

How does a metaverse mortgage work?

By [Andrew Martinez](#) February 3, 2022 10:05 AM

TerraZero Technologies last week issued one of the first-ever mortgages in the metaverse, a network of virtual worlds where users can interact, experience entertainment and trade.

The tech firm issued the two-year mortgage with an undisclosed down payment and interest rate for a \$45,000 parcel of land in Decentraland, a metaverse with approximately 92,000 parcels, TerraZero said. The firm followed a traditional real estate mortgage vetting process, self-financed the purchase and today holds the NFT, or non-fungible token to securitize the mortgaged land.

TerraZero is now building a relationship with an unnamed banking partner to expand its mortgage capabilities and is creating a metaverse real estate platform, Amadea, which may resemble the ubiquitous real estate search websites where users can find property and calculate mortgages.

National Mortgage News spoke with TerraZero CEO and founder Dan Reitzik about the financing of virtual properties. Questions and answers have been edited for length and clarity.

Why do consumers want land in the metaverse?

The land in a decentralized metaverse like Decentraland is finite. The cost of that land is going up. People may say, 'why do you need land?' If you want to build a game or you want to host an event or you want to have a store, you need to have land. We realized early on that there's going to be some really brilliant people, entrepreneurs, programmers and artists, that come up with some great new ideas for the metaverse. And so we thought, why don't we listen to their business? And if it makes sense, let's help them.

Who is inquiring about mortgages in the metaverse?

We're seeing speculators. We're seeing real estate investors all calling us saying they want to get in. I want to be clear about what we're doing here. We're a tech company, we're not a mortgage company. We build tools that bridge the real world with the virtual worlds. Sixty to 70% of the inbound inquiries are purely based on speculation. We're not

interested in providing loans for that purpose. Metaverse land values fluctuate wildly, so we don't want to be in a situation where people are taking on debt to speculate on some sort of asset. But we also want people that are actively building stuff that's going to attract more users in the metaverse.

How did you underwrite TerraZero's first mortgage?

This is more of a loan as opposed to a mortgage even though it's to buy land. What our criteria is right now, I want to see the person behind the company or idea. We do KYC, or Know Your Customer. Then they show us a business plan so that we know that they're going to be able to pay us back over time. If it sounds viable then we buy the land on their behalf.

The deed is essentially an NFT. We hold that in the company's cold storage until the loan is paid off. But we give developer rights to the land so that the person can build whatever they want. If the customer doesn't pay, then obviously we have that as our collateral. Ever since we started this, the demand has been so high that yes, we're going to need to underwrite these loans or mortgages and we're not going to self-finance them in perpetuity. But those details are still being worked out.

How do you account for the volatility of cryptocurrencies used in the metaverse?

Crypto's important in the metaverse because it is the mechanism by which we conduct business, but it's not like crypto like Bitcoin where it rises and falls. There's no other real use for [metaverse crypto] except as a store of value. Mana is the crypto that's used in Decentraland. When you own your land, it doesn't matter what the price of mana is. It doesn't really matter because you're building events on that land, you're transacting in mana. Do you worry about how the U.S. dollar compares to the British pound every day when you're spending money? You don't because you just conduct business in that dollar. And so it's kind of similar in that way.

How did you settle on a 2-year mortgage term?

We're not doing 30-year mortgages. We don't want to do anything more than two or three years, and that's because the market just isn't mature enough like the regular housing market. In shorter terms, interest rates are obviously higher than if you were to buy a piece of land in the real world. Down payments really vary depending on the customer, what their idea is, how large the parcel is that they're trying to finance.

Who owns parcels in Decentraland?

About three years ago when all these programmers got together and said hey, we want to build this decentralized metaverse, a lot of them and their advisors held 10,15, 20 pieces of land. Over the last couple of years, those land parcels have changed hands. When we buy land, we're buying it from another person. We're not buying it from

Decentraland, which isn't a company. How Decentraland is operated is something called a DAO, or a decentralized autonomous organization. There's no CEO, there's no company that says this is what we do in our world. There it literally is up to the vote of the community.

How do you track land and other real estate data in the metaverse?

There was no data out there. There was nothing that said this is the right property if you're a shoe company, or this is the right location if you're holding concerts. We're actually launching in a couple of months Amadea.com. It will kind of be like a real estate portal where you will literally go in and you will be able to search all the different metaverse worlds for what you're looking for. Just like when you're buying a house, you'll have pictures of the property, you'll see who your neighbors are, you'll have a little mortgage calculator, and you'll literally be able to buy the land and sell the land and rent the land through this new portal called Amadea.

We don't know the name of a person behind their avatar, and we never want to know it. We're big proponents of privacy. But there isn't even metadata. There isn't even data that tells me how many avatars walked by this street. So we're building all of the data analytics right now so that we can help buyers and advertisers and brands better understand where they should be in the metaverse and why they should be in that spot.