ARC Rationale

Following API-12, AMPL borrowing & lending went live on the AAVE v2 market 2021-07-24T20:22:00Z

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Since then, there has been a near 100% utilization rate of lent assets. This suggests the maximum cap of the interest rate curve is not able to reach a high enough value to effectively balance incentives between the borrow side and lending side of the marketplace.

While the AMPL spot market is currently in a relatively extreme condition, the Aave borrowing market should be able to perform efficiently in all market scenarios.

ARC in Short

We suggest the following new variableinterest rate model:

- Optimal utilization = 75%
- Slope1 = 2%
- Slope2 = 10,000%

This leads to a piecewise linear curve with two parts and three defining points:

- Borrow Interest(0) = 0% APY
- Borrow Interest(75) = 2% APY
- Borrow Interest(100) = 10002 % APY

Since this will result in overall higher fees coming into the system, in tandem we also suggest lowering the reserve factor from 20% to 10% to share more of the revenue with suppliers. This would be submitted as a separate AIP to decouple these decisions.

We believe a nonlinear interest curve is healthiest long-term and could likely be used by many other assets as well, however this work can be discussed more in the future.