Purpose: to initiate a discussion within the AAVE community on the feasibility of, and interest in the following idea:

Summary:

AAVE governance to establish ETH2 lending rate price floor through ETH2 staking in a trustless manner. If done correctly, it could significantly increase the security of the ETH network, AAVE protocol TVL and fees, and the utility of the AAVE token.

AAVE has a significant advantage in this space over a project like Lido Finance as it doesn't need to issue a token like STETH that needs to integrate one by one into other DEFI protocols. Potential ETH lenders simply see the increased rate offered by the protocol due to the price floor established.

However there are some inconvenient problems to consider regarding the liquidity of the ETH capital for use in arbitrage:

1. There is a 900 validator per day queue into and out of the ETH2 validator contract. (This goes up by 225 every 65,536 validators, once we hit 5 * 65536 validators. At that threshold it's 1,125 / day; and then another 225 / day for every 64k more.)

2. There is a 9 day exit delay. [Validator lifecycle | Prysm (prylabs.network)](). About a 10 day turnaround time in addition to the validator onboarding / exit queue.

Would be interested to hear some solutions to the above problem. I don't think it's unreasonable to assume the queue would be near zero (as it is now) with occasional spikes. This potentially could be solved by an "opt in" for longer term lenders similar to unstaking AAVE from the safety module.

Another point - AAVE's community and governance would have to mobilize towards an active trustless DAO-like management of the validator ecosystem. This could potentially increase contribution and value of community to the protocol in a meaningful way. For example, the market is pricing the LIDO DAO at 1.4 billion (fully diluted).

Combining high ETH lending rates with a low stable coin borrow rates, AAVE can significantly increase market share.

Just an idea - would love to hear thoughts! :)