What is Dai (DAI) ?

Dai (DAI) is a stablecoin that runs on Ethereum (ETH) and tries to maintain a value of 1 USD like other stablecoins. However, DAI is decentralized. Unlike centralized stablecoins, Dai is not backed by US dollars in a bank account.
Instead, it is backed by collateral from the Maker Decentralized Autonomous Organization (DAO). MakerDAO is a Californian startup founded by Dane Rune Christensen.

Thus, DAI will not be issued and controlled by a central authority. The DAI is the native token of the Maker Protocol - a decentralized, autonomous ecosystem of smart contracts running on the Ethereum blockchain.

Secured loans offer a lender the opportunity to secure a loan by pledging the assets they own.

Traditionally, these loans have lower interest rates than unsecured loans because the secured assets can be used to meet part of the loan.

How does Dai work?

DAI is a core component in the concept of Collateralized Debt Positions (CDPs).

CDPs are the Maker Protocol smart contracts in which users can lock their collateral (ETH, BAT, etc.) and generate DAI.

You can think of CDPs as secure vaults where you can keep collateral while still having the ability to receive liquid, stable crypto cash.

Due to the volatile nature of the collateralised assets, DAIs are often over-collateralised to prevent liquidation.

In order to get their secured assets back, the user must return the borrowed DAI along with an additional fee.