

# what went wrong with Celsius

*"The solution here is simple: use more independent loan services who don't milk their clients for a bit more profit, like CoinRabbit"*

NEW YORK, NEW YORK, USA, July 8, 2022 /EINPresswire.com/ -- There are projects that seek to profiteer on the willingness, or rather shortsightedness of people, to earn big money in a short amount of time. One such project is Celsius, which was a prominent name in the crypto industry until very recently.



Celsius is a lending and borrowing platform operating with a large number of protocols in the DeFi space that specializes in attracting users with promises of high returns. Given that the crypto industry is unregulated, Celsius had the freedom of offering as much as 17% in annual yields on lending – a colossal figure, considering that most leading platforms on the market fear offering anything even remotely above 7%. The allure of such high yields was too much to resist for thousands of users, most of whom are average people seeking to generate some passive income from their holdings in light of meager interests on bank savings accounts in the midst of a global recession.

But, as it often happens with high-risk platforms that offer above-market APY, Celsius fell into a trap of its own ambitions when the assets it had invested in suddenly depreciated. The platform's native CEL token went into freefall after Celsius announced that it is suspending withdrawals on June 13, resulting in an instant domino effect that reverberated across the entire market.

## Bad Choices

The troubles facing Celsius started when the stETH token it had invested in suddenly lost in

value. It happened when over 38,000 ETH it was pegged to were lost, severing the peg and led to the loss of over \$22 million as a result of the hack of the Badger DAO.

The choice of investing millions in stETH cost Celsius almost as much as the collapse of LUNA that sent the entire market reeling from the loss of over \$180 billion. What followed is a woeful spiral of events that led to job cuts and overall frustration. Fearing a bank run, Celsius suspended withdrawals, citing “extreme market conditions” as the reason. The amount of assets locked in the protocol already shrank from \$24 billion to \$12 billion.

A liquidity crisis is looming, considering that the CEL token has lost over 70% in value over the period of an hour since the company halted withdrawals.

## Contingency

With Celsius on the brink of bankruptcy and thousands of users unable to receive their funds, companies like Nexo, Celsius’ long-time competitor, announced plans to buy out the remainder of the company’s assets. Given the solid state that Nexo is in, the company has the resources to offer support, but it could be too little too late in light of a general market downturn.

## Backlash

Considering the sequence of events from LUNA’s collapse to the crisis with Celsius, regulators are starting to speak out about introducing tighter measures regarding the crypto industry. The “regulatory uncertainty” clause already resulted in the closure of Celsius’ offices in the United Kingdom, eyeing the United States as its next home jurisdiction.

Regulators in the United States are stating that they will be viewing high-risk and high-yield crypto assets through a prism of regulatory strictness. Such calls were made in the past after the compromise of the Anchor protocol and the slew of catastrophes in DeFi space.

## Unrealistic Promos Hurt Users

Giving promises of high yields to users, especially unrealistic ones, is a crime in itself, considering baseline market reality, which dictates that the average yield stands at around 6%. Platforms operating with crypto lending should focus on giving users direct access to truthful information, rather than attracting them with “clickbait” ads.

Since competition in the DeFi market is fierce, many platforms are forced to release such ad campaigns, striking out the fact that many of their instruments will require additional investments. No size of APY ever comes for free and users will have to sacrifice a portion of their

earnings on commissions and fees to receive their rewards for staking, lending, or any other service.

### Clients' Money Should Be a Priority

The security and custody of clients' funds should be at the forefront of any crypto lending or staking platform. Instead of milking clients for profit and commissions, platforms should invest some of their revenues into better liquidity pools, security funds, treasuries, and reliable assets that can act as a contingency source of liquidity in case of crises.

Poor investment choices and improper analysis of potential project tokens and pools to rely on as bulks of capital result in instances like those with Celsius. It is clear that trusting assets that are pegged to cryptocurrencies is an unsound solution in a general market slump that has eroded a considerable portion of its capitalization.

As for the custody of clients' funds, the vast majority should be stored on cold wallets, thus safekeeping them from exposure to external threats and market tribulations.

### DeFi Cannot Help (Yet)

The cases of UST and LUNA are clear examples of a general lack of certainty and trust in DeFi instruments. Their lack of stability and centralization or control, in direct opposition to the core virtues of the blockchain, has resulted in the crises both platforms faced.

Just as banks have control, so too must high-risk platforms that maintain large liquidity pools and have considerable amounts of client funds under management. At present, the crypto market is in dire need of maturity that would add an element of trust to it on the part of crypto market participants. The cases of UST and LUNA have shaken that trust considerably, and it could take the introduction of regulation to restore a portion of it.

### Conclusion

The solution here is simple: use more independent loan services who don't milk their clients for a bit more profit, like CoinRabbit, where you can get a stablecoin loan with more than 70 coins.

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