Right now, the AAVE token can be staked and it serves as backend insurance for the protocol. It provides utility to the protocol, but not to the borrower.

What if it didn't have to be that way? What if it could provide protection to the protocol while also providing protection to the borrower

?

Proposal to allow staked AAVE to be activated as liquidation protection:

Allow users to opt in to using staked AAVE as liquidation protection:

In the event that a user's health factor falls below 1, approve up to X% (TBD) of the collateral value to be used as liquidation protection. In the event that the health factor falls below 1 even with the added collateral value, the staked AAVE is slashed and taken by the treasury as part of the liquidation.

This could even have the long term potential of adding to yield for stakers if, for example, any slashed staked AAVE from liquidation protection were distributed as part of ongoing yield for stakers vs. just from the existing treasury.

If this is a conceptual direction that people like, I wouldn't mind a risk assessment from someone with expertise in that area, but wanted to gauge interest in this both from a borrower / staker standpoint.

My thoughts are if it is "opt-in" it's not really that relevant to the borrower even if they don't like it because they can simply use the platform as they have been. The stakers I would imagine would enjoy the potential for extra (potentially sustainable) yield / dividend.

I'm interested to hear thoughts on risk / desirability from a protocol standpoint. If the concept is generally agreeable, a deeper dive on what level of protection (vs collateral) is best from a risk lens and if this is feasible within the existing contracts would definitely be needed.

- Add utility for borrowers (assumes risk parameters met)

- Keep existing structure

0

voters