Abstract

This proposal is about a new and innovative model for decentralized lending/borrowing using arbitrary SNIP-20 tokens and SNIP-721 NFTs

! This product aims to address key issues in already existing borrowing and lending platforms while making use of Secret's private by default smart contracts. The launch of new projects in Secret Network such as Shade, StakeEasy, and Stashh has created the ideal environment for a lending protocol like Cover to launch.

Introduction

Lending has become one of the main use cases of DeFi, so much so that some lending platforms have become the main source of financial activity in large market cap blockchains such as Anchor and the Terra blockchain. As of now, Secret Network does not have any lending platforms and this major use case is missing for the tokens and NFTs in our ecosystem. Building a lending platform based on already popular models and competing with them is very difficult, building a dapp such as Anchor on SN would take a very long time, require a very significant amount of capital to kickstart, and most importantly, it would be unsustainable. Therefore, it is very important for our new model to have the following features:

- MVP can be built and deployed very quickly.
- Have significant competitive advantages to similar products.
- Be sustainable.
- Require minimal capital to kickstart.
- Support NFTs

About MVP

This product is meant to achieve the goals above by being a peer-to-peer lending platform for arbitrary SNIP-20 tokens and SNIP-721 NFTs! A user would be able to create listings for borrowing and/or lending positions. Then other users would be able to take positions in these listings as borrowers and/or lenders. These positions could be traded or used as collateral, creating a bond market.

Example 1: Basic P2P Lending

For example, Alice wants to earn safe interest on her UST for 2 months. So she creates a lending listing, allowing people to borrow up to 20,000 UST from her with a 6% total interest rate in 2 months. She also asks for the loan to be collateralized 210% with sSCRT in case the borrower cannot pay back.

Later, Bob sees this listing and remembers that he wants an extra 2000 UST to provide liquidity to OSMO-UST but he does not want to sell any SCRT. So, he accepts 10% of Alice's offer, and locks up $4200 worth of SCRT in order to borrow 2000 UST. Given that APR for OSMO-UST is 85% at the time of writing, and Bob believes that the price of OSMO will hold up, he projects himself to earn ~$450 worth of OSMO in 2 months. Which is enough to pay for the 120 UST Alice is asking for.

Example 2: NFT Microloans

Suppose Alice, as an Anon holder, has some insider information from the Anons' telegram group, and she's trying to gather as much SCRT as she can without selling her Anon, within 2 weeks, to invest. Thus, she creates a borrowing listing, asking for a lender to lend her 600 SCRT at a 5% interest rate for 1 month and offers her anon as the collateral.

Bob, who doesn't have an anon but always wanted one, sees this listing and takes advantage of the situation by lending the SCRT. Thinking that if Alice pays back her loan, then he will have earned 5% profit in 1 month (better than staking rewards), and otherwise, he will have purchased an anon cheap for 600 SCRT and gain access to the telegram chat!

Example 3: Bond Marketplace (Next Roadmap Step)

For simplicity, suppose 100% of Alice's lending listing from Example 2 has been filled by Bob. I.e. Bob promised to pay Alice 6% on 20k UST within 2 months, or else, Alice will keep an appropriate proportion of the SCRT collateral. Now suppose that, a month in, Alice is in need of cash due to unforeseen events. However, she cannot liquidate Bob for another month.

This is where the bond marketplace can be useful to Alice. Because Bob's promise and his collateral are associated to an NFT, Alice sells Bob's promise along with all the collateral Bob provided in an auction! This way she gets some cash quickly even though she never gets that full 6%. Moreover, Alice ponders if it was Bob who bought his own promise.

Note that in this example, Alice could have used Bob's promise as collateral for another loan

instead of outright selling it.

The examples above demonstrate the basic use cases of the dapp, and each listing is highly customizable. This customizability gives our dapp many advantages over already existing models seen in lending platforms such as Anchor and Aave. These advantages include:

- A sustainable product. It is not possible for interest to be paid unless there is demand (unlike current Anchor).
- A bond marketplace can be built

if each position is associated to an NFT (see Example 3 below) which can be traded and/or be used as collateral for loans.

(14/04/2022) Important Note

: The original proposal (13/04/2022) mentioned us partnering with Stashh for the bond marketplace. Since then, Stashh decided to get legal council for SEC purposes to determine exactly how much they can or cannot collaborate with Cover.

- High composability with other projects. This is because the liquidation mechanics can also be customized, allowing projects of all market caps to create lending listings using their own token as collateral. For example, Shade and StakeEasy could allow people to borrow silk against their tokens.
- Private credit scores could be implemented. Notice how other platforms such as Anchor or Aave don't have credit scores. One reason for this is that essentially every lender and borrower are taking identical positions. In our platform, certain approved listings could earn you credit scores. Then, any listing on the platform could impose credit score restrictions. Credit scores are likely to be implemented by non-transferable badges as suggested in by a Stashh developer.
- Draw people from other IBC chains since their wrapped tokens could be used as collateral. This might even give incentives to other IBC projects to create listings on our dapp.
- Use cases of other dapps such as Anchor and Aave can also be emulated if pooling is allowed. I.e. users could be allowed to join to other listings by contributing more principal.
- Requires very little capital to kickstart, as the platform is meant to be peer-to-peer.
- MVP can be developed in a relatively short time.
- NFTs can be used as collateral.
- Fractionalized NFTs, which are underdevelopment as SNIP-1155, could also be supported as collateral in the future. This is especially useful if a borrower creates a listing where he offers the fractionalized NFT as collateral to multiple borrowers.
- You can add a whitelist to lending/borrowing listings, this effectively allows you to make private

lending agreements between peers and/or within smaller communities such as DAOs.

Roadmap

In this section I want to talk about some planned features of this dapp. The order of Steps 4-6 might change based on market demand for features after launch.

1. The launch of the MVP with basic lending and borrowing listings supporting arbitrary SNIP-20 tokens and SNIP-721 NFTs. (2 months after the approval of the proposal.)
2. The launch of the Cover governance token which will include a one time airdrop to SCRT stakers and will be continuously airdropped to the borrowers and/or lenders of the platform. (0-3 weeks after step 1)
3. Implementation of a bond marketplace.
4. Implementation of pooling in lending.
5. Implementation of credit scores.
6. Implementation of multi-token collateralization. Different tokens could be used as collaterals to the same loan. For example sBTC and sETH.
7. Assigning credit scores to borrowers from other chains using chain analysis to draw them in.

Funding

We ask for funding of Steps 1 and 2 of the roadmap to have the dapp live in mainnet within 2 months from the approval of this proposal. For this, we ask for funding of two backend smart contract developers and one front end developer.

The Team

One smart contract developer will be full-time and the other one part-time. We decided that a dapp like this requires multiple devs on it to ensure that there are no security problems. The full time developer is also part of the mentorship program ran by the dev committee as an apprentice. Therefore, a mentor developer will also be looking and helping the code of this project without being a part of this funding request

.

The plan above has been made to priorite first Security, and then Speed.

- Srdtrk, Project Lead & Smart Contract Developer ---------- 55 hrs/week, 9 weeks @ $100/hr
- visitskyworld, Front End Developer ---------- 40 hrs/week, 6 weeks @ $75/hr
- Lumi, Project Advisor & Smart Contract Developer ---------- 10 hrs/week, 9 weeks @ $100/hr

Lumi is meant to be used as a helper to me in case some of the code starts to take long, and also to ensure that the code is secure. If Lumi has any remaining hours, they will be fully used to review the security of the code. If the roadmap steps 1 and 2 get completed before 9 weeks, we will proceed with the next roadmap steps until our hours are fully utilized.

The team costs come to $76500.

The volatility buffer is set to 10% by Governance proposal #81

, which comes to $7650.

Then the total with volatility buffer is $84150.

This would be converted to SCRT upon going on-chain.

Experience of the Team

- Srdtrk - wrote the nft-authorization CCR and secret-factory-contract CCR. And I'm a part of the mentorship program.
- visitskyworld - made the front end for MarbleDAO on Juno. 7 years of front end experience.
- Lumi - contributed to various NFT projects on Secret Network. Creator of blackbox.

Self Sustenance

I would like this dapp to become self-sustaining as soon as possible so that the rest of the roadmap doesn't require new funding proposals. There are several methods we plan to use to achieve self sustenance. I think it's worth mentioning some of these methods in this proposal so that the community pool can feel more confident in this project.

Protocol Fees

- Whenever a loan is liquidated, and the lender has been paid out fairly, ~1.5% of the liquidated collateral will be sent to the reserve and be used to purchase COVER.
- COVER deposits of governance polls that have failed to reach the quorum will be burned or redistributed to the users of this platform.
- Incentivize COVER LP providers by offering credit and/or staking rewards.
- If/when liquid staking protocols allow token holders to collect staking rewards manually (instead of auto-compounding), the staking rewards from these collateral tokens will be sent to the reserve and later used to purchase COVER.
- Dividend paying NFTs are being developed in SN as we speak. If these NFTs are used as collateral, their dividends will be sent to the reserve and be used to purchase COVER.

Basic Tokenomics

Since COVER token will be in the center of self sustenance efforts, discussing its tokenomics is inevitable. The initial plan is to have a total of 100M COVER tokens. 15% reserved for the team (with unlocking depending on the roadmap), 20% is reserved for the community fund for governance, and the rest are to be used in airdrops, borrowing/lending incentivization, and LP rewards.

Note that the dev tokens are not meant to compensate for the work being done for Steps 1 and 2 of the roadmap. Therefore, they will not be given to the devs working on this project as a part of this proposal

. Instead, they will be used to compensate devs for some of the future steps of the roadmap.

This tokenomics plan might not be followed exactly, and it is not a commitment. This is just meant to indicate the general approach we intend to follow. The community will be informed on the exact tokenomics.

Initial Marketing Strategy

Notice that I didn't ask for any marketing funds. I believe, already, there is immense demand for the use case we aim to provide. Once this product is ready, our marketing strategy will be to make connections and partnerships with various projects/organizations in the Secret ecosystem and give them a chance to offer value to their users with our platform. I will give some examples below.

- Partner with NFT marketplaces to auction our bonds.
- Contact various NFT DAOs on Secret and encourage them to create lending listings accepting their own NFTs as collateral.
- Ask various organizations such as SCRT Labs to create lending listings on our platform accepting SCRT as collateral. (I believe can become a huge use case)
- Try to create partnerships with projects that have synergy with our platform such as staking derivative protocols and Shade.

If this all works out, we would try making connections with projects in the IBC cosmos ecosystem.

Contributions to the Secret Network

Here we will list the potential contributions of this project to the network.

- SCRT users will be able to borrow against the various tokens and NFTs they own.
- May decrease sell pressure due to the ability to borrow UST against SCRT and may encourage the use of liquid staking.
- Give extra use cases to already existing projects as described in marketing strategy.
- May draw attention from IBC since this is a very interesting project. Would strengthen Secret's position as an innovating chain.
- May draw new NFT projects to the network since we would support the use of NFTs as collateral.
- Demonstrate the power of private smart contracts with private credit scores and private lending agreements between peers. (Note that private lending is inherently more secure than public lending because it's not easy to determine how much price manipulation is needed to liquidate certain loans. This has proven to be a major vulnerability in public blockchains such as BSC.)
- I completed secret-factory-contract CCR as preparation for this project.
- All code will be open-sourced.

About Myself and Acknowledgements

I've been an investor, a user, and an active secret agent of the Secret Network for more than a year. I've been fascinated with the programmable privacy features that Secret Network offers, and I've tried to think about some original use cases. My background is in mathematics as a researcher. But over the last 6-7 months, I've become interested in cosmwasm and developing in blockchain. I've studied cosmwasm and I was finally comfortable enough to contribute some code to CCR.

Mentorship Program

In the past 6-7 months, Secret Network and the community pool has put some priority on improving developer onboarding to cultivate innovation in this ecosystem. I've tried to make use of these resources as well. And in some sense, I am a product of the investments the community pool has made to onboard and educate new developers. I'd like to acknowledge one specific program that has benefited me immensely. That is the mentorship program. Gino and Lumi (who has been my mentor) have been extremely helpful and encouraging in my journey to transitioning to developing in Secret Network.