

RWA Lending

This explains how ZeroLend aims to implement RWA (Real World Asset) Lending

What is RWA Lending?

RWA lending protocols are a type of DeFi protocol that allows entities to tokenize and trade real-world assets, such as stocks, government bonds, real estate, and commodities.

In RWA-based lending, you have the flexibility to offer collateral that may be objectively valued at less than the borrowed amount.

For example: a company seeking a 7 million loan might lack sufficient collateral for such a sizable loan. Through RWA lending, they can secure the necessary funds with collateral valued at 4 million. This approach also eliminates the bureaucratic processes of traditional banks, offering the company a favorable repayment schedule.

RWA-based loans play a crucial role in empowering businesses in developing economies like Kenya, Nigeria, and Uganda to underscore the potential for financial inclusion.

Examples of Real World Assets (RWAs) include Cash, Precious Metals (gold and silver), Real Estate, Bonds, Credit Notes, Arts & Collectibles, etc.

For instance, the market value of gold stands at about 11 trillion. In comparison, Crypto Native Assets currently have a market value of 1.1 trillion, constituting only 10% of the value of gold.

Incorporating even a fraction of these RWAs into the DeFi space could substantially enhance the overall size of the DeFi market. Presently, USDT and USDC are the most popular RWAs, representing the tokenized and on-chain version of US dollars.

How overcollateralisation is limiting the scope of DeFi lending?

The crypto lending ecosystem is huge, but it heavily relies on over-collateralization, i.e., borrowers have to provide more collateral than the value of the loan. This structure requires substantial collateral and limits access for businesses and individuals lacking the necessary assets. This model for loans would be unsustainable if the market were to become truly global.

Example: An institution seeking a 1 million loan might not have a cryptocurrency asset worth a million dollars. However, they may possess other assets, such as real estate or bonds, that they want to use as collateral to secure the loan.

ZeroLend aims to launch an RWA lending market in 2024 to provide liquidity to illiquid real-world assets.

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