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Company: USDF Consortium

Bank FinTech Showcase Interview Series

CEO: Robert Morgan

Current Client: FirstBank (Tennessee,) CIO Wade Peery

Category: Tokenized Money / Blockchain

Preview

We firmly believe that the future of money will center around the tokenization of FDIC insured bank deposits. Once tokenized, these digital (and programmable) dollars will move on blockchain rails thereby driving efficiency and creating new opportunities for banks and their customers.

The USDF consortium is a group of like-minded financial institutions looking to build the infrastructure of the future, inclusive of a standardized digital token minted only by FDIC insured banks built on a private, permissioned blockchain based on technology from the Provenance Blockchain.

The opportunities for USDF are wide-ranging and applicable to payments, lending, securitization and a host of other use cases. In addition to technology, the USDF Consortium provides its members with the ability to future proof their organization through education, regulatory insights, best practices and flexible adoption timelines predicated on each institution's unique level of comfort and readiness.

Members of the USDF Consortium will be leaders in the upcoming transformation of money and its "rails."

Robert Albertson

Joining us today is Robert Morgan who recently became CEO of the USDF Consortium, along with one of his clients, Chief Innovation Officer Wade Peery of FirstBank (TN.) Robert, we'll start with you. Please tell us first a bit about your background and experience.

Robert Morgan

Robert, thank you very much for having me. I am excited for this conversation. I've spent my career at the intersection of banking, technology and regulation. Before moving over to lead USDF, I was at the American Bankers Association and spent 11 years there. During that time, I built and led the Office of Innovation. The office helps banks in several ways. It helps banks understand how technology is changing banking, connects them with the startups that can help execute on strategies, and making investments that benefit the industry as a whole.

RA

May I ask you what your assessment is of banks and their adoption of technology? How far into the FinTech space are they?

RM

I am relatively optimistic. We've seen banks over recent years really prove that they are best equipped to bring tech to customers. We've seen waves of fintech innovation come through. There are always early adopters of new technologies. What we've seen year after year, is that banks implement new technology thoughtfully, responsibly, and bring it to their customers through that trusted channel.

RA

Why did you move from the ABA to the USDF Consortium?

RM

In those 11 years I spent at ABA we've seen a lot of different waves of innovation and supposed disruption in banking. As I mentioned, I think banks are really good at bringing their customers those innovative products, services, and technologies. What is happening today is a little bit different. Today, we see a fundamental rethinking of the nature of money and what it means to be a bank.

We see new versions of non-bank money that really threaten, in my view, the future of banking. Therefore, it's critically important that banks build and offer a solution for tokenized money to maintain the deposit banking model that exists today. This will ensure banks are able to continue serving their customers and communities going forward.

RA

Why do you think that non-banks are a threat?

RM

That's a great question. All these other waves of innovation have ultimately connected into a bank at one level. For instance, you can now take a picture of a check to deposit it. Similarly, many neo-banks are just new front-ends for traditional bank accounts. Traditionally, those have always ended in a bank account, whether the front end was a bank or a fintech.

What we're seeing today is a rethinking of that. We have products in market like stablecoins, where non-banks can walk and talk like banks, offering a deposit substitute without being subject to the same regulation. Importantly, they won't be able to lend against those deposits going forward. Similarly, we see debates around whether the Federal Reserve should step in and offer a CBDC, which would act as a competitor with banks for deposits. In both of these scenarios, banks lose the ability to use deposits to extend credit into the communities that they serve.

This stands in stark contrast with the way money exists in our economy today. Currently 73% of money is bank money. That's a liability of an insured depository institution. If we think there's value to having tokenized money, and we do, we think that we should leverage that 73% of money that exists today. **Leverage the two-tier banking system that has worked so well for our economy and bring that to customers through the banking industry.**

RA

Good answer.

Banks typically prefer to wait and see when it comes to adopting new technology. They don't like to be a first mover. Is this a concern for USDF? Are you finding this in the early days as a constraint?

RM

I don't think so. It's really important that banks engage thoughtfully on blockchain. Implementation of blockchain is nothing new. To date, we've primarily seen it outside of the banking industry. That's one of the reasons why banks have struggled when it comes to competing with some of these offerings from non-banks. What we see today is a need for banks to leverage this technology. We see banks that are on the leading edge of implementing these technologies, bringing them to market, but we also have banks who are simply engaging to have a seat at the table. They want to build the sophistication within their institution.

Whether it is from a legal regulatory standpoint, whether it is from a security fraud standpoint, these **banks want to make sure they have all the right controls in place** so that when they do choose to move forward, they're able to do so. We see banks engaging at all levels to try to make sure they have that skill set so that they can create the best plan for their bank, in addition to implementing USDF as a payments rail.

RA

I'm also rather optimistic that technology adoption is going to accelerate going forward. It's been around long enough that I think enough banks start to get it. Can you describe the USDF consortium in more detail and its member benefits?

RM

Absolutely. The USDF is a group of banks that have come together to build the future of banking on blockchain. We are building a network to issue tokenized deposits as representations of an existing bank deposit on blockchain. This facilitates bank-to-bank payments on modern blockchain based rails. The consortium is a way for banks to engage thoughtfully and think about what their blockchain strategy is in the future, participate in those working groups, develop use cases, and then **ultimately implement USDF as a payment solution.**

RA

The recently launched "Regulated Liability Network" (RLN) project with ten financial institutions seems very much in concert with what you have been saying. Tell us about it and your thoughts.

RM

We were excited to see the launch of the RLN proof of concept. This test is a validation of the important role that tokenized deposits will play in the future of payments. USDF has been engaged in these conversations and believe we can play an important role by ensuring that community, midsize, and regional banks can participate in interoperable blockchain-based payments alongside the largest banks in the country.

RA

Where and how does the blockchain add value? I'd like you to be as specific as possible. What are some examples of applications?

RM

I think the benefits of blockchain are often oversold. People tend to promote blockchain as the silver bullet for every problem in the world. The reality is blockchain is a ledger, just like any other, it records assets.

The blockchain can do many things that traditional ledgers cannot facilitate today. **Ultimately, blockchain is a shared ledger. Instead of having silos between organizations, everyone's looking at the same version of the ledger in real time.** You can trust that what's happening on that ledger isn't being changed without your permission. There are really three areas where we see blockchain adding value going forward:

The first is in **faster, cheaper payments**. Blockchain has proven to be a very efficient technology for facilitating that real time transfer of value. We think that can have huge implications for all sorts of payments banks make. Whether it's B2B, peer-to-peer, or retail payments.

The second area where we think there's even more value that blockchain can uniquely facilitate is the **programmable nature of digital money**. What you can do with blockchain that you can't do with other forms of money is have smart payments. That is payments that execute upon a set of real-world conditions. So, an example of this might be the funding of a mortgage. Where today, you'd send money to escrow, that escrow agent would then call and confirm wires to the five or six different parties of that transaction. Leveraging blockchain, you can create a waterfall of smart payments that deliver to the right party at the right time and the right amount. This lowers fraud risk, makes the funding of that asset faster, and ultimately helps create a better customer experience.

The third area where we've seen the most value with blockchain is what happens when we use it as a **system of record for other traditional banking assets**. So, moving beyond payments, to bring something like a loan onto blockchain. In this case, we think blockchain is a better system of record for those assets. It adds a level of transparency where if I wanted to buy a loan from your bank, you can now provision access to your core system with ease. Making it much easier for me to buy that asset. The second thing it does is, now that the payment is on the same system of record as the asset, you can transact between the two in real time without having to reconcile between two different systems of record. Effectively, I can trade my dollars for your loan.

RA

Let's pause here and look at **the blockchain we're talking about, which is quite unique**. The Provenance blockchain is not your average blockchain. It's been highly tailored for one specific end user. Could you delve into USDF structure and purpose and what sets it apart? What defines it?

RM

Yes, absolutely. I think Provenance itself is a blockchain that was **designed for financial institution grade transactions. It was designed from the bottom up** because the blockchains that existed today didn't have the right features those institutional, regulated financial institutions need to engage on chain today. USDF will operate on a separate private, permissioned chain based on the technology of the Provenance blockchain.

USDF as an institution, I think, is different than others in the market for a few really important reasons. One of the things that was important to me moving over is that **USDF is bank owned**. We are helping our banks execute their vision on the chain, not selling them a technology product. That's critically important.

The **second thing** that sets USDF apart from a lot of other activities in this space, is that we're laser focused on real world value. We've seen tons of innovation coming out of the digital asset space. We've seen interesting use cases. **To date, the non-bank crypto ecosystem has failed to connect to the real world.** My belief is that in order to create real value, you must facilitate real world economic activity. That means helping someone buy capital goods, helping facilitate hiring new employees, or helping someone buy a house. So USDF is laser focused on how we use blockchain, not to connect into that non-bank crypto ecosystem, but to drive real world value.

The **third thing that I think is critically important about the way we've built USDF is that it's an open platform**. Being an open platform for innovation means that banks have the freedom to use USDF as a payments rail, to power any application they're choosing. They can bring any one of a number of integration partners and build anything they want with it. **You're not calling your core provider and asking them to build something for you.** You're able to take this build, whatever you want on it, bring it to market, however you see fit.

The last and I think most important piece here is interoperability. We see a ton of different initiatives happening in this space. There are a lot of people experimenting with how to use blockchain and banking. One of the key reasons that we were built as a consortium is for banks to come together to develop those common rules of the road so that all banks can engage in this space.

RA

How does USDF fit into the digital dollar debate?

RM

This is something that's critically important. There is currently a debate happening both in the markets as well as in Washington D.C., around what digital money means. What that means for our economy and what that means for our country. As you and I both know, the dollar is largely digital today. When people think about digitizing the dollar, they often think about the cash in their wallet. The reality is that cash is a very small part of the money that's in the economy. 73% of money today is held as a liability at an insured depository institution.

So, when we're talking about digital dollars, what we're really talking about is tokenized dollars. Can we bring trusted money onto blockchain? Today, there are really two main options being discussed, both of which are inconsistent with the business of banking.

The first as we talked about are non-bank stablecoins. Those have serious risks to consumers. Increasingly, we're seeing that those are going to be required to be fully reserved, **so you can't lend against stablecoin deposits.**

On the other hand, you have discussions on whether the Federal Reserve should issue a retail CBDC, your central bank digital currency. Similarly, this would effectively **mean the Federal Reserve would stand up as a competitor with banks** for deposits. Even if delivered through banks, this will look more like cash sitting in a safety deposit box than it will be a deposit on their balance sheet.

So, in both models, you can't lend against deposits, banks can't fulfill the credit creation role that they play today. What USDF is, is in some sense, the "least novel" solution possible. It's saying if we think there's this value to having money on chain, let's bring the system that exists for our economy today, that two tier banking system, bring that onto chain, leverage the efficiencies from within the existing regulatory framework.

RA

I like your characterization of "least novel." I think it is very apt. Let's take this a bit further. How will the USDF interact with things like a wholesale CBDC or FedNow for instance?

RM

Yes, that's a great question. I think too often the distinction is not drawn between the conversations on a retail CBDC and a wholesale CBDC or really modernizations of any other wholesale payments mechanism. We think that a lot of these initiatives to modernize back-end payments are complementary to what we're building at USDF. **USDF allows banks to bring tokenized money to customers.**

Ultimately banks will still end up settling between each other in that at the end of the day. So we think USDF can help facilitate bringing these wholesale innovations to market and do it in a way that delivers more efficiency and allow banks to maintain that same two-tier structure. **In this model, consumers have accounts at the bank and banks have accounts at the Fed.**

RA

I would think the regulators are rather comfortable knowing this is going to happen within the banking system. How do the regulator's view USDF, in your opinion?

RM

So I think the focus on **having this activity take place within the banking system is critical.** You hit on the key point here. What we've seen over the past year, year, and a half, is that Washington has put a laser focus on how to regulate digital assets. How do we control for some of the risks we see emerging from that non-bank market? Consistently, what they've said is that the bank regulatory framework is best suited to control for those risks. So it continued to point towards banks, and bank regulation is the appropriate place for these activities.

USDF is consistent with that and it's consistent with the recommendations made in the President's working group report on stablecoins last year. What we see is that there's this broad public policy debate about how to actually make that happen. We think new legislation is needed for non-banks. Separately, banking agencies are trying to understand what sort of controls they want in place when banks engage in these activities. Now, they've taken a really conservative approach to that. Today, banks under all three of the primary federal regulators now need to ask permission rather than forgiveness before engaging in these activities. There's not a clear path today for what that looks like. For how banks get that permission.

I think over recent weeks, we've started to see that path emerge. I think that path entails a few things. First, it's that we **see agencies being comfortable with banks using blockchain for traditional banking activities like USDF.** There're still some concerns about what happens when banks connect to that non-bank crypto ecosystem.

Second **laser focus on BSA AML**, making sure you fully know who a party is to every one of these transactions.

Third, making sure you have **the right prudential oversight**. Again, not a concern when banks do this.

And finally, **consumer protection**. We've seen a lot of crypto companies trying to claim they have things like FDIC insurance. Ultimately USDF settles into traditional bank accounts that are subject to all of those same consumer protections.

RA

How will banks engage in this consortium? Give us some examples.

RM

So, there's two ways for banks to engage in USDF today. And remember, USDF is owned by its member institutions. So, our goal, really, is to help banks thoughtfully build their blockchain strategy. Today, most of the banks who are engaged in the consortium are full owners of the consortium. They're actively working to build infrastructure and building to operate payments on the network.

We've also rolled out a new model of membership. We'll be announcing that soon. That is targeted for banks that may not be ready to actually implement the payments component but want a seat at the table as they build their blockchain strategy. They want to engage thoughtfully and hear from their peers who are investing in this space. These entities want to really engage in industry advocacy to make sure there is that clear path forward, from a regulatory perspective, for banks to be the trusted provider of digital dollars.

RA

Drill down a bit in terms of the logical and likely first use cases for the USDF.

RM

Well, I think you'll hear some great examples from Wade in a minute. There are a few areas where we'll likely see USDF make a real impact first. As we talked about the value of blockchain, we think there's value to USDF in that it will **make payments faster and cheaper**. We also think there's value in creating **smart payments**. What I think you'll see initially is that USDF will be used for traditional payments and will add efficiencies by leveraging blockchain proving that blockchain can be a better system of record for these payments and can help deliver payments faster and more cheaply.

We think that this will take place in things like B2B payments. We think it can help make an impact in peer-to-peer payments as well as retail payments. After that I think we'll start seeing people leverage the programmability of USDF and embed the token in other payment flows throughout their business.

RA

Let's bring in Wade here. Wade, can you give us a little bit of your background and can you explain why you decided to join USDF?

Wade Peery

Thank you, Robert, for having me this morning. I'll give you the answer from both a motivational and outcomes angle and the motivational angle will tell you about my background. You're talking to a 30+ year banker, whose seen banking serve main street USA and evolve to the system we have today. I've seen what community banks mean to our country. I've also been around since before the internet and smartphones were in banking. The word fintech didn't exist when I started.

I've seen what the massive wave of innovation brought to the industry over the last 20 years or so. I'll say this, I think it improved banking but banks stood idle for the most part. What we saw happen was a disruptive time that could have been opportunity, but we allowed it turn into disintermediation. We don't want to see that happen again and we're highly motivated here to avoid a repeat. If you think about history, two things become very apparent to me. We are at a place of diminishing returns. In other words, **we've done all we can with the tools we have to work with. Our payment rails are 50 years old, they're slow, they're expensive.**

Throughout history, when you see that happen and then you see a catalyst emerge innovation closely follows. **I think blockchain has arrived as a catalyst.** We are really focused on the most fundamental piece of all this and believe we can make banking better. We think we can make it more efficient, more inclusive, and more accessible. At the end of the day, I think we have to do this to protect our deposit base. **If we don't have a deposit base, we can't create credit in our communities. We can't support the local economies. You saw that happen, and what the community banks meant to this country during PPP.** We have a responsibility to step in here and lean into this new paradigm because I'm convinced, we're at a point of change. We think bankers know how to improve banking better than anybody else. We know the regulatory environment; we know our customers and we face off with them every day. So that's what we're here to do.

RA

Very good. You're early in this transformation. Is there any downside to being early? Are there alternative blockchain options that you've seen?

WP

Yes, great question on timing. I think there's two pieces of that one as well. Just this morning, I spent some time on Circle's website, and I see a business service offering. I see a private company creating a stablecoin backed 1:1 by deposits and already bundling financial services and selling them back to my customers. I almost want to ask the question, 'Are we late?' or 'Should we have been earlier?'. I'll say we're not late, but we have a sense of urgency.

Not only because of that, because bankers, policymakers, regulators alike, we are going through an accelerated and a very steep learning curve. We are still faced with the need to create policy to protect our financial system. I think urgency versus early in that respect. On the technology front, I would say it is very early. I think we have gone through this cycle of lottery ticket to get rich quick noise in the news. We've now seen Terra Luna come unhinged. We know logarithmic stablecoins probably aren't the best path forward. So, I hope we're past the speculative stage, and we're starting to shift to real world, blockchain use cases.

I'm going to offend the DeFi folks in the room today. I'm going to make a bold prediction. **Banks are the only entities that will be able to bring blockchain mainstream.** I say that because we will be the entities that can make that connection between the banking system and a blockchain to get the benefit of the technologies, to utilize the automation that we can get from smart contracts. We know how to put user interfaces in place. My friends, my family, wouldn't do well with a digital wallet, but they would do fine with a mobile banking app and don't care if the backend runs on blockchain as long as their money is safe. I think that's where we find our place in all of this.

In terms of other blockchains there are a lot of bright people thinking about that, and that's very positive. I think we're making a lot of progress. The independent companies, large banks leaning in, you're seeing stories routinely roll out around that. What we're doing as a consortium, and Rob touched on this, we're taking a much broader view, more of an ecosystem view. It's bank owned. We want to create an environment where banks can build the applications and create the products and services in a way that fits their strategy. We do not want to adapt our strategy to technology.

RA

What do you say to a prospective member of the Consortium that is on the fence and wants to see more or wait?

WP

Let's not forget what happened over the last 20 years. Try to draw some parallels to history. Try to draw some parallels to the current competitive landscape. Primarily we want to encourage folks to lean in and learn. You don't have to do what we're doing. You don't have to be on the bleeding edge of trying to be the thought leader.

It is critical, however, that you learn because this will become a way of life. We're in a transitional phase and bankers like me can lend to the transition now. What my granddaughter does in her lifetime, and how they roll with all this will be entirely different. I primarily try to encourage folks to get engaged and use all the knowledge that's out there. Take people like me, when you walk away from your career, and all that knowledge is left on the table. What happens? If we have it, we should use it.

RA

So tell us a little bit about the first applications that FirstBank is pursuing and what are the results with USDF?

WP

We're taking a very focused approach on basic functionality. We have two things running in prototype right now in our test environments. One being a peer-to-peer payment application, and one being a merchant acquisition capability. Think about Venmo, or Zelle, for example, we are able to now allow a customer through our mobile app to direct a payment. None of this is in final production today. But it is in full swing testing. For example, I could pay Rob, and I could do that through my mobile app using the Provenance blockchain on the back end.

So, **we're actually tokenizing the dollar, we're actually using a smart contract** that says, "Now transfer this to Rob", we then burn that token, and we put that in Rob's checking account. What's different is we're doing it in real time, we're doing it 24/7/365. The kicker here is that we're doing it for a third the cost. We've come nowhere near wringing out everything from that technology stack. We're basically proving concept today.

The economics are significant, and the timing is significant but we're not putting a sharp knife in the customers hands. We're using your existing checking account; we're not asking you to take on another digital wallet or meta mask or those type of things.

The second functionality we're building is merchant acquisition. That allows someone to instantly settle at a point of sale, think about a merchant or a biller who could generate a QR code, present it on screen or print it on a hardcopy and send a bill the old fashioned way through the mail, or deliver it device to

device to create an invoice and send for payment. The receiver then can use that QR code and actually settle in real time. Same story 24/7/365. **This method of transacting cuts out two thirds of the cost.**

So those are two of the very foundational pieces that we are working on. What I don't want to get lost in this is further driving home the point I made earlier. What we're building is the ability to move \$1 to the chain and back. We're doing that with a lower cost structure and better timing. That's where the compare and contrast comes in to the stablecoin conversation. If I want to utilize a stablecoin, I have to actually think about this. It's kind of funny as we flip the script. I have to ACH my money to an exchange to buy a token, I must then use that token to execute the transaction. The recipient then has to go back through the reverse of that to get it back to a fiat dollar in a bank account. **In effect, the banks who have been cast as the intermediaries, if we will be thoughtful about that, can actually refine the process even further than in the crypto DeFi space. We take all that out of play.** I don't want that to get lost. We're simply working on foundational things that allow us to actually learn how to mint and burn tokens safely. Those monies stay in deposit accounts, which in turn stay insured by the FDIC. Very foundational work. I think we're very well positioned now to begin to see real world use cases out of that.

RA

Discuss interoperability, which Rob brought up earlier in the discussion. What does that mean to you?

WP

As time goes on that's what we strive for. In the early stages there are obviously a limited number of banks able to face off with one another. You don't have the scale that you need. That's where the consortium offers an on ramp to function in this space alongside the larger institutions. Over time, we want to get to a point where we have interoperability across the entire banking footprint in our country. I think all 4,500 banks should be able to transact with tokenized deposit that we hold, not that the government holds, not that a stablecoin issuer holds. Interoperability to me just simply means we're able to face off across the whole of banking and transactionally execute among all participants.

RA

What, if any pushback or concerns have you experienced with the consortium?

WP

I would not necessarily characterize anything as pushback. I think there's been some great debates with technologists. I think the conversations we're having with legislators and regulators are constructive. If there's an obstacle, it's education. It's gaining an understanding of what this technology can deliver. First of all, sorting through the noise to get to the message. To sort through the Bitcoin noise of the world, and I'm not picking on Bitcoin by any stretch. I think Bitcoin proved the point in 2009 that this is viable technology. Rather to cut through the noise and help people to understand what this means in terms of being able to make banking better.

I'm super excited about where we already are. I will say change is hard. It's tough. Being a thought leader in this space, in this time is even tougher. In line with my opening comments, we are at an inflection point whether we want to recognize it or not. I think the banking industry is in the best position of all to help shape the future. I don't want to live in the future that I did not have some influence on shaping. The banking community faces off with customers every day and we know what needs to be done. We just need to be proactive and smart when it comes to integrating this new technology into our business. I feel like collaboration is strong, and I think conversations are constructive. We always have the naysayers, but

we don't listen to a lot of those these days. We have viable uses for this technology, and it is already proving itself as a leap forward from legacy bank tech.

RA

I've followed this industry for decades, and this is a major transformation. This is going to be one of the first innovations where banking could come out on top. You've both covered it very well. Is there anything you would like to add in this interview? Rob, you go first.

RM

Well, Robert, thank you. It's been a really great discussion so far. **You know for me the takeaway here is that a year ago, it was okay for banks not to have a strategy on blockchain. It was okay to be watching it to see how it developed. Today, whatever it is, you need a strategy on blockchain.** For many banks they struggle with that. These banks don't understand the value in the non-bank crypto ecosystem. Where USDF fits in and where we're looking to engage banks is how do we leverage blockchain, employ the learnings from the non-bank crypto ecosystem and use those improvements to make banking better. These improvements will benefit both the depositors and the bankers. We're really looking forward to engaging all the banks that want to help build out that blockchain strategy for real world banking.

WP

I echo what Rob said. I think the banking ecosystem is also important here, including the core system providers. We've had great support from our core system provider, Jack Henry. They've been more than willing to lean in here and help us build out the functionality in our test environments that allows us to take advantage of blockchain derived benefits. We wouldn't be where we are today if it weren't for the help of the team over at Jack Henry.

The ecosystem has to also engage here. This is absolutely not "wait and see" time. Education, engagement and thought leadership will drive institutions into a new way of doing business that incorporates the benefits of blockchain. I think we just keep reinforcing that message of educating your institution and implementing prudent policies that leverage these technologies.

RA

Good way to end the interview. Tremendous opportunity to have you both on this showcase. Rob. If readers of this session would like to ask further questions or consider joining the USDF consortium, what's the best way to reach you?

RM

Reach out to me, I'm Rob@USDFConsortium.com, or look at our website, which is USDFconsortium.com.

RA

Very good. Thank you both very much for your time.

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