

Aave 2.0 comes with many new features and there's one we're particularly excited about: creating new money markets. This opens up a whole new avenue of accommodating real world use cases for the wider DeFi ecosystem.

We're proposing to add a real world asset (RWA) money market to the Aave protocol allowing investors to gain exposure to a portfolio of different crypto-uncorrelated asset types.

Motivation:

Centrifuge has been building the necessary technology for adding RWA to DeFi and with the arrival of Aave V2 it's now possible to connect these two building blocks. These assets bring stability to the highly volatile market, diversify risk and are the avenue to move DeFi beyond its niche status. Aave is pioneering on-chain lending, starting with flash loans and expanding to credit delegation. Extending decentralized lines of credit to existing businesses seems the natural next step on its path to pose a real alternative to traditional financial products.

Centrifuge has helped Asset Originators such as [ConsolFreight](#), [Paperchain](#), [Harbor Trade Credit](#) and [NewSilver](#) to tokenize real world assets and facilitated since its launch in May financing of over DAI 2.4M. These Asset Originators jointly have capital needs of well over DAI 50M and bring a diverse set of crypto-uncorrelated assets to Aave.

A brief overview of how Centrifuge works:

Centrifuge is building a full stack of tools to bring RWA into DeFi. Assets such as freight invoices, warehouse receipts or even real estate can be tokenized in the form of an NFT. Each NFT represents one unique real-world asset with a unique default risk that is priced by an off-chain oracle. Centrifuge Tinlake is a set of smart contracts that handles the bundling of these individual loans and issues interest bearing ERC20 tokens against the pool. Pooling these assets allows the Asset Originator to offer a more stable return (and diversified risk) and offers a tradable, fungible token to the lenders.

Tinlake has two different ERC20 tokens that lenders can buy: TIN and DROP. The TIN token is the junior tranche that takes any first losses and is primarily bought by the Asset Originator and other lenders that seek leveraged exposure to the portfolio. Tinlake is configured to require a minimum amount of investment in the TIN token. Any losses that occur in a portfolio will first be covered by TIN token holders. More information on how the two tranches work can be found [here](#).

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Centrifuge is partnering with many Asset Originators. Four are already [live today](#) and new ones will go live every month. Each Asset Originator deploys an individual Tinlake pool, hence issuing its individual TIN and DROP token.

Creating an Aave Money Market for Real World Assets:

Aave's support for multiple markets makes it easy for the Aave community to start onboarding these assets into the protocol and allow investors to opt into lending against these assets: Aave users can provide liquidity to the market by depositing DAI and earn interest from a balanced collateral portfolio of different RWAs. The Centrifuge Real World Asset Market will be managed by AAVE token holders through the same governance processes as with the existing markets live today. They set the different risk parameters and onboard these pools as they see fit.

How are Centrifuge Assets Liquidated:

RWA are not as liquid as crypto native assets but they are much more stable. This stability means liquidations are a rare occurrence. These assets are not traded on liquid exchanges and instead the default way to liquidate them is to redeem them for DAI: In order to allow users to recover their funds in case of a default Centrifuge has built the Tinlake contracts to manage the liquidation of loan portfolios on-chain. This mechanism entails letting the portfolio of a compromised pool either mature (in case of short term assets with a maturity of less than 90 days, e.g. invoices) or refinancing them off-chain and using loan repayment to settle the debt balance. Repayments are directly disbursed to the Aave market making them available to Aave users immediately.

When a price feed reports bad performance to the Aave market and the minimum portfolio value of the pool is not met anymore a custom liquidation mechanism for Centrifuge Tinlake pools gets triggered. It immediately posts a redeem order for the entire collateral to the pool. This will automatically redirect any cash flows coming in from borrowers to DROP investors. They will receive any money that is repaid on the existing portfolio as it gets repaid.

This post is intended to give a first introduction to the concept of a Real World Asset Money Market on Aave. We're looking forward to community feedback and happy to join one of the next Aave community calls to walk through the proposal.

Technical Documentation:

- Github: <https://github.com/centrifuge/tinlake>
- [Tinlake Documentation](#)

