

The Crypto Credit Report

Q3 2019 | Issue 2

Gray
chain 

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Forward

by Paul Murphy, CEO, Graychain

This report is about the crypto credit industry. Every issue includes data, as well as our understanding of that data. We also report industry stories that we think matter, and sometimes, opinion pieces.

Our mission

Crypto finance is growing. We want to support that growth as much as possible. This Crypto Credit Report (CCR) is one of several ways we're doing that.

We want to build confidence in the industry by providing as much transparency and accountability as possible. We appreciate the trust that every vendor in the acknowledgement section has put in us. By providing their performance numbers, they allow us to give the world a reliable and realistic snapshot of the industry. We believe that this is to everyone's benefit.

The crypto credit industry is building a foundation on top of which an entire financial system can flourish. This is important and we, as much as anybody, want it to succeed.

Our promise

- We will tell you where and how we got our data.
- We will independently verify data when we can, but we aren't auditors. We trust private lenders to give us real numbers.
- If someone gives us data for aggregate metrics, we won't ever publish those numbers separately.
- We will try to be neutral.
- We will transparently correct our mistakes.

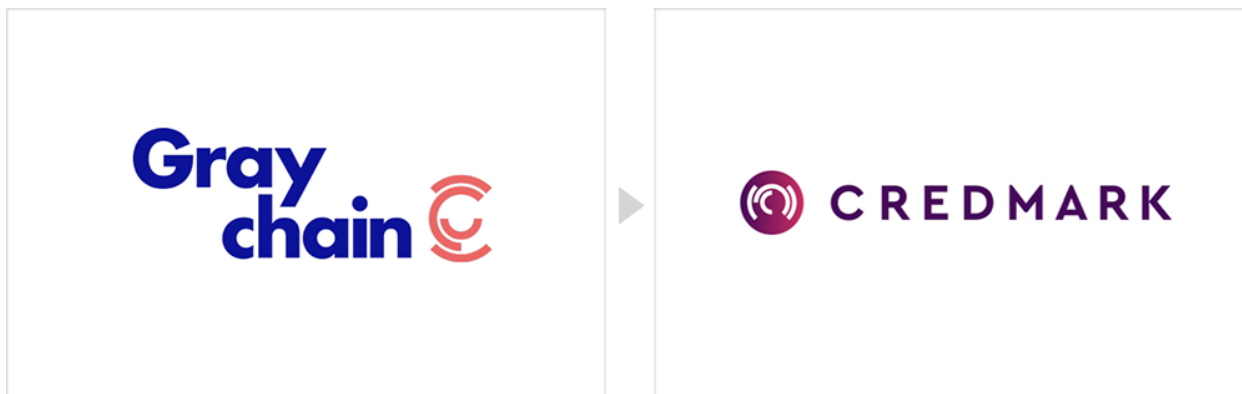
What we'd like from you

1. **Feedback.** Talk to us on Telegram at <https://t.me/joinchat/NSeoPxe73PtoopC9vbvmig>. Tell us what's wrong, tell us what you like, and tell us what you don't like. Most importantly, tell us what you'd like to see in future issues.
2. **Attribution.** You're welcome to quote anything you find in these reports, as long as you note the source. Seems fair.

Ch-ch-ch-changes

Because of the troubles in Hong Kong, we have moved to Singapore. In the process, we changed our name from Graychain to Credmark.

All future reports will be published by Credmark.



Thanks to the availability of more accurate data we are correcting some of the numbers previous reported for Q2. See "*Industry Snapshot » Corrections to Q2 Report*" below.

Introduction

These are the most interesting findings to fall out of our Q3 research and analysis.

In Q3 of 2019, the amount of **active debt** in the crypto industry grew by 23%.

During the same period, the amount of **active collateral** only grew by 12%. This is primarily because collateral contains a larger percentage of crypto than debt (which includes more fiat/stablecoins), and crypto lost 25% of its value during the quarter.

In this report we are including **lifetime loan origination** and approximate **lifetime collateral** statistics. We will be de-emphasizing those metrics in future reports, and will eventually stop reporting them altogether. Why? Because without additional context, they are ambiguous.

Equivalent short-term and long-term loans produce different lifetime origination and collateral numbers. For example, a \$100,000 loan structured as four consecutive 7 day loans yields \$400,000 of originations, whereas the same loan structured as a single 28 day loan yields \$100,000 of originations. The resulting \$500,000 origination number is not very meaningful. The same is true for related collateral amounts.

Lenders report lifetime origination and collateral numbers in USD. In the face of large fluctuation in crypto prices, this is problematic. For example, a 3 BTC loan made when 1 BTC was worth \$3,000 appears equivalent to a 1 BTC loan when 1 BTC was worth \$9,000. This renders reported lifetime numbers meaningless.

Without the context of loan term and price fluctuations, lifetime loan origination and collateral are not very meaningful.

In Q3, many consumer lenders began scaling up **institutional products**. Those willing to share their plans included:

- BlockFi,
- Cred, and
- Celsius.

We are excited to follow future progress.

At the end of Q2, **Dharma**, one of the most prominent DeFi protocols, abruptly shut down access to their platform, only to re-emerge with a completely different product in Q3. For additional details, see "*Lenders » Dharma*" section below.

One important thing to point out is that Dharma 2.0 is not a new version of the 1.0 protocol. It is an application built on top of the **Compound** protocol.

We are impressed to see such quick product destruction and creation. We expect to see more and more projects include well-developed components like Compounds'.

Industry Snapshot

Quarterly – Overall

These numbers include public data from 4 DeFi lenders, and private data from 10 of the largest Consumer and Institutional Lenders. We believe this represents approximately 80% of the market. We have not adjusted our numbers to include the estimated remainder.

	Q2	Q3	Growth
Active Debt	\$735 MM	\$901 MM	23%
Active Collateral	\$1,519 MM	\$1,701 MM	12%
Interest Generated	\$12 MM	\$16 MM	24%

Quarterly - DeFi

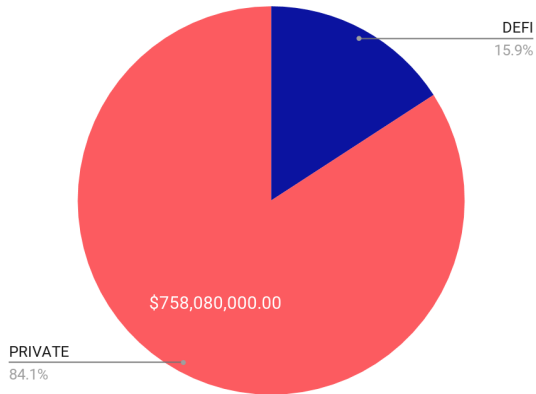
We define DeFi as a permissionless protocol that interacts with contracts on chain. Our quarterly analysis includes data from Compound, dYdX, Maker, and nūo. All of this is publically available data from the Ethereum blockchain.

	Q1	Q2	Q3	Change (%) Q1 » Q2	Change (%) Q2 » Q3
New Addresses	3,846	5,862	98,987	52%	1589% ¹
New Loans	5,462	20,165	120,317	269%	497%
New Loans (value)	\$64,831,909	\$162,481,729	\$233,263,114	151%	44%
Interest Revenue	\$1,100,000	\$2,800,000	\$3,776,000	155%	35%
Liquidations	1,091	2,165	5,574	98%	157%

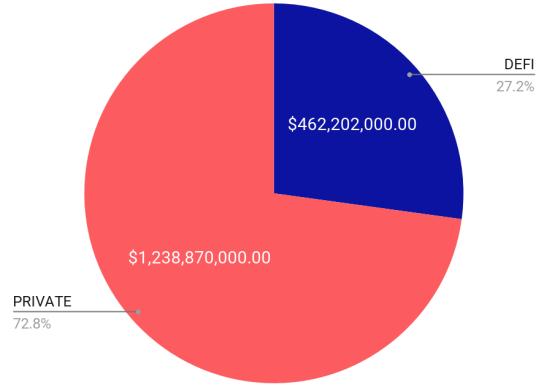
¹ The unusual spike in new addresses and CDPs issued in Q3 can be partly attributed to marketing efforts by Coinbase to educate users on DeFi by opening small CDPs in exchange for DAI.

Quarterly – DeFi vs. Private

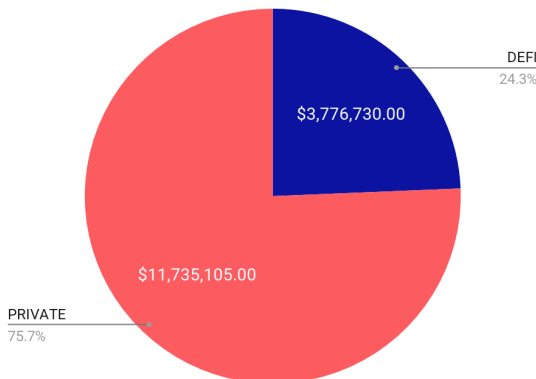
Q3 Active Debt



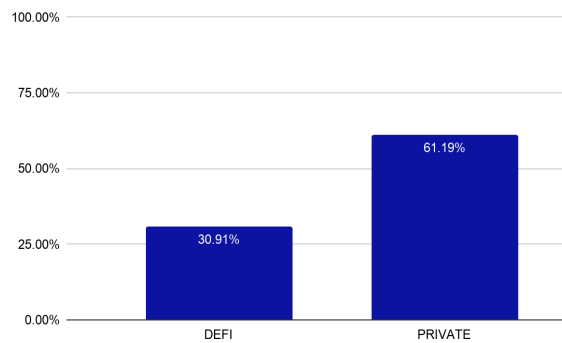
Q3 Active Collateral



Q3 Interest Generated



Q3 LTV



As you can see from the above charts, DeFi has much less active debt than active collateral when compared to private lenders. The reason? Compound.

Compound (and the ascendant dYdX) offer interest-bearing accounts that are exceptionally popular. Some private lenders offer similar savings accounts, but the majority of their business is lending.

Additionally, the interest rates in DeFi are generally higher, generating more interest per dollar, resulting in a higher percentage of interest generated.

Lifetime

These metrics cover the lifetime of the industry, which began in Q4 2017². This is a cumulative sum of reported industry values over the entirety of the life of each company.

	Total
Lifetime Loans Originated (value)	\$6.4B
Lifetime Collateral Issued	\$10.5B
Lifetime Interest Generated	\$67MM ³
Avg Loan Duration	82 Days
Avg Interest Rate	6.04%

Snapshot Commentary

The entire industry has a loan-to-value ratio⁴ of 52%. There is no evidence to suggest the industry as a whole is over-leveraged, but some firms may be. This is something we plan to watch carefully.

Loan durations vary from lender to lender, and in some cases, from product to product. They range from a few hours to almost two years.

Lenders considered Q3 a slow-growth quarter. This is partially due to the fact that BTC fell 25% during the quarter. Lenders considered September a particularly bleak month.

The 25% drop in BTC is responsible for the asymmetry in growth between debt and collateral over the quarter. Deployed debt has a much higher percentage of fiat or stablecoin in it, and is therefore less exposed to the fluctuating price of BTC.

Generating interest is not the only way that lenders make money. Savvy lenders are using crypto derivatives in order to guarantee returns for their customers. We haven't yet examined that particular strategy.

² In late 2017 SALT, ETHLend, Unchained and Maker launched their first products. Internally we call this "the crypto lending big bang".

³ This number is in conflict with our Q2 report. See "Corrections to Q2 Report" for details.

⁴ Loan to Value is the value of debt divided to be the value of collateral. If it's above 100%, then in the case of an industry default, the industry's loan values can't be fully liquidated, and the lender's cannot recoup the difference.

It's important to bear in mind that interest generated does not always go to the lender. Some goes to token holders, or liquidity suppliers. Some platforms actually offer peer-to-peer lending, in which case the platform is only the intermediary and may or may not take a fee as payment for facilitating the loan.

Corrections to Q2 Report⁵

Our data, sourced primarily from third-party apps, publications and press releases, suggested that the industry had already issued \$4.7B in loans, generating \$89M in interest. After receiving additional data from private lenders, we have adjusted those numbers.

- Lifetime loans issued: ~~\$4.7B~~ » **\$4.1B**
- Lifetime interest generated: ~~\$89M~~ » **\$51M**

Lifetime interest was too high because average loan durations were shorter than we thought.

Thanks to the many firms that supplied data to help us create a clearer picture of the industry.

⁵ <https://reports.graychain.net/TheCryptoCreditReport-q2-2019.pdf>

Lenders

We currently categorize our lenders as follows: *DeFi* and *private*. Private lenders are further broken down by their target customers: *consumer* and *institutional*.

The following table shows the categorized lenders from which we have collected data for this report.

	DeFi	Consumer	Institutional
bZx Protocol	✓		
Compound	✓		
dYdX	✓		
ETHLend	✓	✓	
Maker	✓		
nüo	✓		
BlockFi		✓	✓
Cred		✓	✓
Celsius Network		✓	✓
Constant		✓	
Helio Lending		✓	
Nebeus		✓	
Nexo		✓	
SALT		✓	
Unchained Capital		✓	
YouHodler		✓	
DrawBridge			✓
Genesis Capital			✓
Lendingblock			✓

Below, additional data and information about specific vendors in the space. This quarter we spoke with the following platforms and vendors, except for Compound, whose data is public.

BlockFi⁶

BlockFi was an early mover in the crypto lending space, elegantly straddling the traditional vs. crypto finance divide. BlockFi is showing that one possible route to disruption follows regulations meticulously and learns from traditional products.

BlockFi's first product was crypto-backed loans. Their recent introduction of consumer-friendly interest accounts caused a stir for promising returns that many people thought were unrealistic⁷. Those worries clearly weren't shared by sharp hedge funds and VCs who soon showed up with bags of money.

Having seen the contents of those bags, BlockFi announced the development of *BlockFi Institutional Services* in October. They recently updated their entire UX. It's almost too elegant for crypto, but we'll let it slide.

Lots to watch.

bZx Protocol⁸

bZx is an open finance protocol designed to support financial applications on Ethereum. bZx enables a large spectrum of lending applications. This is demonstrated by Fulcrum and Torque, developed by the same people who developed the bZx protocol. Fulcrum⁹ enables margin lending and trading while Torque¹⁰ provides indefinite, fixed interest rate loans.

bZx launched in June of this year, so it's definitely a new kid on the block. We are happy to see the emergence of more DeFi building blocks so that developers can start moving their focus from plumbing to users.

Celsius Network¹¹

If there's an elephant in the crypto credit room, it's most definitely Celsius.

⁶ <https://blockfi.com/>

⁷ So far the 6.2% base rate for Bitcoin has stayed constant for almost a full year and hasn't changed since the product launched, so maybe it wasn't unrealistic after all.

⁸ <https://bzx.network/>

⁹ <https://fulcrum.trade/>

¹⁰ <https://torque.loans/>

¹¹ <https://celsius.network/>

Launch in early 2018, not long after the Big Bang (see above), Celsius has consistently confounded the industry by publishing numbers that “seem way too big”. This resulting mistrust is a problem for the entire industry.

We decided to get to the bottom of the controversy by meeting with Celsius’ leadership to review their numbers and supporting documentation. We are still working through this process but we already have a few things to report:

1. Celsius’ origination numbers are big in part because their loans are short-term, on average three times shorter than the typical industry loan. As explained in the *Introduction* above, this inevitably yields disproportionately large origination numbers.
2. However, even taking loan terms into account, Celsius’ loan volume is still impressive. Their active debt squares with reported originations.

Celsius continues to show good user adoption, so they are obviously doing something right. Their mobile app is particularly impressive. It gives users a pleasant self-service experience and provides access to lots of community data, which might be an indication of increased future transparency.

More next quarter.

Compound¹²

Compound v2 launched in May and is already the foundation of a number of important services.

Compound provides market liquidity by allowing people (businesses or other contracts) to deposit tokens into a pool from which others can borrow. Although Compound saw quarter to quarter increases in new loans, new users, locked collateral and borrow loan originations, these numbers trended downward throughout Q3.

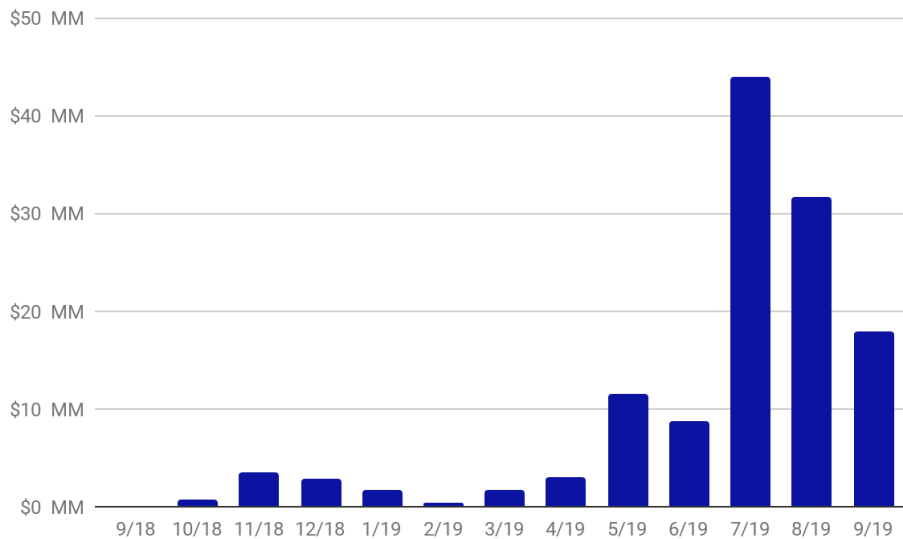
Compound’s contracts are continuously audited. Audit results are public. This creates a level of trust¹³ that helps explain the rush of services and applications being built on top of the protocol. For example, legacy protocols such as Dharma and new players like Constant are currently using Compound as the underlying contracts for their services.

We love the positive side-effects of composability and expect to see a lot more in the future.

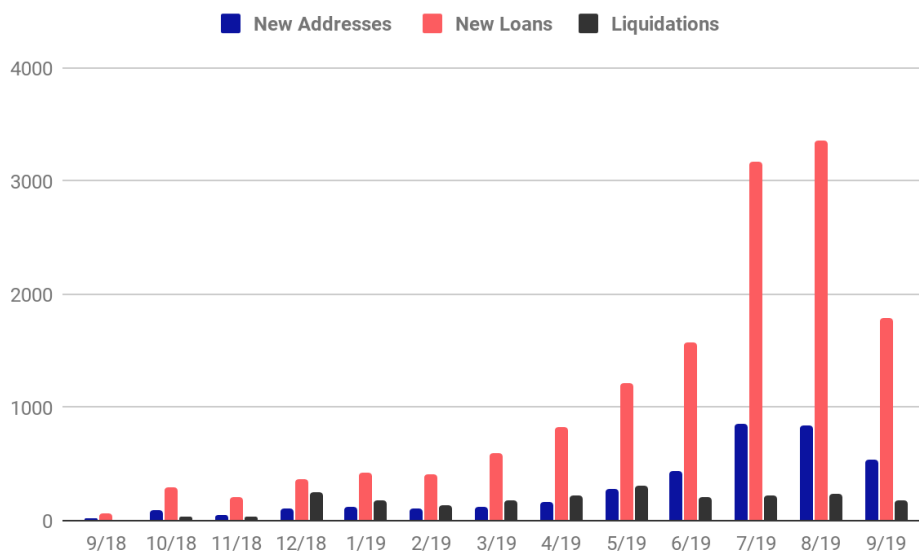
¹² <https://compound.finance/>

¹³ See our blog post about risk: <https://graychain.net/blog/risk-in-crypto-lending/>

Value of Borrowed Crypto assets per Month



Numbers of Addresses, Loans, and Liquidations per month



Constant¹⁴

Launched earlier this year, Constant has grown very quickly.

¹⁴ <https://www.myconstant.com/>

Constant has a wide variety of products tailored toward users' different needs. These include peer-to-peer loans in which lenders can choose their own terms or allow Constant to decide for them for a guaranteed rate. Additionally, they have a wide variety of assets (over 50!) they will take as collateral. They will be an interesting firm to watch going forward.

Constant also runs a Medium blog with articles explaining the basics and some advanced DeFi concepts. They hope that education will spur further adoption. We're good with that!

Cred¹⁵

Cred offers a variety of interest rates on several different tokens. Additionally, possession of Cred's LBA tokens allow users to earn better interest rates on loans. Cred offers lines of credit that have LTV calculations based on current utilization of credit instead of on the originated loan amount.

Cred has a well-deserved reputation as an innovator in the space having recently introduced merchant solutions that include a point-of-sale system¹⁶, supply chain lending, and interest payment flexibility¹⁷.

Dharma¹⁸

Dharma saw their user activity drop sharply in Q2 and stopped operating entirely for most of Q3.

Dharma recently announced Dharma V2, a fixed rate savings account for DAI and USDC. Built on top of the Compound protocol, Dharma V2 uses Compound's variable interest rate infrastructure to offer their clients a fixed rate of return. We don't envy the folks at Dharma responsible for managing that interest rate risk.

Since Dharma is no longer offering any loan products, they will not appear in future reports, unless they change their minds of course.

DrawBridge Lending¹⁹

DrawBridge Lending is an institutional lender delivering returns to its clients around the 8-12% mark while offering borrow rates as low as 1% against crypto collateral. So far, so normal, but what really sets DrawBridge apart from the crowd is their use of fancy financial engineering to make sure their borrowers never have to suffer margin calls.

¹⁵ <https://www.mycrad.io/>

¹⁶ <https://news.bitcoin.com/cred-to-demo-global-merchant-solution-at-blockchain-week-kick-off/>

¹⁷ Cred allows you to pay your interest in a currency other than the collateral that is locked up.

¹⁸ <https://www.dharma.io/>

¹⁹ <https://www.drawbridgelending.com/>

They do this by using options to protect their downside in case the value of the collateral falls through the floor. They pay for these options by capping client upside, which they clearly explain in their literature. For their clientele, this is a great way of earning money from their crypto without having to worry about its volatility.

Another important aspect of DrawBridge's strategy is that they don't rehypothecate collateral (i.e., they don't lend it out), so clients don't have to worry about downstream systemic risk.

DrawBridge is the only lender with a license to sell BTC derivatives, which makes them a unique player in the institutional lending space.

dYdX²⁰

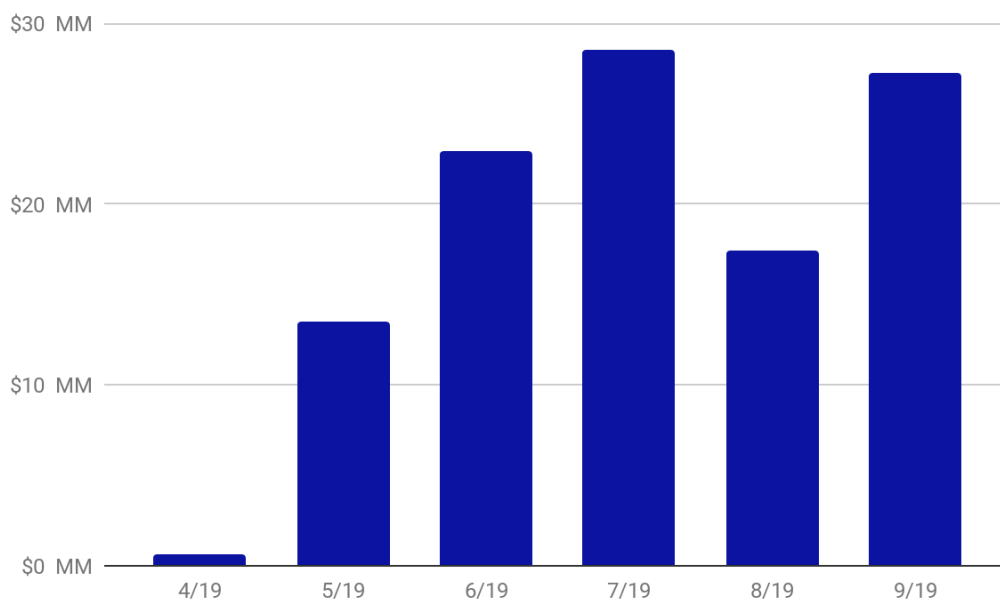
The folks at dYdX are an ambitious lot, but they aren't all whitepaper, no code. These guys are executing like champs. Their exchange saw continued growth throughout Q3, avoiding the downtrend experienced by the rest of the industry.

The dYdX platform, a DEX for margin trading (for now), has become popular among traders who seek tools that emulate legacy finance. An example is the ability to leverage assets to increase trading power. Isolated margin allows traders to deposit only a percentage of a deposited asset in order to take a larger position. Cross trading allows a trader to use all assets supplied. This magnifies potential gains and losses, which is exactly what the cowboys in the room are looking for.

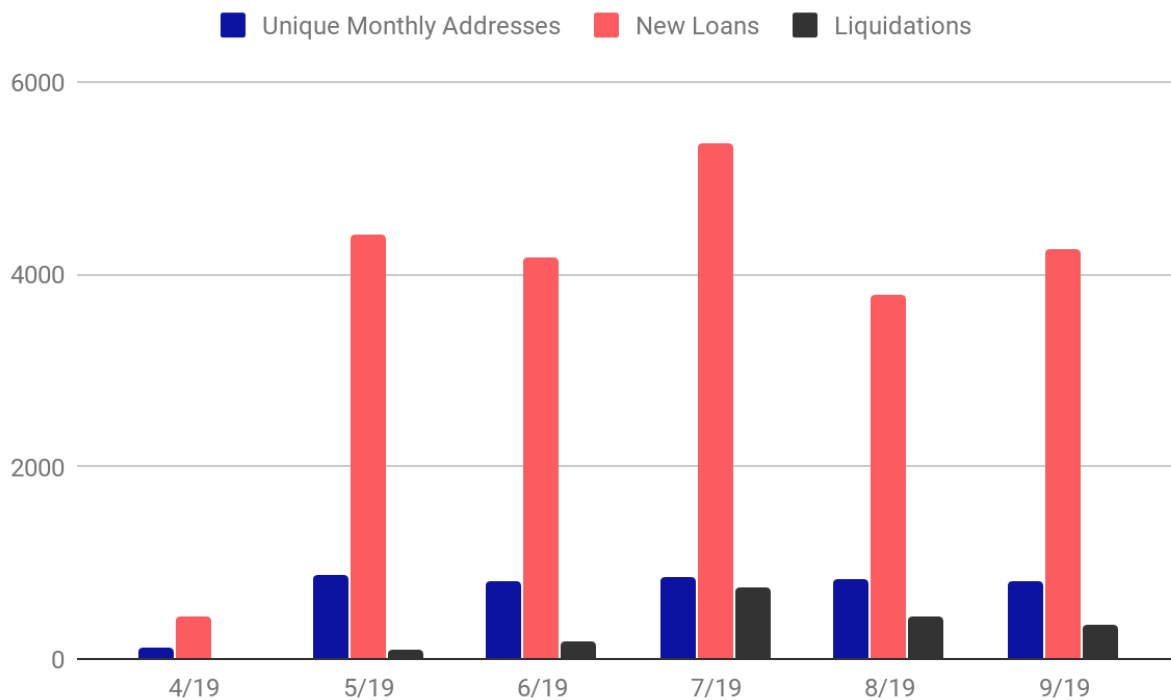
We have a feeling we're going to see a lot more interesting stuff dYdX. We'll be paying attention.

²⁰ <https://dydx.exchange/>

Value of Borrowed Crypto assets per Month



Numbers of Addresses, Loans, and Liquidations per month



ETHLend²¹

ETHLend launched in Dec 2017. ETHLend's smart contracts enable the creation of collateralized peer-to-peer loans. ETHLend supports a very wide variety of tokens as collateral. Loans are made in ETH, LEND (ETHLend's token), and a variety of stablecoins.

Unlike Constant, which includes an automatic matching engine as part of their service, ETHLend borrowers request loan parameters which may or may not be accepted by a lender.

ETHLend was an early player in the collateralized lending space. Their whitepaper is ambitious, and they are executing against it, albeit at a slower pace than originally planned²².

ETHLend is now working on a decentralized credit rating system which we're particularly interested in. When it launches we'll be sure to report.

Genesis Capital²³

Genesis is a big player in the institutional crypto lending space. Thanks to their traditional roots²⁴, Genesis has had the insight to solve fundamental problems for the lending and trading industries.

Because of the depth of their portfolio, Genesis is a liquidity provider for much of the industry.

Through affiliate relationships, Genesis is able to provide sophisticated hedging instruments to their clients. The one-stop-shop is appealing to counterparties who aren't interested in dealing with too many moving parts to execute a particular strategy. This has contributed to Genesis' impressive growth since its founding.

Of all the institutions we talk to Genesis stands out for its support of the entire industry. Again, this is likely the result of its roots. Genesis has enough perspective to realize how early stage (and small!) the crypto lending industry is today. For the industry to grow, everyone needs to grow.

It may sound counterintuitive, but Genesis is rooting for its competitors.

²¹ <https://ethlend.io/>

²² They wouldn't be engineers if they weren't optimistic!

²³ <https://genesiscap.co/>

²⁴ Genesis Global Capital (sometimes shortened to "Genesis Capital" or even "Genesis") borrows and lends digital currencies with institutional counterparties. Genesis Global Capital is an affiliate of Genesis Global Trading a traditional OTC desk for digital currencies.

Genesis Global Trading was founded in 2005 Genesis Global Capital was founded in late 2017.

Helio Lending²⁵

Helio Lending is a fully-regulated cryptocurrency lender, based in Australia.

Helio allows borrowers to use cryptocurrency as collateral against fiat or stablecoin loans. They offer 3, 6 and 12 month loans on a 70% LTV basis, with a minimum loan size of \$2,000 and a maximum of \$5,000,000.

Helio offers several unusual loan options including:

- no monthly payments, and
- no margin calls.

In addition, Helio offer a white label solution that will underpin lenders we will be covering in future reports.

Lendingblock²⁶

Lendingblock is an institutional lending exchange serving hedge funds, lenders, market makers, custodians, traders and other institutional participants. Regulated by the Gibraltar FSC, Lendingblock's exchange bring clarity and transparency to the institutional lending market, allowing market participants to place orders, view rates and have the entire loan lifecycle managed, including services such as settlement and collateral management.

We will report back as volumes on the platform ramp up.

Maker²⁷

Q3 was exciting for Maker, as well as thousands of Maker observers.

We had a chance to see Maker's governance token (MKR) in full effect. During the mini-crash to start off the quarter, the MKR stakeholders decided to move the stability fee up to 20% in order for DAI to maintain a peg at 1 USD. This significantly reduced the demand for DAI until prices stabilized later in the quarter at which point the stability fee was decreased. Despite the volatility, DAI held firm. If Maker's governance mechanism continues to demonstrate its efficacy we can expect it to be a model for many future governance experiments.

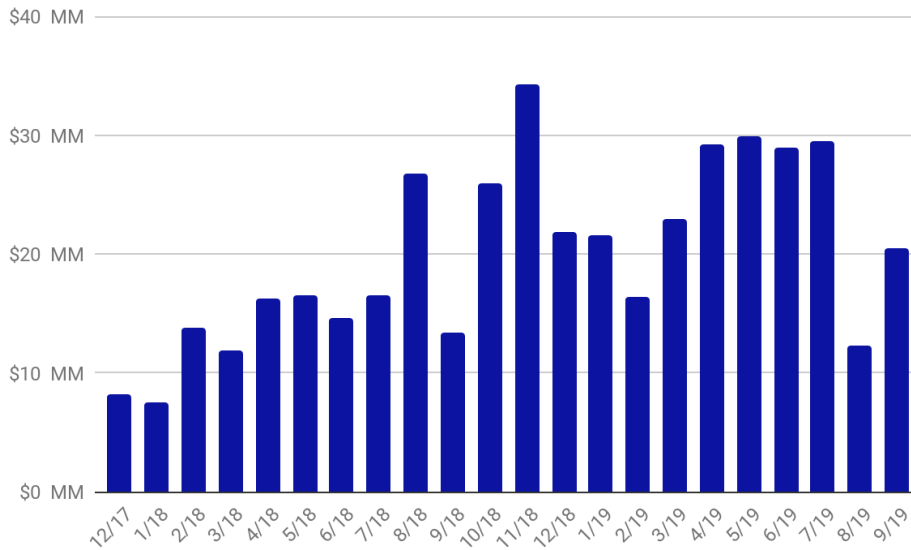
²⁵ <https://heliolending.com/>

²⁶ <https://lendingblock.com/>

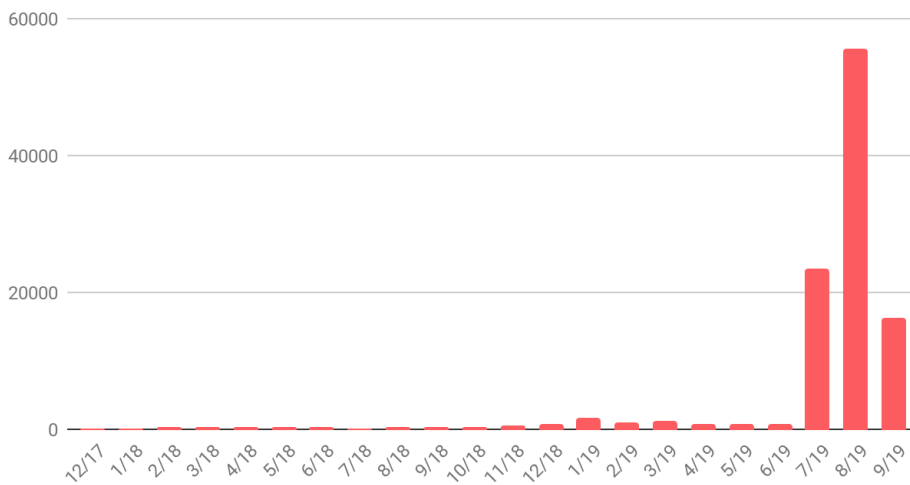
²⁷ <https://makerdao.com/>

You will inevitably note the stunning spike in new originations during Q3 (see chart below). This was the result of a Coinbase/YouTube marketing campaign to introduce people to DAI. The real story is told by the accompanying chart: "Value of borrowed DAI per month". Nothing happened. All those new CDPs were tests of minuscule proportions.

Value of borrowed DAI per month



New CDPs Issued



Nebeus²⁸

Nebeus offer crypto savings accounts and loan facilities, work in many languages, and don't make a fuss about fiat on and off ramps. In fact, they support transfers to over 100 countries.

Nebeus are based at Level 39 in Canary Wharf, an old stomping ground of ours. Next time we're there we'll definitely drop in to find out what else they have up their sleeve and report back.

Nexo²⁹

Nexo offers a comprehensive crypto banking account to customers in over 200 jurisdictions. The company has attracted a user base of over 300,000 thanks to its fully automated platform, its seamless mobile app, and a \$100M insurance policy on custodial assets provided through Nexo's partnership with the leading custodian BitGo.

Nexo's primary product provides instant crypto credit lines that allow Nexo's customers to always have access to credit in more than 40 fiat currencies and stablecoins. In March 2019, Nexo launched its second product, an interest-earning account that allows its user base to earn up to 8% annually in daily compounding interest on stablecoins, USD, EUR, and GBP.

The upcoming Nexo Card will allow crypto holders to utilize Nexo's instant crypto credit line for instant ATM withdrawals as well as small and large purchases all over the world.

The NEXO Tokens are dividend-paying and asset-backed tokens. The company shares 30% of its profits in the form of dividends with token holders. Until now close to \$3.5M have been distributed to NEXO token holders.

nüo³⁰

In Q3 nüo followed the market and saw decreasing activity for the quarter.

Like dYdX, nüo offers margin to give traders the ability to earn high returns and suffer outsized losses. Giving traders what they want is a perfectly reasonable business model in our opinion!

Unlike dYdX, nüo supports a wide variety of assets.

Users can sign up with nüo using a username and password or with any web3 wallet. nüo does not require KYC for lending, borrowing or trading.

²⁸ <https://www.nebeus.com/>

²⁹ <https://nexo.io>

³⁰ <https://www.nuo.network/>

SALT³¹

SALT is a pioneer of crypto-backed lending. They offer crypto-backed loans and custody solutions for individuals and businesses and are committed to bridging cryptocurrency with traditional finance. With an emphasis on security and customer service, they provide technology, infrastructure, and tools to make it easy for crypto holders, businesses, banks, and governments across the globe to participate in the blockchain economy.

Founded in 2016, SALT is headquartered in Denver, Colorado.

Unchained Capital³²

Unchained Capital, another pioneer of the crypto lending space, is based in pioneer country: Texas.

Unchained has been steadily growing their lending practice since late 2017, but they've clearly been restless. Their Collaborative Custody product (multi-party, multi-sig cold storage) boasts some of the best security practices in the crypto space.

When crypto-Twitter insists that third-party custody is anathema it's easy to forget that asset custody is, in fact, a problem that needs solving, no matter your philosophical bent. A lot of people are comfortable keeping a few hundred dollars of cash in their home, but a few hundred thousand tends to give people nightmares. We think Unchained is on the right track.

YouHodler³³

Incorporated in Switzerland, with an office in Cyprus, and staff throughout Europe, YouHodler is, literally, all over the place. Although crypto is global, people's relationship to crypto is most definitely local. Having feet on the ground in various places is a definite advantage, and YouHodler knows that.

YouHodler provides cash loans backed by crypto at the highest LTV in the industry (90%). They are very borrower-focused, offering one of the lowest minimum-loan amounts in the industry, in addition to several savings accounts products. They accept over 12 options for crypto collateral.

YouHodler sells a unique product they call Turbo Loans. In the old days (last year) traders used to:

- use crypto as collateral to

³¹ <https://saltlending.com>

³² <https://www.unchained-capital.com>

³³ <https://www.youhodler.com/>

- buy more crypto to use as collateral to
- buy more crypto to use as collateral to
- ...
- (you get the idea).

Seeing this pattern over and over 😊😊😊, YouHodler decided to make these traders' lives easier. A Turbo Loan automates that patten, up to 10 times. Clever.

Industry Spotlight

How Celsius Turned its Crypto ICO Into a Billion-Dollar Lending Business³⁴ (Coindesk)

"Although Mashinsky said Celsius is currently seeking its first venture capital raise, to date the startup has been solely funded through ICO proceeds.

By the time the ICO ended and the marketing budget for it was spent, Mashinsky said only \$32 million worth of crypto remained. Unlike most ICO tokens, CEL is actually trading at nearly the same price today as it was last year...

With a staff of 52 employees, Mashinsky estimated Celsius had a burn rate of \$15 million a year and net revenue of \$1 million per month.

"All the rest goes back either to the cost of the trades or back to the community," Mashinsky said. "We purchase CEL tokens back from the exchanges and distribute them back to our users."..."

MakerDAO Bounty Program Captures Critical Bug Before Launch³⁵ (Coindesk)

"MakerDAO has patched a "critical" bug in its yet-to-be-launched Multi-Collateral Dai (MCD) upgrade that could have put more than 10% of the system's total collateral at risk.

The bug was caught by HackerOne user lucash-dev, who reported it via the HackerOne forum and received a \$50,000 bounty for uncovering the potentially devastating flaw..."

International Bank Regulator is Studying Crypto Lending Capital Requirements³⁶ (CoinTelegraph)

"Global banking regulator the Basel Committee on Banking Supervision (BCBS) is working to establish how much capital lenders should hold to cover the risks generated by dealing with cryptocurrencies.

Business Reporter published the news on Nov. 7 that the Basel Committee – which includes banking regulators from the United States, Europe and Japan – agreed to publish a paper on the prudential treatment of crypto assets..."

³⁴ <https://www.coindesk.com/how-celsius-turned-its-crypto-ico-into-a-billion-dollar-lending-business>

³⁵ <https://www.coindesk.com/makerdao-bounty-program-catches-critical-bug-before-launch>

³⁶ <https://cointelegraph.com/news/intl-bank-regulator-is-studying-crypto-lending-capital-requirements>

Robert's Musings

Libra was announced at the end of Q2, and it was the undivided focus of my musings in the report covering that quarter.

Over the course of Q3, I identified three issues that I think deserve comment:

1. The need to define the crypto credit ecosystem.
2. Who is using DeFi protocols and private crypto lending platforms.
3. Industry risk.

I've addressed the last two in blog posts, but I'll summarize them below.

Defining the ecosystem

People can't seem to agree on the definition of "DeFi". Our CEO got so frustrated by the multiple definitions he was hearing at industry conferences that he wrote a blog post³⁷ explaining what we mean when we say "DeFi".

Since this report attempts to cover the entire crypto lending industry, I've decided to define each of its segments, including DeFi.

DeFi Lending Platform – An autonomous, smart-contract-based platform that runs without the support of a central authority. Examples include Maker, Compound, dYdX, Constant and nūo.

Crypto Lender – A company that provides cryptocurrency lending services, is often subject to regulation³⁸, and controls its software platform and data.

Consumer Crypto Lender – A *Crypto Lender* whose customers are primarily individuals. Examples include Unchained Capital, Cred, SALT, and BlockFi.

Institutional Crypto Lender – A *Crypto Lender* whose customers are primarily institutions. Examples include DrawBridge, Cred, BlockFi, Genesis, and Lendingblock.

Some lenders belong to more than one segment, which is obvious in the "Lenders" table above.

³⁷ <https://graychain.net/blog/what-is-defi/>

³⁸ This usually implies that customers are subject to KYC/AML checks.

Defining the customer

In the last report, we pointed out that people take out collateralized loans for three primary reasons:

1. Leverage
2. Arbitrage
3. Tax deferment

This time around one of our engineers, Momin Ahmad, decided to dig a little deeper into the people using these products and offer insights into the motivation of these users.³⁹

Momin's main takeaway is that the majority of users on these protocols are the very people that blockchain technology and cryptocurrency were supposed to disrupt: rich, first-world, and many from traditional financial services.

Despite the profile of these early adopters, Momin points out that crypto lending is evolving quickly, and will soon be accessible to less financially sophisticated users. Innovative services like EOS REX⁴⁰, Dharma⁴¹ and BlockFi's Interest Account⁴² prove his point.

Industry Risk

Spend an hour with a Wall Street type and the topic of *risk* and *risk management* will inevitably come up.

Institutional lenders worry about another 2008 – bad loans, shady people, weak balance sheets and toxic debt rehypothecated – and the collapse of a house of cards.

Meanwhile, we couldn't turn around in a DeFi setting without people talking about *contract risk*. Risky business with smart contract vulnerabilities threatens to destabilize DeFi and damage industry trust & viability.

If talk of risk is a virus, it managed to infect the crypto industry this last quarter.

I go into all of these in a recent blog post⁴³.

³⁹ <https://graychain.net/blog/why-do-people-use-defi/>

⁴⁰ <https://eosrex.io/>

⁴¹ <https://www.dharma.io/>

⁴² <https://blockfi.com/crypto-interest-account/>

⁴³ <https://graychain.net/blog/risk-in-crypto-lending/>

Data Sources

Source	Publisher	URL
Crypto Lending Markets Overview	ICORating	https://icorating.com/news/2019-2-crypto-lending-markets-overview/
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MKR Tools	mkr.tools	https://mkr.tools/governance/stabilityfee
LoanScan Dashboard	LoanScan	https://loanscan.io
ETHLend Dashboard	ETHLend	https://ethlend.io/stats
Dune Analytics	Dune Analytics	https://www.duneanalytics.com/
dYdX	Utilizing Margin and Leverage on dYdX	https://medium.com/dydxderivatives/utilizing-margin-and-leverage-on-dydx-60b34ca8f3cb

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