Banking Memo

Objective: The Bank is obtaining a de novo national bank charter for the innovation economy, serving companies in virtual currency, defense, artificial intelligence, and manufacturing among other tech sectors.

The Core Offering:

1. **Deposits**: supported both in fiat and in stablecoins, enabling 24/7/365 money movement. Explicit loan covenants with companies and individuals securing deposits create a sticky deposit base.

2. **Lending**:
    a. Lines of credit collateralized by private securities, crypto, public securities
    b. Industrial loans collateralized by GPUs, turbines, factories, etc…
    c. Venture debt
    d. Capital call lines of credit

3. **Services**:
    a. Payments APIs (SaaS fees)
    b. Stablecoin clearing, enabling other banks to accept stablecoin deposits
    c. “The Vault”: Treasuries and money market funds offering yield combined with intraday liquidity for wires / ACH (to be built out as bank scales)

4. **Timeline**: Receive bank charter in less than 6 months from submission around 5/25.
    a. Preliminary conditional approval in <4 months.
    b. Final approval in ~3 months.
    c. Co-Founder’s unique connectivity to banking regulators (especially Jonathan Gould, next Comptroller) + Palmer’s political network will get this done.

5. **Financials**: all capital raised will be used for regulatory capital, not for operations. The Bank will be profitable by month 6 of operating.
    a. Conservative loan to deposit ratio: 50% max; most banks are at 80-90%. Over time, the Bank will become the lowest loan/deposit ratio bank in the country (current lowest is 16%) given the Vault product.
    b. Conservative investment portfolio: only Treasuries and agency-backed securities. Bank always holds 60%+ high-quality liquid assets as a percentage of liabilities.
    c. Origination focus: The Bank intends to originate and syndicate / sell loans, receiving fee income through servicing, rather than storing loans on its books.

    The Bank will be the first commercial, non-Wall Street bank doing this at scale, creating income more akin to SaaS.
    d. Revenue through: (i) lending net interest income, (ii) Treasuries management (~30bps annually; off balance sheet so without capital held against it), and (iii) payments and stablecoin clearing SaaS fees.

6. Lending to currently underserved segments will be supported by general credit expertise (e.g. for GPUs, Chief Credit Officer has deep background in equipment financing) and sector-specific focus (e.g. for GPUs, a specialist GPU lender who comes from a datacenter builder).
    a. Asset-backed lines of credit for crypto (90-365 days): Up to 80% loan-to-value ratio with collateral held by a third-party custodian (e.g. Anchorage). Average interest of 8-10% based on fully collateralized DeFi pools as benchmark. Underwritten based on corporate/personal ability to repay (cash flows) and collateral.
    b. Asset-backed lines of credit for private securities (90-365 days): <50% loan-to-value ratio with personal guarantee. Average interest of 10-12% benchmarked to loans outstanding today. Underwritten based on personal ability to repay (cash flows) and collateral.
    c. GPU financing (2-4 years): Up to 90% loan-to-value ratio with chips as collateral plus recourse to the company undertaking the project. Average interest of 20% without recourse / 15% with recourse / 10% with recourse and guarantee from datacenter customer (e.g. Meta), benchmarked to loans outstanding today. Opportunity to take the contract itself with the datacenter customer as collateral as well. Underwritten based on specific datacenter's cash flows and collateral.

7. **DeFi Opportunities**:
    a. Short term, the Bank sees an opportunity to create new methods of risk and credit scoring based on on-chain history tied to specific wallets for its own underwriting.
    b. Medium term, the Bank can use an affiliated broker-dealer to route customer assets to DeFi protocols when explicitly directed by customers, who have a menu of options (e.g. checking, savings, Treasury, Aave, Morpho, Ethena) based on risk appetite.
    c. Longer term, the Bank can deploy its own assets into DeFi when there are no attractive direct loans, serving as a source of net interest income for otherwise underutilized assets.
    d. Leveraging its connectivity with the admin and its position as an OCC-regulated institution, the Bank will surface novel issues related to increasing access from within the regulated financial system and work to create guidance that will drive additional liquidity to DeFi.

8. **Management**
    a. Founder: Palmer Luckey
    b. Co-Founder: Trevor Capozza
    c. Co-Founder/Co-CEO: Sales, marketing, and regulatory: Jacob Hirshman
    d. Co-Founder/Co-CEO: Product, credit, and customer success: Owen Rapaport
    e. Co-Founder/CTO: Aaron Pelz
    f. Chief Risk Officer: Joshua Rosenberg
    g. Chief Financial Officer: Ricky Grant
    h. Chief Credit Officer: Vlad Dubinsky

9. **Fundraising Proposal**
    a. The best late-stage and public banks trade at 6-8x book (Nubank at 8x, Monzo at 6x, Starling at 6x). Earlier stage, more innovation, and with Palmer involved, we're raising at ~7.2x book value.
    b. Conservative intended outcome after the first 3 years of operations is ~$10B business.
    c. Targeting $225M on $2B at ~7.2x book (w/ ~275m cash on books)