

title: [ARFC] BAL Interest Rate Upgrade

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Summary

This publication proposes implementing the next step in the BAL interest rate increase.

Abstract

Previously, Aave implemented the first stage of increasing the BAL borrowing rate across all deployments. This was performed with the intention of monitoring the market response and revising the rates higher at a later date.

This publication presents the next BAL interest rate increase to Aave for discussions and implementation.

Motivation

At the time of writing the utilisation and borrowing rate for BAL on the Polygon v3 deployment is nearing the Uoptimal value, 80%. With utilisation at 77.34% and the borrow APY 17.98%, the market is signalling strong demand for borrowing BAL.

The table below presents the current APY for various tokenised B-80BAL-20WETH wrappers deposited into their respective liquidity pools:

Description

APY

TVL

Network

Aura Finance (Aura Gauge)

B-80BAL-20WETH / auraBAL

58.21%

\$21,380,000

Ethereum

Tetu (Balancer Gauge)

B-80BAL-20WETH / tetuBAL

88.77%

\$10,220,000

Polygon

Stake DAO (Balancer Gauge)

B-80BAL-20WETH / sdBAL

18.25% - 45.35%

\$637,221

Ethereum

The APY for each of the pools above exceeds the Uoptimal borrow rate APR, Base + Slope1, 17% APR or 18.53% APY, compounded interest rate over time. Previous commentary from Gauntlet supported a Base + Slope1 total of 40% at the time Aura Finance was offering around 60%. Tetu is deployed on Polygon and is currently offering a notably higher 88.77% yield for depositing and locking the B-80BAL-20WETH / tetuBAL relative to other options.

Previous discussion within the community centred around increasing the borrowing rates gradually over time and monitoring

the market’s response.

The previous proposal increased the Borrow rate at the Uoptimal point from 7% to 17%, this publication seeks to increase the borrow rate by a similar 10%. This is to be achieved by increasing the Base from 3% to 5% and Slope1 from 14% to 22%. Pending how the market responds, this interest rate can be further increased. This approach keeps true to the previous communication of gradually increasing the borrow rates rather than all at once.

The community can opt to reduce the Uoptimal on BAL reserves which are frozen. If there was appetite to implement this change, then the Uoptimal would become 65% on Polygon v2 and Ethereum v2. 65% was calculated by rounding up the mid point between current utilisation and Uoptimal on Polygon v2.

Specification

Update the following parameters as per below table:

Parameter

Current (%)

Proposed (%)

Uoptimal

80.00

80.00

Base

3.00

5.00

Slope1

14.00

22.00

Slope2

150.00

150.00

Stable Borrowing

Disabled

Disabled

Stable Slope1

0.00

22.00

Stable Slope2

0.00

150.00

Base Stable Rate Offset

2.00

5.00

Stable Rate Excess Offset

5.00

5.00

Optimal Stable To Total Debt Ratio

20.00

20.00

This is to be implemented across all BAL reserves, Polygon v2, v3, Ethereum v2 and v3 when deployed.

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