

Hello everyone,

This post is meant to be more of a brainstorming one as this is not a fully backed proposal.

The idea is to incentive with AAVE rewards the upholding of the Health Factor at higher levels pertaining to collateral providers. Consider the scenario of borrowing DAI against ETH at an initial HF of 2. Over time ETH appreciates and the HF becomes 3. That means of course the borrowing position is healthier and therefore the system as a whole is a bit safer. Well in this case the borrower might very well decide that they have leeway to borrow more and why not bring the HF to 2 again, after all they do not earn anything by keeping it at 3 and it actually comes as an opportunity cost.

However if they received AAVE rewards for reaching a HF of 3 they might rethink their strategy and keep the HF at 3 since there are incentives to do so.

This way the overall trend for Health Factors across borrowers would strengthen even more while the AAVE system would diminish the debt associated risks.

I am curious what the community thinks on this topic as well as the Aave Genesis team. Putting this out there for further comments.