Summary

This proposal recommends reducing the borrow caps of specific yield-bearing assets across Aave markets to address their consistently low utilization rates and lack of borrow demand. This adjustment aims to optimize incentive efficiency while maintaining the protocol's integrity and flexibility for existing borrowers.

Motivation

The primary motivation for reducing the borrow caps is the structural inefficiency in utilizing these assets. Many of the specified assets are yield-bearing, making them unattractive to borrowers compared to stablecoins or other non-yield-bearing alternatives. Borrowing such assets involves additional costs (e.g., rewards accrual on the debt). As a result, these markets have experienced consistently low utilization.

The following charts show the utilization of the defined borrow cap of the assets and the utilization of the markets over the last three months. It is important to note that the borrow cap already represents roughly 10% of the supply cap of the same asset.

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Lowering the borrow caps aligns market parameters with observed demand while preserving safety and allowing the protocol to efficiently allocate future incentives. This is caused by a common phenomenon observed during incentive programs being the looping of the asset with itself, hence diluting the incentives for non loopers. Additionally, technical providers have recommended to keep the risk of exchange rate inflation to a minimum.

Reducing the borrow caps to 1 unit limits new borrowing positions from being opened without affecting existing positions and preventing liquidations.

Specification

The following table shows the recommended borrow caps changes:

Asset

Chain

Current Borrow Cap

Proposed Borrow Cap

weETH

Ethereum

200,000

1

weETH

Arbitrum

25,000

1

weETH	Base	9,000	1
weETH	Scroll	6,400	1
rETH	Ethereum	19,200	1
rETH	Arbitrum	1,360	1
rETH	Optimism	720	1
ETHx	Ethereum	5,000	1
rsETH	Ethereum	1,900	1
osETH	Ethereum	1,000	1
MATICx	Polygon	5,200,000	1

Next Steps

We will move forward and implement these updates via the Risk Steward process.

Disclosure

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