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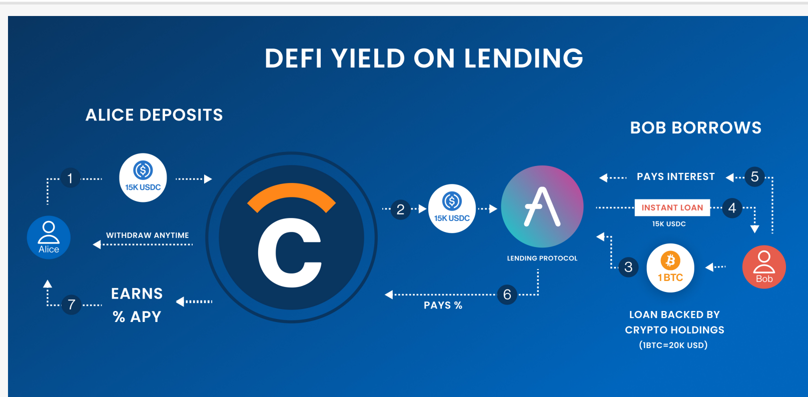
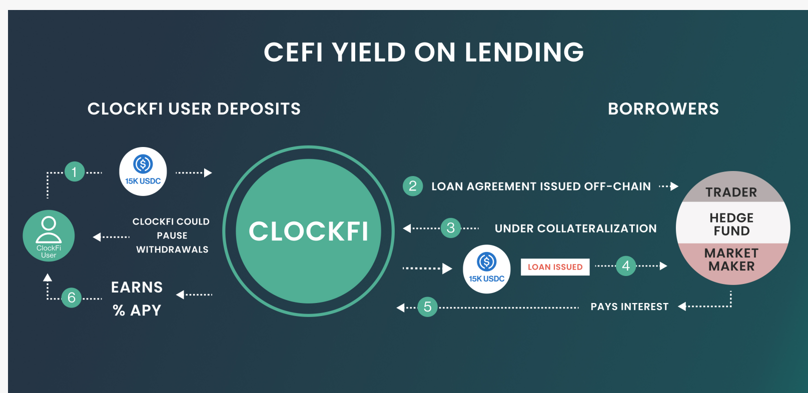
CeFi Yield vs DeFi Yield and why Coinchange remains unaffected by the Gemini Earn halt and the Genesis collapse

TORONTO, ONTARIO, CANADA, November 30, 2022 / EINPresswire.com/ -- To understand how Coinchange's Yield is different from most other Yield providers, let's consider two examples of yield generation; in the first example we will consider DeFi Yield generation (Coinchange's Area of Expertise) and in the second example we will consider CeFi Yield generation (such as the ones used by many who are blowing up currently)



defi yield on landing



cefi yield on landing

Here is how DeFi Yield generation on Lending works:

Let's say Alice, a Coinchange user, deposits (1) 15,000 USDC on our platform and Coinchange deposits the USDC in a DeFi Lending Protocol (2).

Since this DeFi Lending Protocol uses collateralized lending, if Bob wants to borrow our USDC, he needs to post a collateral (3) that's worth more than $15,000.

So let's say he deposits 1 BTC worth $20,000 and borrows our 15,000 USDC (4) . He is now paying us interest (5) on this borrowed USDC which is how Alice earns yield on her USDC (7).

If the liquidation threshold price of his collateral is $18,000 and if the price drops to this value, the protocol will automatically sell Bob's BTC (if he doesn't post any more collateral or repay his debt) and return Alice's USDC worth $15,000.

Thus if Bob defaults on his loan, the protocol's liquidator liquidates his collateral automatically since all loan positions are transparent and on-chain, and Alice gets her money back.

This is an overly simplified example with many assumptions. In reality the strategies used by Coinchgange are sophisticated, complex and use state of the art collateral management but the basic principles are the same.

Here's how CeFi Yield generation works:

Let's say Alice, a ClockFi user, deposits 15,000 USDC on their platform (1).

ClockFi will lend (2) her deposits to a trader, market maker or a hedge fund and the contract will be signed off-chain.

This loan could be collateralized or non-collateralized (3). In most cases CeFi lenders such as ClockFi offer under-collateralized loans and Alice's yield (6) is being generated by the interest payments from the borrowing party.

The loan terms such as liquidation threshold which is mutually agreed and can vary across different borrowers and is not publicly available for Alice to review. If the value of borrower's collateral drops below the agreed liquidation threshold, ClockFi will have to call them and ask to post more collateral (margin call).

The borrower might not be able to repay when the threshold hits and might request to renegotiate the loan terms. In this case, there is nothing ClockFi could do to automatically liquidate the loan. If ClockFi doesn't have any reserves or doesn't have the right to liquidate the collateral, Alice just lost her money and ClockFi ends up with a bad debt and have to pause withdrawals.

This is why at Coinchange, we deployed our user funds purely in DeFi.

We do not participate in the lending, borrowing, and trading of assets with CeFi counterparties directly. Your assets are always on-chain and are always monitored by us. To check our distribution of user funds in various DeFi protocols, read our most recent Asset Allocation report.

Read more about the FTX situation in our most recent blog post here.

Serge Ovsyanik
Coinchange Financials, Inc.
email us here
Visit us on social media:
Facebook
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