Rating
6/10☆

Snapshot	
Ticker	RGT
Current Price:	$22.20
Market Cap:	$249,794,642
Circulating Supply:	11,255,482
Token Type:	ERC-20
Sector:	DeFi

Executive Summary

Rari Capital ($RGT) is a DeFi project, founded in late 2020, built for lending, borrowing, and earning yield. In just the last six months, Rari's TVL (total value of deposits) has gone from $53 million to over $1.3 billion (see **Figure 1**), displaying the strong product-market fit that it seems Rari has found.

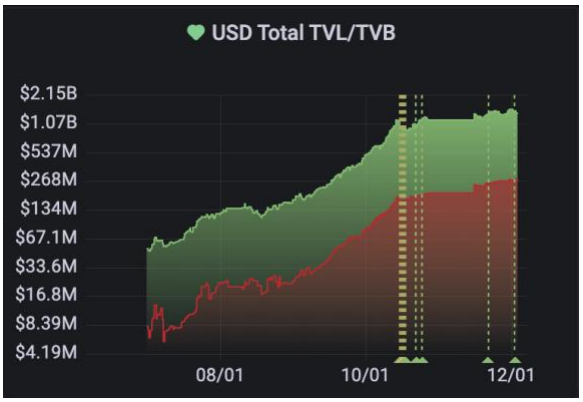

Figure 1: Rari Capital TVL Over 6 Months[1]

The two most popular borrow/lending protocols in DeFi, Aave and Compound, combine for over $40 billion in TVL. However, Rari differentiates itself from these giants in two big ways: (1) a cool name, and (2) support for lending on borrowing in a permissionless way; Rari allows any user to spin up a borrow/lend pool for *any* tokens, allowing borrowing and lending of far more tokens than the limited selection offered by Aave or Compound. Another key differentiator: the age of their team, which we'll touch on later.

Rari is built on top of the Ethereum blockchain but is in the process of expanding to more chains (discussed later). Rari currently offers a variety of ways to earn yield:

- Fuse: Discussed next. This is their main product.
- Classic Pools: Deposit USDC (currently earning 11.1% APY) or DAI (currently earning 8.4% APY) into Rari, and the protocol takes care of moving it around various places to earn yield.
- Pool2: Provide liquidity to the RGT-ETH pool on Sushiswap (currently earning 19.32% APY). This basically means you're getting extra RGT tokens in exchange for helping facilitate the trading of RGT and ETH. Beware of impermanent loss (you can learn more about that here)!

Rari's Main Product

Classic Pools and Pool2 are great, but Rari's flagship product is Fuse; about 93% of all deposited funds are put into Fuse, likely due to the increased token options and higher potential yield. We'll go over some examples soon.

What is Fuse? Fuse is an ecosystem of money markets. At a high level, anyone can come in and create a "pool". A pool is just a place where users can deposit tokens to earn yield and, if they'd like to, borrow against those deposited tokens. Let's walk through an example.

Say you deposit 5 ETH, worth about $22,000 at the time of writing, into a Fuse pool. Perhaps, just by depositing, you're earning 5% APY on that ETH. You could stop here, if you wanted to, and be happy with your 5% APY.

But, you can also borrow. Let's also say that this specific pool has the collateral factor, or the

amount that can be borrowed against a position, set at 85% for ETH. This means that you can borrow *up to* 85% ($18,700) worth of any other token in the pool. To keep things simple, let's say you decide to borrow $15,000 USDC. This will also have an interest rate that you'll be paying; let's say it's 9% APY at the time of borrowing.

Remember that the collateral factor for ETH, in this example, is 85%. Since you borrowed $15,000 USDC, you borrowed about 68% of the value of your ETH. You're safe, but you should be careful of the ETH price…if the value of your total ETH deposit dropped below about $17,647, you'd be borrowing *over* 85% of your deposit, and you'd get liquidated. Getting liquidated isn't good; it means you will **automatically** have some of your deposit taken from you in order to pay off part of the loan. Depending on the pool, this is usually about 50% of your deposit. Therefore, it's important to monitor any loans you take out, especially ones that are nearing the total percentage you're allowed to borrow.

When you're ready to pay back the loan, you just pay back your $15,000 USDC, plus any interest that is owed depending on how much time you had the loan. You can also withdraw your ETH, plus any earned interest, if you want to. That's how Fuse works!

Pools can be customized by the creator. Parameters like the pool name, whitelist (creators can, optionally, only allow certain people to use the pool), price oracle (how the pool determines the dollar value of the tokens in it), and collateral factor can all be customized.

The interest rate earned by your deposits or paid for borrowing is determined algorithmically. As you can see in **Figure 2**, a curve, which can be customized during pool creation, determines the rates for borrowing and lending. I highlighted the rates that would be paid if 14% of the pool was utilized, meaning 14% of the deposited USDC in that pool was borrowed. The reason the curve spikes so hard on the right is to help prevent a scenario where *almost all* of a certain token is loaned out, thereby forcing depositors to have to wait to withdraw their tokens until some outstanding loans are paid back.

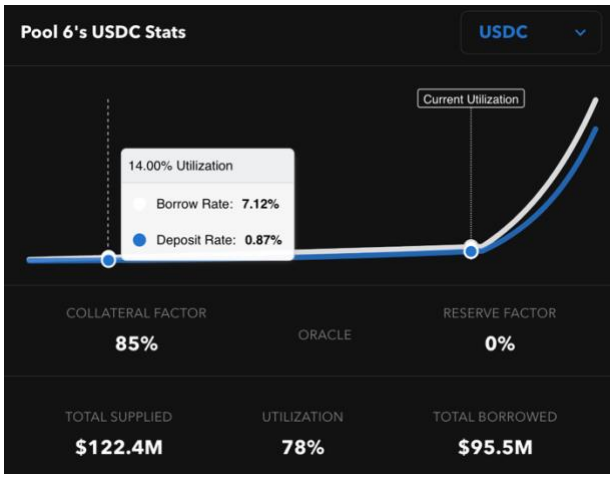

Figure 2: Example of Interest Rate Calculations

One of the **major advantages** of Fuse is that pool creators can choose to enable **any token** they want for lending and borrowing. Most popular pools go with tokens that are well-known but not listed on Aave or Compound. This allows Fuse to be used for lending or borrowing the same tokens as Aave and Compound, while also giving users the option to lend and borrow a wide variety of other tokens.

Another interesting aspect of Fuse is that, by only letting users borrow against their collateral that was deposited in the same pool, Fuse reduces overall risk. If something catastrophic were to happen, such as a token in a pool suddenly becoming illiquid, the risk is limited only to that specific pool.

To get a better look at Fuse, let's take a look at the largest Fuse pool: Tetranode's Locker.

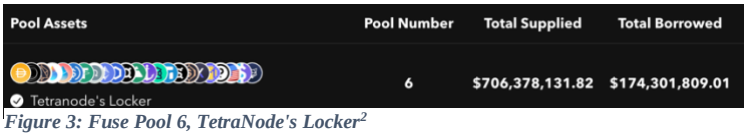

Figure 3: Fuse Pool 6, TetraNode's Locker[2]

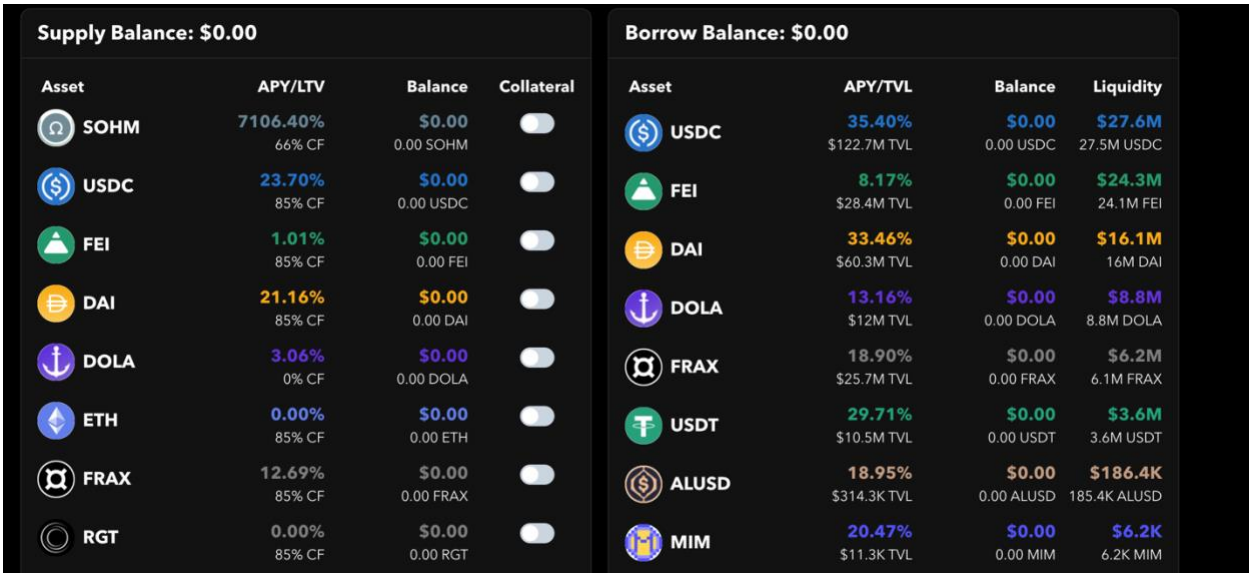

Figure 4: Some of the Lendable & Borrowable Assets in Tetranode's Pool

Tetranode, the creator of this pool, also has a Twitter account with over 135,000 followers.[3] Anyways, he created this pool, which allows you to lend and borrow a wide variety of assets (see **Figure 4**). This pool alone has drawn in over $700 million, although only around $175 million is being borrowed at the moment.

A quick note on what exactly **Figure 4** is showing us. We can see that assets such as SOHM, USDC, FEI, and DAI are able to be supplied. The reason that the SOHM token (same thing as the OHM token) lending APY is so high (7,106%) is that OHM itself earns you about 7,104% APY by itself. So, the real APY for lending is just about 2%. If you'd like to learn more about how OHM can afford to give such a high APY, check out our OHM token report.

So, if you were to deposit SOHM, the token shown in the top left, you'd earn 2% APY and be able to borrow up to 66% of the dollar value of that SOHM (denoted by the "66% CF" under the APY value). Any of the tokens on the right could be borrowed; for instance, if I deposited $1,000 worth of OHM, I could borrow up to $660 of FEI, a stablecoin, at 8.17% APY. You can see this in the right column of **Figure 4**.

Tetranode's pool takes no admin fees, but the platform (Rari) takes 10% of interest rate fees. This means Rari *does* generate revenue. Additionally, Tetranode's pool has no whitelist (anyone can deposit and borrow), and the amount of tokens deposited in the pool has stayed pretty steady over the past 30 days.

Keep in mind that interest rates in Fuse pools can change according to the curve that we saw earlier. If the amount of tokens borrowed changes significantly, so will the rates. Overall, Fuse pools allow you to earn yield on deposits of a variety of tokens, borrow against deposits, and perform more complex strategies such as adding leverage to a current token holding.

Team Analysis

Rari was founded by Jai Bhavnani, David Lucid, and Jack Lipstone. They took no VC money, and the protocol was launched slowly – at first, users could only deposit $350, which was done to help Rari catch any bugs before opening things up to the masses. Rari did not even sell tokens to early investors; instead, all tokens were given out to early users for free. We'll go over that more in the *Tokenomics* section.

What makes the team really unique is their ages. Bhavnani is 19 years old, Lucid is 20, and Lipstone is 20. In fact, they were all still in college when Rari was founded. These three, who were under the legal drinking age in the US when Rari Capitial was founded, are now responsible for creating a protocol that controls over $1.3 billion of funds. Pretty crazy.

Some of the founder's friends joined the team early on, and the team has continued to grow. Rari has also switched to a completely decentralized model of governance: there are no "executives" or "managers", only contributors. Compensation and direction are decided through governance performed by token holders (which does include contributors, obviously).

One last thing to note about the team: although the founders are young, they have shown remarkable maturity. One example of this was their reaction to a smart contract hack that happened in May this year, which resulted in nearly $11 million of ETH being stolen from a Rari Classic Pool. Basically, the pool was integrating with Alpha Finance, another DeFi protocol, to earn additional yield on the pool's ETH (this would not have been done in a Fuse pool!), and there were aspects of Alpha's smart contracts that Rari did not account for. This allowed a hacker to drain the ETH pool of almost $11 million.

The founders were quick to step up. Along with other team members, they committed to reimburse depositors who lost money by giving up their **own** RGT tokens.[4] *I will note that, apparently, this did not end up happening. Maybe it will happen in the future, but I have not heard any more updates on it recently. However, here's Bhavnani's post from shortly after the hack.*

Tokenomics

RGT is the governance token for Rari Capital. It gives holders the right to vote on proposals, but it currently does not do anything else – this could change in the future, but for now you can think of it like purchasing a stock that does not yield any dividends. Holders can soon delegate their tokens to someone else who they trust to vote on their behalf.

RGT, as mentioned in *Team Analysis*, was not given to any VCs or early investors. The entire initial token supply, 10 million tokens, was distributed among early depositors (87.5%) to incentivize deposits and the team (12.5%) (see **Figure 5**).

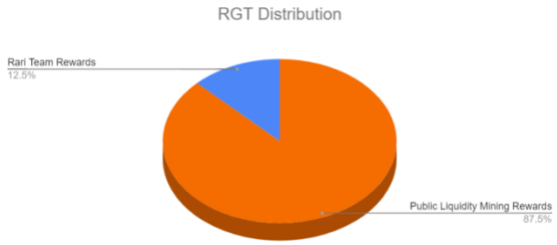

Figure 3: Initial RGT Token Distribution[7]

Rari ran into some issues after distributing all of these tokens. They had grown fast and needed to (a) compensate contributors, and (b) be able to have reserve tokens for future partnerships, incentive programs, and other initiatives. So, governance decided to mint an additional 10 million tokens, doubling the total supply.

Of the 10 million new tokens, 2.5 million were immediately transferred to the treasury. These will be mostly used for compensating contributors over time. The other 7.5 million tokens will become available, linearly, over the next 3 years. These can be used for incentives or other initiatives. Rari governance decided it was best to do one large mint, doubling the supply, than have to revisit this issue multiple times again in the future.

Fundamental Analysis

Rari Capital, as we learned earlier, already has over 1.3 billion in TVL. They are also already earning revenue – 10% of interest earned from most Fuse pools goes back to the protocol. 50% of this goes to buyback and burns for RGT, and 50% goes to the Rari Foundation to fund various charities.[5] Plus, their token emissions are not too bad; of the 20 million tokens total, about 11.2 million are already out there, and the rest should not be flooding in all at once.

As we saw in that Tokenomics section, some of those locked up tokens will be used for future liquidity mining (incentivizing users to deposit tokens into specific pools in order to earn RGT). RGT is already being used as an incentive for liquidity providers (discussed earlier when explaining Pool2), and other incentive programs could be on the horizon. However, the fact that Rari has over $1.3 billion TVL **without current liquidity mining in Fuse pools** is a huge accomplishment in and of itself. It speaks to the inherent demand for their product, mainly Fuse.

Rari has also found a lot of success partnering with other projects. Olympus DAO (we also have a token report on their token, OHM) partnered with Rari to create a Fuse pool that allows OHM holders to borrow against their OHM – actually, multiple pools, including Tetranode's locker, now allow this. Risk Harbor, a project that allows users to purchase insurance coverage on various DeFi applications, has integrated insurance for Tetranode's locker deposits. Future partnerships could include more of the Olympus-type deal (allowing projects' token holders to borrow against their tokens), or helping projects earn yield on their treasury assets by depositing them into Fuse pools.

From a fundamental standpoint, Rari's main product, Fuse, is super simple to use and understand. However, this is what makes it so great – it can be modified to fit a variety of future use-cases, including:

- Pools that use NFTs as collateral
- Pools that use liquidity provider (LP) tokens as collateral
- As on-chain options become more prominent, pools that use option positions as collateral (click here to learn more about options)
- Probably more use cases that I'm not thinking of

Rari also has the potential to expand into other blockchains. In fact, they have already partnered with market.xyz on the Polygon side-chain in order to bring Fuse pools to Polygon. The largest Fuse pool on Polygon, "Green Leverage Locker", already has over $60 million of assets deposited (mostly KLIMA, which we went over in our last token report, and stablecoins).[6] Future expansion plans include Arbitrum, Optimism, Fantom, and there is always the option to expand even further if the demand is there.

Fei/Rari Merger Proposal

We couldn't write a report on Rari without mentioning perhaps the largest potential change coming to Rari – a complete merger with Fei protocol. Fei is an algorithmic stablecoin project, and their stablecoin (FEI) is currently a big participant in Rari Fuse pools. Fei partners with DeFi protocols to help bootstrap liquidity and earn yield. They are governed by TRIBE token holders.

A month or two ago, the founders of Rari and Fei proposed a merger to their communities. This would be the first major DAO merger, and it sparked heated debates on both sides.

Some were fully supportive of the proposed merger, believing that Rari's Fuse product, combined with Fei's ability to provide initial liquidity, could help the joint project expand to new blockchains, better serve DAO treasuries

seeking to use Fuse to earn yield, and improve Rari's oracles. Many others, however, did not like some of the details. RGT would be exchanged for TRIBE, and the ratio at which this would happen was hotly debated. The very fact that the RGT token would go away was also a tough pill to swallow for some. There were also other points of debate such as the fact that, since Rari has not yet reimbursed users from their $11 million hack, FEI would be used to reimburse these users.

There is still the potential for a merger, but discussions are ongoing. GFX Labs, a crypto firm, had a detailed merger plan but recently withdrew it after some complications. It is now up to the RGT and TRIBE communities to work out this potential merger; this is certainly something to keep a close eye on if you're a holder of either token.

Technical Analysis

The actual future token price of RGT kind of hangs in limbo with the potential merger on the horizon (large price swings could happen, depending on how the transfer of RGT to TRIBE is determined, if the merger goes through). For now though, we can compare it to the largest DeFi money market competitors: Aave and Compound. Keep in mind these both offer slightly different products than Rari and have been around for much longer, but it's worth a quick comparison.

Aave has $25 billion in TVL[9] across its various products, and Compound has $18.6 billion. Aave's market cap is about $2.5 billion, and Compound's is about $1.4 billion. Dividing these, we get a TVL / market cap ratio (TVL/MC) of 10 for Aave and 13.3 for Compound. Rari, with a TVL of $1.4 billion and a market cap of $255 million, has a 5.5 TVL/MC ratio.

This means that, all other things equal (they're not, for instance the products are different, but let's step back from that), Rari is overvalued versus Aave and Compound in terms of its TVL/MC ratio. Again, it's important to note that the potential merge could impact this because it can swing the RGT token price and fundamentally change what Rari is as a protocol. Rari has also shown itself to be more innovative than Aave and Compound thus far, so maybe the difference in TVL/MC is justified. I will note, however, that Aave and Compound have been focused on drawing in institutional clients and do also have big plans. When I say Rari is more innovative, I simply mean that, currently and product-wise, Rari is.

Risks

There are certainly risks to be conscious of when using Rari's products or investing in RGT. First, there is smart contract risk. As we saw with the ETH Classic Pool hack in May, depositors run the risk of one of Rari's smart contracts being hacked. However, Rari now has significantly more TVL than it did during the May hack, and it is so far still safe. Additionally, Rari's smart contracts have been audited by three major audit firms,[8] and there is over $400,000 offered as rewards for finding bugs in the contracts. But, even with all this, there is still a risk.

Other risks include:

- Liquidations: If you borrow against your collateral and get caught borrowing over the accepted collateral factor, you can get liquidated and lose much of your deposit. For this reason, we recommend staying far under the limit. Or, if you do not borrow, you don't have this risk.
- Variable interest rates: Keep in mind, when lending or borrowing, that interest rates can change according to the predefined curve.
- Gas fees: If you're using Rari on the Ethereum blockchain, gas fees are currently very high (expect $60+ for both a deposit and withdrawal). Make

sure it's worth your money before using Fuse pools on Ethereum.
- Competitors: There are obviously a slew of other borrow/lend protocols out there. Rari is just one of many, and, even though they have come up with a great product in Fuse and attracted a lot of capital, the DeFi space moves fast and they will need to continue to innovate, partner, and draw in more users.
- **Potential Fei merger**: This is a big one. Whether this would be a good or bad thing is obviously in the eyes of the beholder, but, if you hold RGT, it's definitely worth keeping an eye on.

Rating Summary

Rari has found great product-market fit with their Fuse pools, drawn in a lot of capital, and now has the potential to partner with a stablecoin protocol (Fei) to expand their capabilities even further.

As excited as I am for Rari's future and as much as I love Fuse (I'm a user!), I can't rate Rari higher than a 6/10 due to the potential merger. **I personally view the merger as a potential catalyst, in a good way**; Rari's Fuse pools combined with Fei's ability to provide instant liquidity could allow the two protocols to expand to other chains and serve even more users and treasuries. However, the details of what exactly the merger would look like are still unclear. Tokenomics, the way RGT would be exchanged for FEI, and how the communities would interact together remains to be seen.

Overall, Rari has the potential to be great. If they continue drawing in capital, making it easy to earn and borrow, partnering with other protocols, using their RGT reserves to incentivize more protocol use, and maybe even give some revenue to token holders, they'll go far and can potentially rival Aave and Compound. If the merger was not on the horizon, it'd be easier to rate Rari higher.

To reiterate, the potential token merger and competitive market limit the rating that I give to Rari. Hopefully the merger resolves itself soon, one way or the other, and it becomes easier to grasp Rari's future.

Regardless of all that, I do believe Rari's product is great, and I will continue to be a user.

How to Buy

You can buy RGT on Coinbase, Binance, and gate.io. You can also obtain RGT by swapping ETH for it on Sushiswap.

Citations

[1] https://metrics.rari.capital/d/NlUs6DwGk/fuse-overview?orgId=1&refresh=5m&from=now-6M&to=now
[2] https://app.rari.capital/fuse/pool/6
[3] https://twitter.com/Tetranode
[4] https://decrypt.co/70441/rari-capital-defi-hack-ethereum
[5] https://www.notion.so/Protocol-Revenues-7154f4fa138045fc9b04f08ee906ce17
[6] https://polygon.market.xyz/pool/5
[7] https://www.notion.so/Token-Distribution-cc69bb516fc0469baf5bc44efa684c97
[8] https://info.rari.capital/security/
[9] https://defillama.com/

Links

Website: https://rari.capital/
CoinGecko Listing: https://www.coingecko.com/en/coins/rari-governance-token

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