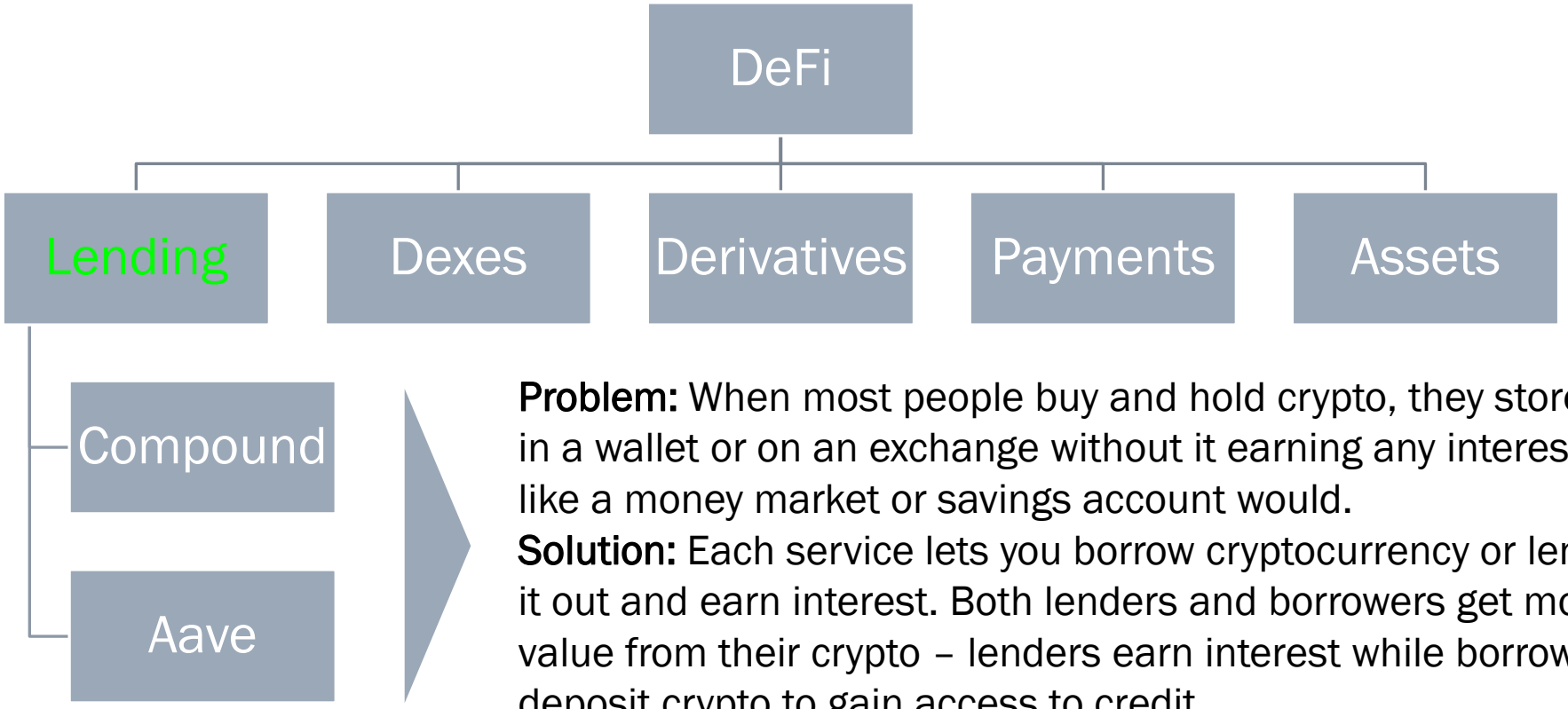
DeFi Lending

COMPOUND VERSUS AAVE

Aave and Compound occupy the same defi subspace and solve for the same general problem



Problem: When most people buy and hold crypto, they store it in a wallet or on an exchange without it earning any interest like a money market or savings account would.
Solution: Each service lets you borrow cryptocurrency or lend it out and earn interest. Both lenders and borrowers get more value from their crypto – lenders earn interest while borrowers deposit crypto to gain access to credit.

They solve for this problem through shared characteristics…

Liquidity Pools

- Avoid P2P matching issues by using pool-based strategy where lenders deposit crypto into a pool contract. Lenders and Borrowers can create and exit positions at will as there is no negotiation of terms with a specific counterparty. Partial or full payments can be made anytime.

Pricing Oracles

- The interest rate for both borrowers and lenders is decided algorithmically and is based on supply and demand for a given liquidity pool.

Liquidation Thresholds

- A pre-set LTV must be maintained. Positions are liquidated when collateral to borrow value falls below a certain ratio. Reaching this ratio triggers a liquidation bonus, incentivizing liquidators to by the collateral at a discounted price.

Tokenization

- [finish this]

Governance

- [finish this]

…However, other differences notwithstanding, Aave has two differentiating features

Stable Rates

- Stable rates are not fixed rates, but they change only when current rates move too far from the initial rate. Users experience actual fixed rates during specific time periods, or when there is enough liquidity available.
- The motivation for stable rates is to help borrower's financial planning.

Flash Loans

- Flash loans allow for the simultaneous borrowing and repayment of a loan within a single transaction.
- Similar to how lending allows for short selling of cryptocurrencies and provides a check on the market, this innovation opens up new opportunities like arbitrage.

ANALYTICS (as of 10/12/2020)Liquidators	Compound	Aave
Market Metrics		
Token Ticker	COMP	LEND
Market Cap	$302.1M	$670.3M
Total Value Locked	$849.2M	$1.17B
MV/TVL	0.36x	0.57x
Token Chain	Ethereum	Ethereum
Token Rank	52	32
Defi Token Rank	11	4
Token Issuance Mechanism	Minded by users	ICO
Return TTM	n/a	8,460.7%
Return Since Listing	16.46%	3,289.27%
Risks		
Counterparty Risk	No	No
Vulnerability in the smart contract	Yes	Yes
Congestion in the Ethereum Network	Yes	Yes
Bug Bounty	Up to $150,000	Up to $250,000
Smart Contract Audited	Yes	Yes
Oracle Failure Risk	Yes	Yes
Liquidation Mechanism	Liquidators incentivized by discount	Liquidators incentivized by discount
Utility		
Decentralized Governance	Yes	Yes
Reward Program	Yes	No
Burn Mechanism	No	Yes

Sources: Coinmarketcap, defipulse, Cryptonites, coincodex, whitepapers

Compound consistently has the least platform risk in the market it participates; Aave is relatively low risk as well

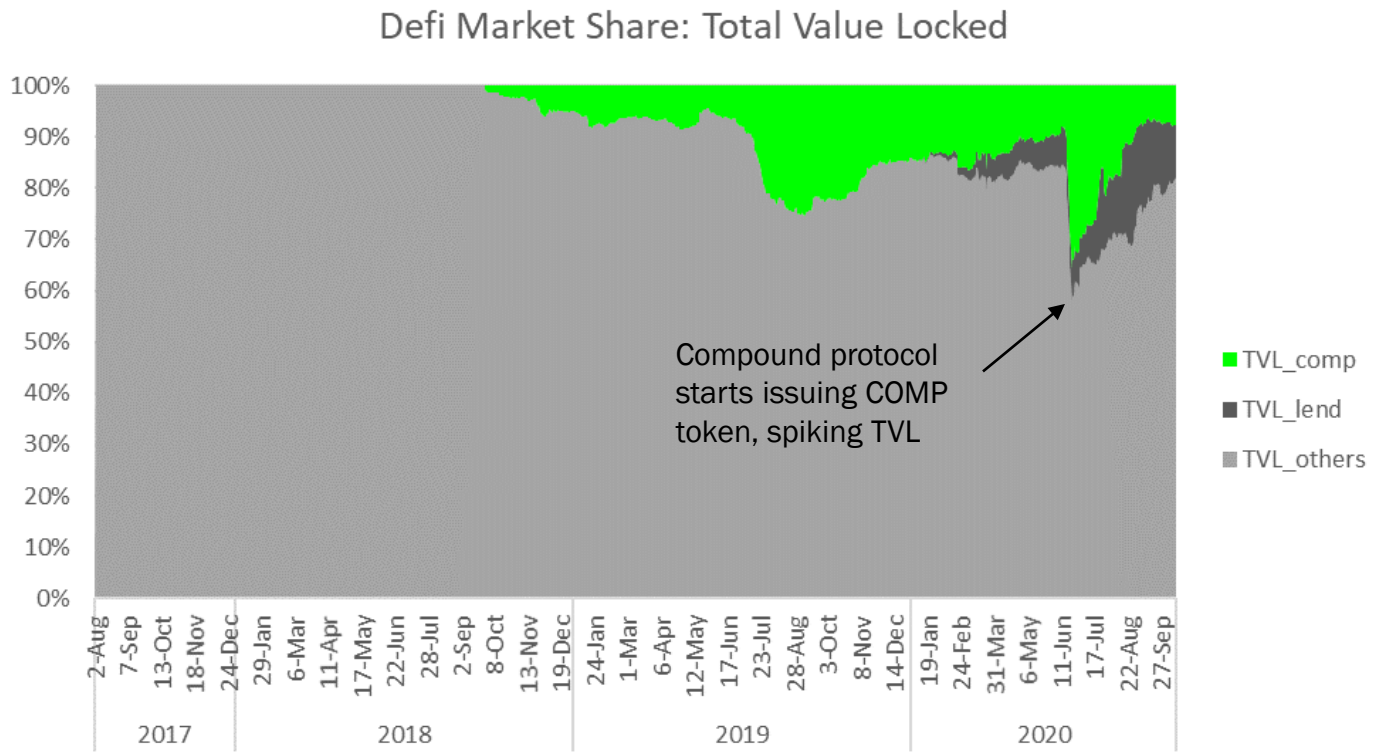
DeFi Score

	DAI	SAI	USDC	ETH	WBTC	REP	MKR	ZRX	BAT	KNC	LEND	LINK	SNX	TUSD	USDT	SUSD
Compound	8.0	8.4	8.4	8.9	8.8	8.7	-	8.5	8.8	-	-	-	-	-	7.8	-
dYdX	7.5	-	8.0	8.3	-	-	-	-	-	-	-	-	-	-	-	-
bZx	4.9	4.9	4.8	5.0	4.8	-	-	4.9	-	4.8	-	4.7	-	-	4.5	4.7
Nuo	4.9	5.0	5.0	5.0	4.8	4.8	4.7	4.8	4.9	4.8	-	4.9	4.9	4.8	-	-
DDEX	7.2	7.4	6.8	7.6	7.3	-	-	-	-	-	-	-	-	-	6.8	-
Aave	6.7	-	7.3	7.3	7.7	7.3	7.5	7.4	7.4	7.5	7.7	7.7	7.3	7.5	7.0	6.4
Oasis	9.7	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-

Source: DeFi Score

Note: The DeFi Score is a single, consistently comparable value for measuring platform risk, based on factors including smart contract, centralization and financial risk

Aave and Compound have gained share spiking to +40% TVL, with Compound subsequently reverting and Aave gaining



Source: DeFi Pulse

To do

- Assess Market risk
  - Borrow assets to re-lend them (leverage risks?) >> How much is Organic usage versus inorganic usage (purely to receive the comp token)
  - Plot TVL by health
  - Plot Borrow volume / TVL
- Dig into growth
  - Unique addresses, transactions
  - Look at integrations >> Composability: by turning all balances inside of compound into ERC20 tokens it made compound support by other projects
- Governance
  - How concentrated is voting? Centralization risk? Look into addresses by voting weight