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1. Abstract

Block66 is building a new blockchain-enabled marketplace for mortgages. Institutional and private lenders can use the service to offer loans to a wide range of borrowers, introduced by Block66 broker partners. Through the practical use of smart contracts, loans can be taken from origination to facilitation, quickly and efficiently. All loans are also represented as tradable tokenized securities, providing a liquidity mechanism as standard. The ability to trade fractions of loans, and reduced order and issuing fees makes investing more inclusive, providing an attractive investment vehicle for all manner of investors. Thanks to the use of cryptocurrency, Block66 eliminates the need for a bank account, overcomes geographical lending restrictions and reduces counterparty risk to mere minutes. For borrowers, the transparent and competitive nature of the marketplace will benefit the consumer and give them confidence that they're getting near enough the best offer achievable.
2. Introduction

Block66 introduces the first platform where lenders can access a marketplace of vetted borrowers looking for mortgage finance. This marketplace is public, transparent, and highly automated, so lending is streamlined, with lower costs, and lower risks. Each loan is represented as a pool of "proof of loan" (PoL) tokens that can be individually resold to investors, providing lenders with liquidity, and empowering a diverse pool of investors.

Block66's blockchain and smart-contract technology makes it possible for lending contracts to be tokenized, and the flexibility and liquidity provided by Block66's asset-backed tokens will open the mortgage market to a more diverse pool of investors. Each loan has its own smart contract, responsible for minting, selling, and tracking ownership of its PoL tokens. Block66's cryptographically-secured smart contracts ensure the market remains public, transparent, and tamper-proof.

A digital trust fund (DTF) ensures the safety of the underlying loan agreement, represented digitally as PoL tokens, by acting as custodian for the loan and collecting repayments - including accrued interest. Strict laws regarding trusts funds protect each mortgage even in the event of bankruptcy meaning that no party, including Block66, the broker, or anyone else can claim it.

Block66 infrastructure will be implemented as a decentralized application (dApp), and run on the Ethereum network. Brokers will be able to list clients as lending opportunities on the platform, after being thoroughly vetted by Block66 through proof of residence, credit reports, license verification, and criminal record checks. Proprietary software, as well as a network of partners, will be used for this purpose. Based on a personal risk/reward ratio, lenders can then select an investment from the offered mortgages to add to their portfolio.

At this point, Block66 will present the broker with explicit, comparable fees, and interest rates with which to advise the borrower.

Block66 software and API integrations will automatically verify the majority of files, limiting the need for an underwriter. These same checks will go a long way toward reducing incidences of mortgage fraud by flagging contentious applications. When dealing with more complex mortgages, virtual underwriters will validate documents in exchange for Block66 Network Tokens (BNET). Token mechanics are explained in more detail further on.

Over time, the Block66 team will look to make distribution as far-reaching as possible for PoL tokens, and the Block66 ecosystem. To achieve this the team will partner with exchange relayers, such as 0x, as well as partnering directly with exchanges. The team will also take advantage of the TPL protocol to help manage Block66's regulatory exposure

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1 [https://tplprotocol.org/](https://tplprotocol.org/), last accessed 23/05/2018
3. Market Analysis

a. Market opportunity

i. The investor appetite for riskier mortgages is rising, and apart from High-Net-Worth Individuals (HNWI), smaller investment firms are also ready to feed it. For example, Angel Oak began offering and securitizing non-prime mortgages two years ago, and has done six non-prime securitizations so far. It recently finalized its most substantial securitization yet — $329 million, comprising 905 mortgages, with an average value of $363,000. More than 80% of the loans are non-prime. Investors in Angel Oak's non-prime securitizations are a “who's who of Wall Street,” according to company representatives, citing hedge funds and insurance companies.²

ii. An average of 21 percent of individuals in high-income countries have an outstanding home loan, compared to a mere 2.4 percent in lower-middle and low-income countries. India is a typical case, with only 2.3 percent of individuals having a home loan.

iii. Since the financial crisis, there’s been a shift from a market dominated by big banks to a market with a growing class of boutique lenders providing the capital.³ In the U.S. nearly 50% of all new loans historically have been provided by the top three banks. In 2016 that figure dropped to 21%. Without the practical use of technology, it’s near impossible for a broker to cover this vastly segmented landscape and provide the best loan options to borrowers.

b. Current problems in the market

i. Since the financial crisis, traditional mortgage lenders have significantly tightened their lending criteria. To a large extent, this has been a fair reaction to overlending and a rise in subprime Mortgage-Backed Securities (MBS) trading that contributed to the most recent financial crisis. However, the introduced restrictions have also limited lending for borrowers who were previously serviced by the traditional funding providers and were able to afford their mortgage repayments.


³ https://www.washingtonpost.com/realestate/the-mortgage-market-is-now-dominated-by-nonbank-lenders/2017/02/22/9e6bf5fe-d1f5-11e6-a783-cd3fa950f2fd_story.html?noredirect=on&utm_term=.876e080e867, last accessed 10/05/2018
ii. One contributor to the 2008 financial crisis was the packaging up and selling on of mortgage loans by banks. Mortgage backed securities and CDOs (Collateralized Debt Obligations) enabled the packaging up of thousands of mortgage loans into securities to be sold in bulk. This allows the originating bank to sell their exposure on mortgages loans early in a loan's lifecycle, thereby limiting their exposure long term and reducing the incentive to properly assess loans at the outset.

iii. Since 2008, mortgage credit has tightened for households unable to meet standard underwriting criteria. The median credit score for owner-occupied home purchase originations increased from about 700 in 2005 to 732 in 2016, reflecting a sharp reduction in lending to borrowers with lower scores. CoreLogic data indicates that just 0.1 percent of conventional first-lien home purchase mortgages in 2017 were to borrowers with credit scores below 620 and 3.3 percent were to borrowers with scores between 620 and 659. The equivalent figures in 2001 were 7.3 percent and 10.6 percent.4

iv. According to Vantage report, there were 220M scorable borrowers in the U.S. in 2016. Only 22% of those were in the super prime bracket, giving them access to the best credit. Credit rating agencies (Experian, Equifax, TransUnion) placed most consumers, 36% (~80M) in the good credit or prime bracket5. A significant number of those borrowers struggled to obtain a mortgage from a traditional lender. There's also a near-prime category, otherwise called fair credit category, where most people can't get a mortgage from a traditional lender - representing a further 26M of consumers in the U.S. in 2017. In total, the U.S. alone provided a market of over 106M borrowers in 2017 with fair and above credit scores, not adequately serviced by the traditional mortgage lenders.

v. Apart from tighter mortgage criteria, the nature of work itself is also changing with fewer borrowers meeting standard underwriting criteria due to the nature of their employment. According to Upwork and Freelancers Union report Freelancing in America in 2017, freelancers are predicted to become the U.S. workforce majority within a decade, with nearly 50% of millennial workers already freelancing. As of 2017, in the U.S. alone there were 57.3M freelancers, and many of them report struggling with obtaining a mortgage offer due to the non-standard nature of their employment.

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5 [http://blog.credit.com/2016/02/how-many-americans-have-bad-credit-136868/](http://blog.credit.com/2016/02/how-many-americans-have-bad-credit-136868/), last accessed 29/05/2018
vi. The non-prime market segment is currently heavily serviced by non-traditional lenders, mostly family offices and high net worth individuals, who are provided with lending opportunities by brokers. In all parts of the world, this market is heavily segmented, non-transparent, and slow moving. There are also many examples of fraud, and consumer misrepresentation.

vii. The mortgage market lacks transparency, borrowers are forced to trust brokers implicitly and have no means of verifying the number of lenders presented with their application. In some countries, the market tends to be heavily segmented, with 100s of mortgage providers active in the space, making it near-impossible to cover by a broker not supported by technology.

viii. On average, a mortgage application process in the U.S. and Canada takes approximately 45 days. A significant portion of that time is spent gathering the required documents and the subsequent back-and-forth between borrower and lender, providing additional information, and responding to requests. This process is highly inefficient, stressful for the borrowers and doesn’t fully leverage the available technologies to automate many of the manual steps and provide an optimized workflow.

ix. High fees, capital requirements, and lack of a transparent trading marketplace serve to restrict the majority of investors from trading MBS vehicles. Institutions, and a small percentage of private lenders connected with the mortgage brokers ecosystem are the only active investors in the space. Significant amounts of capital remain locked-up or deployed into other instruments.

x. A shortage of long-term financing since the 2008 crisis is hampering the ability of credit-worthy families to borrow for education and housing needs and escape poverty. Long-term housing finance is arguably the key to home ownership, yet the disparity between countries is stark. There is a significant shortage of mortgage funding in developing economies, such as India, where only 2.3% of individuals have a home loan despite high demand and affordability within the broader population. 

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While banking sectors are expanding in developing economies, including India, Brazil, Indonesia, Mexico and Turkey, the supply is still well short of the demand for long-term finance, and this is likely to remain the case in the long term.\(^7\)

Mortgage yields are attractive, at anywhere between 4%-14% depending on the risk profile.\(^8\)

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\(^7\) [https://www.pwc.com/gx/en/banking-capital-markets/pdf/banking2050.pdf](https://www.pwc.com/gx/en/banking-capital-markets/pdf/banking2050.pdf), last accessed 10/05/2018

xiii. While attractive from a yield perspective, many smaller lenders are reluctant to engage in mortgage lending due to the long repayment time frame, typically 5-25 years.

c. How does Block66 address current problems

i. Block66 will start by focusing on helping serve borrowers in the good/prime credit bands (VantageScore of 661 - 780). This borrower group has become steadily less well served and is a good fit for capital supplied by private lenders.

ii. All mortgages provided by the Block66 platform are issued on the blockchain and also reflected in the physical world via a Digital Trust Fund (DTF). In time, lenders will be able to trade “proof-of-loan” (PoL) tokens on an exchange platform designed specifically for this purpose by virtue of a proprietary exchange or an exchange developed by a partner, such as BrickBlock.

iii. The ability to divide “proof-of-loan” (PoL) contracts into smaller loan fractions lowers the barrier to entry for smaller investors, increasing liquidity for the originating lender(s) and ensuring that investing in this type of asset is inclusive for all manner of investors.

iv. The Block66 platform will introduce operational efficiencies and automate wherever possible to streamline the mortgage application and facilitation process. While Block66 are believers in technology, some lending cases are bespoke and best handled by human agents. For dealing with these cases, Block66 will pull together a network of virtual underwriters who digitally validate documents. By combining the power of automation with the use of human underwriters where necessary, Block66 aims to offer best-in-class user experience for all parties on the platform.

v. By leveraging existing technologies to automatically check and validate documents, and application data, Block66 can go a long way towards protecting against mortgage fraud. Most mortgage fraud is perpetrated by either the borrower or broker and is missed by lenders and underwriters because of the sheer volume of documentation involved, and time pressure. Block66 systems will flag contentious articles for review by virtual underwriters and lenders making fraud much simpler to spot.

vi. All of the lenders on the Block66 platform will provide their lending criteria up-front, creating a transparent platform where brokers can submit applications. The Block66 platform will be capable of browsing through 100s
of lending offers to find a selection of best possible deals for the broker and the borrower.

vii. Apart from Canada and U.S. in the mid-term, Block66 lenders will gain exposure to the global mortgages market, including emerging economies. Block66 will build local partnerships with brokers across different geographies to develop a steady inflow of vetted lending applications.

viii. Block66 will also provide legal assistance across various geographies in case of borrower defaults by way of a network of partnerships.

d. Related propositions

i. Finastra “Fusion Filogix”: The service caters to brokers, lenders and other third parties. The ‘old boy’ of mortgage origination platforms, they have been slow to adopt modern technologies and UI/UX standards. The main value is a messaging service where lenders can advertise funds they have to lend. The app also provides document sharing features.

ii. CPROP: CPROP is leveraging smart contracts to act as escrow in property transactions and is also using the blockchain to maintain and audit immutable records of documents. Their longer term vision is the tokenization of deeds, and being recognized formally as a property registry.

iii. PROPY: PROPY is designed to aid in the buying and selling of property internationally. PROPY executes transactions with the aid of smart contracts acting as escrow. PROPY’s vision is to remove all intermediaries from the property buying process, as well as to have local jurisdictions adopt the PROPY registry as the primary store of title deeds.

iv. BrickBlock: BrickBlock is an investment platform that securitizes commercial property using the blockchain. BrickBlock paved the way with groundbreaking work on how best to securitize real-world assets. The BrickBlock team is also working on a decentralized exchange for security tokens, which will follow the “proof-of-asset” (PoA) consensus mechanism.

v. Habito: Habito is a UK based online broker that matches borrowers with their full market panel of lenders. An algorithmic matching engine does the heavy lifting or eliminating of lenders from the pool available to borrowers. The service is B2C [direct to consumer].
e. What makes Block66 unique

During phase 1, Block66 will be a matching engine for borrowers and lenders promising a three-fold saving on conventional mortgage application times. Block66 aims to become the world’s most sophisticated platform for brokers, and lenders to operate efficiently to the satisfaction of borrowers. All loans will be issued on the blockchain, and funds drawn down via the resulting smart contract. All documents related to the mortgage transaction will be validated and stored on the blockchain providing immutable history and authenticity. Storing a hash of documents relating to the loan ensures full transparency from both lender and borrower while creating a much cleaner path during a regulatory audit and spot checks.

During phase 2, Block66 will also become the platform of choice for lenders to create tokenized mortgage-backed securities on the blockchain. This solution will share much technically and legally with BrickBlock. However, Block66 will do it for an asset class that no other company in the crypto space is publicly working on - mortgages, and with lenders already operating on the platform and using it for origination purposes, it will be a natural addition to enable lenders to securitize their loans using the same product.

Block66 will create a unified platform that not only matches private and institutional lender capital with borrowers but also securitizes the resulting mortgage loan agreement.

By combining both capabilities, Block66 creates a unique and compelling proposition with the potential to reshape the mortgage lending industry initially in the U.S. & Canada, and subsequently at a global scale.
4. **Platform users**

a. **Consumer borrowers**

Part of Block66’s raison d’etre is getting consumer borrowers a better mortgage offer. With more consumers exploring alternative lending options, Block66 is well placed to offer consumers, via brokers, a world class borrowing experience and confidence that they’ve secured the close to the best conceivable offer. Moreover, the Block66 platform can help restore trust in brokers by virtue of the application process being transparent and auditable by all parties.

b. **Brokers**

Brokers are facing growing pressure to forgo on their commission. A competitive marketplace for lenders combined with a streamlined application process can reasonably be expected to produce more competitive offers. In turn, you’d expect improved offers to relieve pressure on brokers’ commissions. What’s more, a streamlined mortgage lending process should also enable brokers to have a bigger pipelines, helping make up for compressed margins.

c. **Private lenders (investors)**

High-net-worth individuals (HNWI) and boutique lenders traditionally service non-prime borrowers with rates ranging from 6% to 14%. Most private lenders have a preferred broker through which they announce their intent to lend. The Block66 platform has the capacity to expose lender capital to a deeper pool of borrowers. With a broader pool of borrowers to tap, a lender has a higher chance of finding a suitable match; the chance of finding a match should grow in line with a $O(\log N)$ relationship where $N$ is the number platform participants.

A key benefit to private lenders is the tokenization of the underlying mortgage contract. With individual mortgages conceivably running for up to 25 years this represents a sizeable risk to any lender - big or small. Having the ability to reduce exposure, without involving the borrower, means a lower risk premium need be applied - improving offers.

Given loan agreements are securitized and sometimes made available for sale, it is feasible that lenders [investors] may use the Block66 platform to solely invest in PoL tokens without ever getting involved in the origination process.
d. Institutional lenders

Banks and larger institutions have been securitizing mortgages for some time, but Block66 will bake this capability directly into the platform.

To ensure that the party responsible for the mortgage always has some skin-in-the-game, the platform will restrict lenders [investors] from off-loading their entire exposure to a mortgage they issued. For lenders, this restriction ensures that over a long-term time horizon the risk of losing all of their capital must be considered - ideally resulting it more responsibly issued loans.

Placing constraints on the trading of PoL tokens is designed to address some of the risks exposed by the 2008 financial crisis, namely the offloading of risk by those responsible for originating loans in the first place.

e. Underwriters

The platform is designed to perform basic verification of borrowers and borrower files. Should an application be unusual, an edge case, then the application will be passed to a pool of virtual underwriters. This is a group of Block66 vetted professionals whose fees are paid for by the broker, or borrower.

f. Solicitors

Once both borrower and lender(s) have been matched and agreed to enter into a contract, a mortgage commitment is generated. Off the back of that commitment, both parties solicitors are informed on what conditions must be satisfied before the application can progress.
5. How does Block66 work

The following framework describes the underlying processes and provides some detail on how the platform will handle these processes technically. The team will develop the multi-sided platform as a dApp on top of the Ethereum blockchain. The dApp will guide each user through every action they need to take in the loan origination and facilitation process. Each application, once matched, creates a new instance of a “proof-of-loan” (PoL) smart contract. This contract is designed to keep an immutable-auditable record of the history of the loan.

a. The broker and client perspective

i. **Information gathering:** The broker guides their client through the information gathering stage of the application. The dApp prompts the borrower for specifics around their borrowing needs and aspirations. Borrowers will be prompted to enter affordability data such as short and long-term credit balances, monthly expenses, regular income, and dependents.

ii. **Identity checks:** The platform uses third party APIs to carry out identity checks (KYC) to confirm the borrower identity, and to help brokers meet their regulatory requirements and detect fraud.

iii. **Credit checks:** Where possible, the system will perform cross-checks of affordability data by querying credit rating agency APIs and, in time, bank feeds to check income and monthly expenditure.

iv. **Create crypto/fiat exchange account:** Block66 will create accounts for all borrowers with a Block66-approved crypto exchange. This account will be used for loan repayments by the borrower after the mortgage is issued, and will act as a bridge between the conventional fiat banking system and the Ethereum/Block66 ecosystem.

v. **Virtual underwriters:** The system will refer an application to a virtual underwriter in the event it is unable to build a sound borrower file automatically. The broker, or their client, pay the virtual underwriter’s fees in Ether (ETH).

vi. **Application published:** Once the system or virtual underwriter have signed off on a borrower file then the application will be made available to the matching engine.
vii. **Matched**: Matched when a borrower and lender(s) accept a pairing, and when sufficient lender capital has been matched to fulfill the applicant's borrowing needs, then the mortgage is ready to be funded.

viii. **PoL contract funded**: The lender(s) transfers the necessary ether (ETH) to the designated smart contract address.

ix. **Repayments**: The borrower sets up a standing order to a Block66 approved crypto exchange account, set up for the borrower during onboarding. When the system detects that funds have arrived, it automatically places a trade between the appropriate FIAT/ETH currency pair. Once the trade is filled, the system transfers the Ether (ETH) to the relevant PoL contract.

b. **The Lender [Investor] perspective for new mortgages**

i. **Registration**: Lenders [investors] register with the dApp at which point Block66's creates an account for the lender and makes a note of the Ethereum public key they wish to use.

ii. **KYC**: The platform carries out identity checks and enhanced due diligence on the lender and, if successful, flags the account as having passed KYC checks.

iii. **Criteria**: The platform prompts the lender to add their lending criteria before storing the result, before making it available to the matching engine.

iv. **Approved**: Once approved, a lender will begin receiving notifications whenever a match occurs. If the lender responds they will be invited to approve/reject a match.

v. **Matched**: Once a lender accepts a matching and the mortgage is fully funded, then a PoL contract will be created to reflect the loan agreement.

vi. **Wait for remaining parties**: Both parties must wait for their respective solicitors [lawyers] to confirm any additional conditions have been satisfied before the mortgage can progress.

vii. **Contract funded**: Lender transfers in ETH the correct dollar amount to the smart contract representing the mortgage.

viii. **Loan repayment**: As the borrower makes repayments, the PoL contract handles the distribution of funds to the respective lenders.
6. Tokens and Mechanisms

a. Summary

The mechanics involve an interplay of tokens, all of which implement the ERC20 token standard. Every B66 token represents a portion of the network and captures its value.

Successful match of borrower and lender creates a smart contract through which funds are collected and distributed.

While Phase 1 of the product development will involve building a marketplace for brokers and lenders, in Phase 2 the team intends to tokenize each loan agreement into fully transparent and traceable mortgage-backed securities (MBS).

The democratization of the network, the issue of loans on the blockchain (Phase 1) and securitization of those loans (Phase 2) are all blockchain reliant.

b. Block66 Tokens (B66)

Block66 Token (B66) is used to produce Block66 Network Tokens (BNET). As with B66 held by Block66 [company] holders who activate their B66 will begin generating BNET which can be sold to other platform participants. Platform users require BNET to pay platform fees hence the active market for these tokens. The price of BNET will be set by Block66 [company].

In order to secure B66 tokens, contributors must send Ether (ETH) to the address provided at the Token Generation Event (TGE). B66 tokens provide no utility to the holder unless sent to a special smart contract where the tokens become “activated”.

c. Block66 Network Tokens (BNET)

BNET tokens are used to pay for services on the Block66 network. BNET are produced and purchased by the network users at the point of transacting on the Block66 system.

After the fundraise Block66 [company] will retain 46% of the total Block66 token supply. While producing and selling BNET is the primary revenue generating mechanism for Block66. All B66 token holders can submit their B66 holdings to the Block66 platform, to produce and sell BNET to the network participants thereby giving holders the ability to draw a share of fees from the network.

Block66 will set the price of the BNET token sold via the platform in such a way as to maximize the platform usage while capturing maximum profit for BNET “producers.”
BNET is an ERC-20 standard token. In the future, Block66 [company] will explore giving network participants the ability to withdraw BNET from the network so that participants can trade it on the open market; doing so would enable other B66 token holders to act as competitors to Block66 giving them influence over the pricing of BNET.

The paid BNET will be burned and therefore removed from circulation.
d. Proof-of-Loan (PoL) Tokens

The “proof-of-loan” token is generated once a mortgage is fulfilled. A PoL token confers to the holder a legally enforceable claim on all outstanding interest and principal payments in either one mortgage loan or a bundle, depending on the composition of the PoL token. These rights also include the right to engage and instruct debt recovery agents in the event of a borrower default.

Block66 is looking to work closely with BrickBlock as they develop an exchange for trading tokens linked to real world assets, such as a Block66 mortgage linked token.

e. Network Fees

Block66 Network fees are payable exclusively in BNET tokens. Example of fees include: borrower application submission fee payable by the broker (to cover the cost of third-party KYC, credit checks, appraisal, pest report etc.), unlocking the loan provided by the lender, modifying (e.g. splitting or merging with other assets) the Proof of Loan token (PoL), or retrieving ETH-denominated loan repayments from the PoL smart contract.

The Block66 Team will set network fees, modelling them based on factors such as competitive analysis, third-party services costs (e.g. credit rating and appraisal providers), and operating expenses.

The Block66 Team cannot increase the fees without risking a decline in the network usage and cannot decrease fees without reducing its own profit.

f. Token Generation and distribution

Total token supply: 300m
Circulating supply: 135m

Breakdown of tokens held by Block66:
- 138m (46% of supply) held by Block66
- 27m (10% of supply) for team, advisors and bug bounty

Public pre-sale: 40.5m tokens with a 33% discount at $0.07 per token for a total of $2.835m

Main sale: 94.5m tokens at $0.10 per token for a total of $9.45m
7. Vision

Block66 represents a small but momentous step forward for the mortgage lending industry. The platform solves problems for a range of different persons and organizations, and for a range of different reasons. The team hopes that through theirs and the community’s efforts the mortgage lending space can be opened up to all manner of investors whilst assisting with the origination and facilitation of loans the world over. The team will focus on the U.S. and Canadian markets at the outset, but will look to extend coverage to developing countries and open up channels of investment from richer nations to help finance mortgages worldwide.

Block66 hopes to be part of the rapidly changing landscape of technology companies, that thanks to the incredible developments in blockchain technology, can now begin to feasibly match capital supply with demand on the other side of the globe.

The mortgage lending industry is one of the remaining significant sectors that has resisted the steady march of technology and innovation. Despite the banks' stranglehold on the industry, the latest wave of blockchain technology has the potential to knock them from their perch. Economic rent-seeking behavior, with banks exposing themselves to favorable asymmetric risks only, cannot survive long-term. It is inevitable that evolutionarily fit systems will spring up to rebalance the risks born by all parties involved in the process.

And finally, for the crypto-based real estate market to mature there must be a blockchain-based mortgage marketplace available to support part cash transactions.
8. Disclaimer

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