Borrow Interest Rate

Drift's lending pools work similarly to the lending pools of Aave(opens in a new tab) .

Each market has an optimal borrow rate and max borrow rate and uses this piecewise function based on the Utilisation Rate (U).*

The Utilisation Rate represents the availability of capital within the system.

- IfU
- is high -- there is abundant capital within the system and the protocol users are given incentives in the form of low-interest rates to encourage borrowing;
- IfU
- is low -- capital within the system is scarce and the protocol will increase interest rates to incentivise more capital supply and repayment of debt.

Note: this model has been adapted from Aave's interest rate model (opens in a new tab) . The parameters and model will be iterated and improved as Drift's borrow lend engine grows. Last Updated: 21 October 2022 .

The interest rate is based on the borrow utilisation(opens in a new tab) .

Liquidity risk materialises when utilisation is high and this becomes more problematic asU gets closer to 100%.

To tailor the model to this constraint, the interest rate curve is split into two parts around an optimal utilisation rateUo . BeforeUo the slope is small, after it begins rising sharply.

The interest rate (InterestRate) model:

The resulting model produces the following graph:

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