So in the future it might not just be use your bitcoin as collateral, get a cash loan; it might be use your stock portfolio as collateral to borrow and spend ether, use your ether as collateral to borrow and spend video game points where the general underlying premise is use your appreciating asset as collateral to borrow and spend depreciating assets. It's kind of Gresham's Law in hyperspeed.

Peter: Fascinating, we're living in a new world and it's going to be fascinating to see how it all plays out. I really appreciate you coming on the show and sharing your thoughts today, Blake.

Blake: Yeah, thank you very much, Peter, I appreciate being on.

Peter: Okay, see you.

Blake: Thanks.

Peter: I don't think any of us really know what's going to happen with the future of blockchain technology, but we do know this...that every single Fortune 500 company has some kind of blockchain strategy. Every major bank is looking at this. They're doing it because the technology itself has some tremendous advantages and whether or not this world comes to pass, as Blake describes, remains to be seen, whether it takes a decade, two decades or it never happens.

But I think we can confidently say that blockchain technology is going to play a larger role in financial services going forward. If it does become the way Blake describes it, obviously SALT Lending are very well positioned to take advantage of that.

Anyway on that note, I will sign off. I very much appreciate you listening and I'll catch you next time. Bye.

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