The Crypto Credit Report

Issue 5

Q2 2020

CREDMARK

Table of Contents

Introduction

What mattered in Q2:

Industry → BTC saw a price increase of 50%, from $6k to 9k. Coupled with explosive growth across private lenders and continued demand for BTC and USD equivalents by exchanges, hedge funds, trading desk, crypto lending saw its best quarter to date.

Private Lenders → The largest lenders saw huge growth among active users and the introduction of a derivatives trading desk to Genesis' product offering shows the continued maturation of the private lending industry.

Defi →The emergence of governance tokens and the ever increasing popularity of yield farming lead to active debt increasing by 252% and collateral increase by 183%. Is it fair to compare private lending and DeFi?

Corrections

No corrections this time, but please let us know if you notice anything questionable!.

Industry Snapshot

Industry | Q2

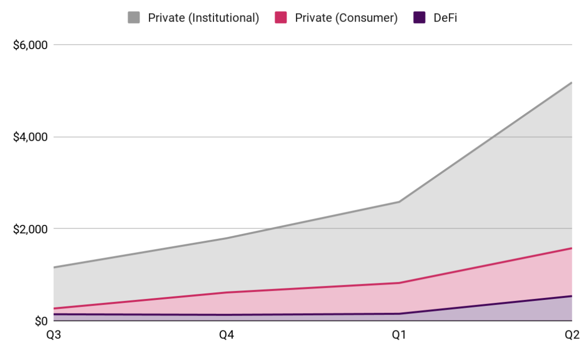
Overall

These numbers include public data from DeFi lenders and private data from consumer and institutional lenders. This represents 85% of lending firms. We have not adjusted our numbers to account for the 15% of the industry from whom we have not received data. If you know of a firm that is not represented in this report please bring this to our attention.

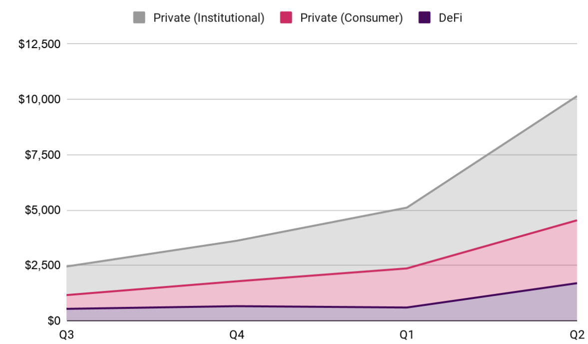
	Q3	Q4	Q1	Q2	Q3/Q4	Q4/Q1	Q1/Q2
Active Debt (MM)	**$1,158**	**$1,791**	**$2,582**	**$5,179**	**54%**	**44%**	**100%**
Private	$1,015	$1,663	$2,430	$4,632	63%	46%	90%
Defi	$141	$129	$152	$536	-8%	18%	252%
Active Collateral (MM)	**$2,451**	**$3,615**	**$5,111**	**$10,151**	**47%**	**41%**	**98%**
Private	$1,913	$2,955	$4,512	$8,453	41%	66%	87%
Defi	$539	$659	$599	$1,698	21%	-9%	183%
Interest Generated (MM)	**$20**	**$29**	**$43**	**$71**	**45%**	**48%**	**65%**
Private	$17	$26	$40	$64	54%	51%	60%
Defi	$3.7	$3.4	$3.1	$7	-9%	-7%	125%

Charts (numbers in millions)

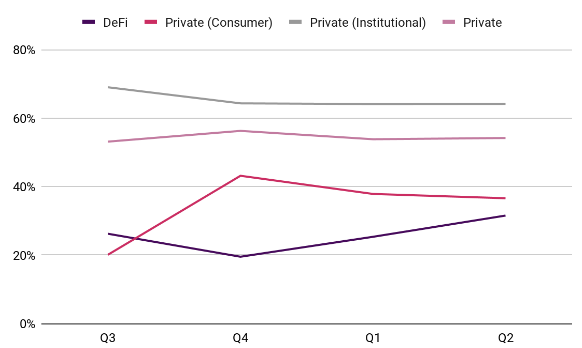
Active Debt



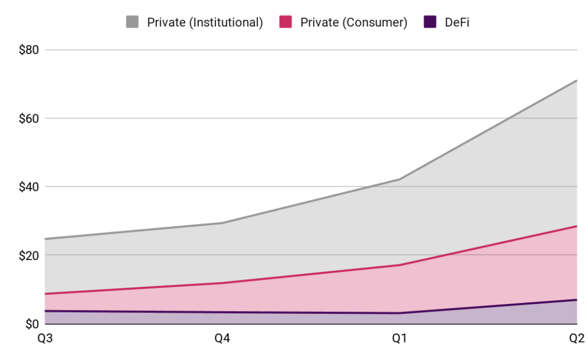
Active Collateral



LTV



Interest Generated



Industry | Commentary

If the main story from Q1 was the coronavirus pandemic and its impact on markets, Q2 showed how quickly those same markets can rebound. BTC rose 50%, from around $6k to $9k from the beginning to end of Q2 with other assets showing similar recoveries.

Both Private and DeFi sectors showed resilience in the face of an unprecedented global pandemic with under 10% of accounts liquidated among private lenders and 20% liquidations in DeF. Private lenders even experienced growth. This was rewarded with investors pouring assets into both industries as well as massive growth in overall user numbers in both sectors.

Overall AUM grew by 98% and active debt grew by 100% across the entire industry. Removing the increase in the price of underlying assets, lender portfolios still showed a significant increase of around 50% as growth in consumer based products (see Blockfi[1], Nexo[2], Celsius[3], Compound[4] user increase) as well as the introduction of more robust derivatives trading (see Genesis insights footnote) indicates wider adoption of crypto assets and markets.

DeFi's Q2 saw household names expand upon their existing services. dYdX, Maker, and Compound brought new products to the table, with Compound making the biggest splash. The introduction of the COMP token coupled with the shift to become a DAO saw Compounds AUM increase by 700% as users deposited assets in droves to get stake in the platform.

Active debt across Defi saw an increase of 250% with demand for DAI and USDC spiked as traders looked to take long positions on ETH and maximize profits during the current bull run.

LTV has stabilized over the last year, with DeFi showing a low ratio of debt-to-collateral at around 25%, consumer lending rounding out around 50% and institutional lending just under 70%.

This tracks with major trends. DeFI is dominated by yield farming and governance tokens. Consumer lending shows a similar trend, but given the option to take out fiat against crypto, customers have shown more willingness to take on debt. Institutional lending has the highest risk profile in terms of LTV, as counterparties borrow assets much closer to a 1:1 ratio in an effort to provide liquidity for clients and take leveraged positions on volatile assets. This risk is mitigated by thorough due diligence undertaken by each participating party. BlockFi for example, verifies that their counterparties' assets in a process that takes several months and has a requirement of 20 years of financial trading experience[5].

[1] BlockFI reported 25% month-over-month user growth. https://www.coindesk.com/crypto-lender-blockfi-monthly-revenue-up-100-bitcoin-app-news

[2] Nexo reported 800k users at the end of Q2. https://www.businesswire.com/news/home/20200625005674/en/Nexo-Sets-Crypto-Lending-Benchmark-%E2%80%93-Adds-BTC

[3] Celsius reported over 110k active users in June. https://www.prnewswire.com/news-releases/celsius-network-surpasses-1-billion-in-cryptocurrency-deposits-since-launch-in-2018-301071075.html

[4] https://compound.finance/markets

[5] BlockFi's Chief Risk Officer details their risk assessment methods when making institutional loans. https://www.youtube.com/watch?v=SYMF2yjn8TQ&t=1s

Private Lending

We are reporting consumer and institutional lending as two separate categories[6].

Please note that we use the price of assets at the end of the quarter to calculate USD values[7].

Private Lending | Q2

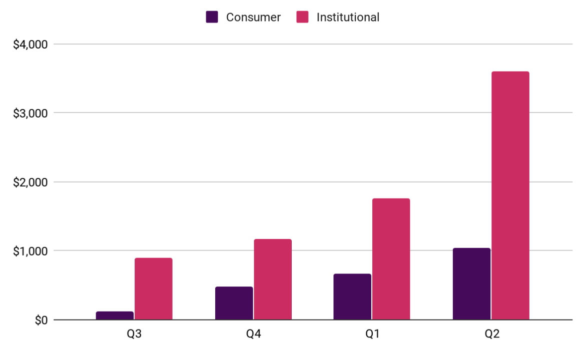
	Q3	Q4	Q1	Q2	Q3/Q4	Q4/Q1	Q1/Q2
LTV	**59%**	**56%**	**54%**	**55%**			
Consumer	27%	43%	38%	37%			
Institutional	74%	64%	64%	64%			
Active Debt (MM)	**$1,016**	**$1,663**	**$2,430**	**$4,642**	**63%**	**46%**	**90%**
Consumer	$125	$485	$669	$1,040	291%	37%	55%
Institutional	$891	$1,178	$1,761	$3,602	32%	49%	100%
Active Collateral	**$1,913**	**$2,954**	**$4,512**	**$8,453**	**41%**	**66%**	**87%**
Consumer	$621	$1,123	$1,766	$2,841	42%	99%	60%
Institutional	$1,292	$1,831	$2,746	$5,612	41%	50%	104%
Interest Generated (MM)	**$21**	**$26**	**$39**	**$64**	**54%**	**51%**	**60%**
Consumer	$5.0	$8.5	$14	$21	66%	65%	50%
Institutional	$16	$17	$25	$42	48%	44%	68%

[6] **Consumer** lending refers to firms that allow individuals to borrow and deposit relatively small amounts of crypto. **Institutional** lending refers to verified institutions making large, market making trades and borrowing or lending large amounts of crypto.

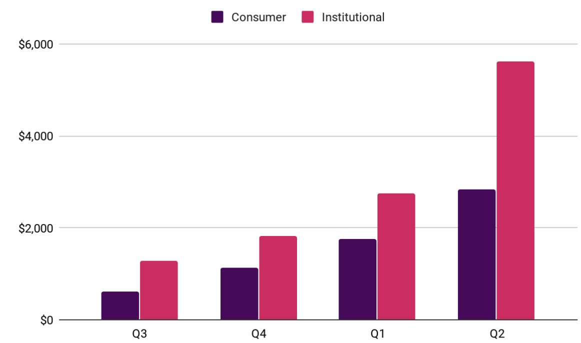
[7] On March 30th, BTC was trading at $6,404 and on June 30th it traded at $9,135. Prices off Coinbase.

Charts (Numbers are in Millions)

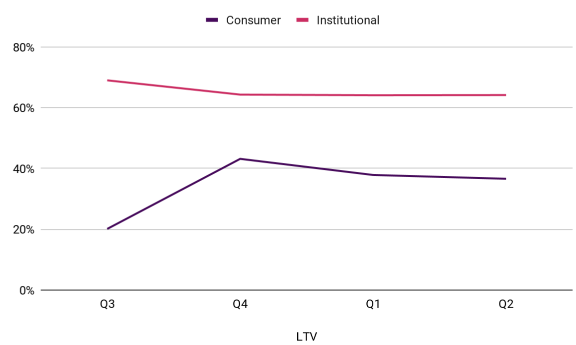
Active Debt



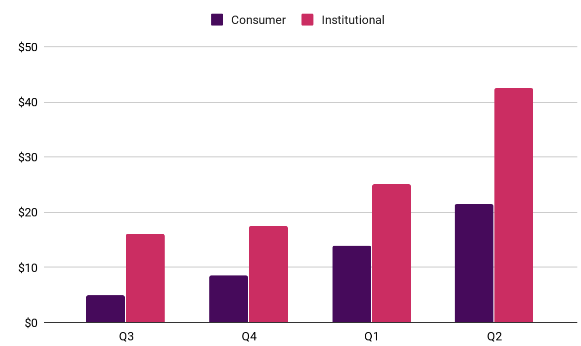
Active Collateral



LTV



Interest Generated



Private Lending | Q2 | Commentary

Demand for stablecoins continues to grow on the institutional side with borrowers looking to go long. On leveraged positions, exchange data shows a 68/32 split with 68 % of borrowers taking leverage to go long.

An interesting trend this quarter was the decrease in balance on crypto exchanges (Glassnode). Past bull markets have coincided with a drop in exchange balance as people look to profit off of rising asset value. Similar trends have been noted in each of the bull markets in the past years, most notably in 2018. However, this instance has proven to be slightly different when looking at the exchange balance. For the first year since Bitcoin's inception, BTC balance has shown negative growth of 5%. As financial products on private exchanges and DeFi become more sophisticated, they offer investors alternatives to simply trading on exchanges.

This time, there was an interesting correlation with the increase of active collateral held by consumer-facing private lenders. Half of the increase can be attributed to the rise in price of BTC and other assets, but 100% increase in active collateral in the consumer sector indicates wider adoption of interest bearing products. The AUM by lenders is still dwarfed by exchange balances, indicating that is merely a correlation without causation. But with AUM growing by 50% per quarter and exchange balances showing near 0% growth from the same time last year[8], by 2028 private lenders will have a competitive AUM compared to exchanges.

As private lenders offer customers alternatives to simply selling their crypto when they need cash or are looking to get out of a position, the balance on exchanges may not grow at the same rate as it has in the past 10 years. This would lead to a drawing out the accumulation phase[9] and extending bull markets as investors are content earning consistent interest on their assets.

Many factors contribute to the change in BTC price but a marketplace that offers a diversified set of products and services that allows customers to maximize the utility of crypto assets will inevitably lead to a high demand for that asset, driving the price higher and smoothing out what has been a historically volatile cycle of accumulation and followed by a steep selloff. While DeFi, innovates at a faster pace in regards to financial services, private lenders hold the advantage of utilizing security mechanisms that legacy investors take comfort in. KYC/AML, insured accounts and secure cold storage are a few items that remind investors of legacy financial products and thus far, private lenders have mostly avoided the hacks and exploits leading to loss of funds and overall skepticism that DeFi endures.

Genesis introduced a derivatives trading desk showing that demand for exposure to BTC continues to grow. The ability to trade, hedge and speculate on BTC derivatives at a large scale will further stabilize what has historically been a volatile commodity.

[8] https://studio.glassnode.com/

[9] Accumulation phase refers the Wyckoff method where investors gradually accumulate assets at a pace where price remains unaffected.

DeFi

We define DeFi as the collection of permissionless protocols that are built on smart contracts. Their data is publically available on the Ethereum blockchain.

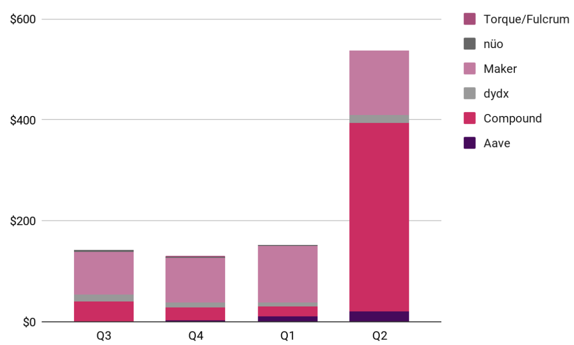
Some of our analysis groups data by protocol types: *lending* and *liquidity*. The remaining data looks at platforms that offer loans as a product. Lending protocols include Compound, dYdX, Maker, nüo, Aave, and Fulcrum/Torque. Protocols that are strictly liquidity providers include Synthetix and Uniswap.

DeFi | Q2

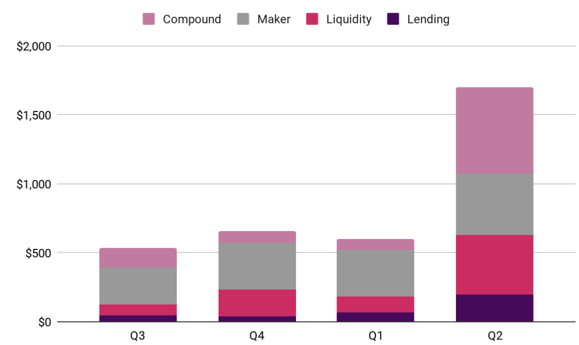
	Q3	Q4	Q1	Q2	Q3/Q4	Q4/Q1	Q1/Q2
Active Debt (MM)	**$141**	**$129**	**$152**	**$536**	**-8%**	**18%**	**252%**
Compound	$40	$24	$19	$373	-40%	-20%	1860%
Maker	$84	$90	113	127	7%	25%	12%
Lending	$17	$14	$20	$36	-17%	42%	80%
Active Collateral (MM)	**$539**	**$659**	**$599**	**$1,698**	**22%**	**-9%**	**183%**
Compound	$145	$85	$78	$620	-41%	-8%	690%
Maker	$268	$341	$334	$446	27%	-2%	33%
Liquidity	$77	$194	$114	$432	150%	-41%	278%
Lending	$49	$39	$71	$200	-20%	82%	181%
Interest Generated (MM)	**$3.7**	**$3.4**	**$3.1**	**$7**	**-8%**	**-8%**	**125%**
Compound	$1.1	$668k	$427k	$4.6	-39%	-36%	977%
Maker	$2.2	$2.3	$2.2	$2.5	4%	-4%	13%
Lending	467k	397k	450k	770k	-14%	13%	71%

Charts

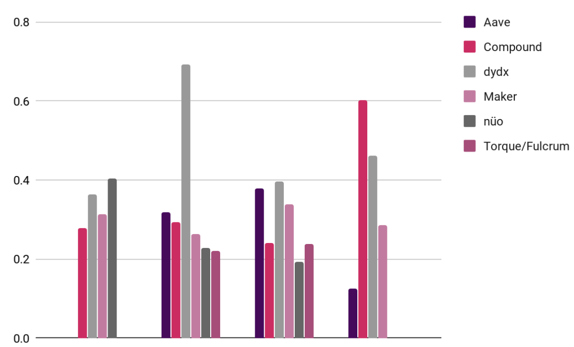
Active Debt



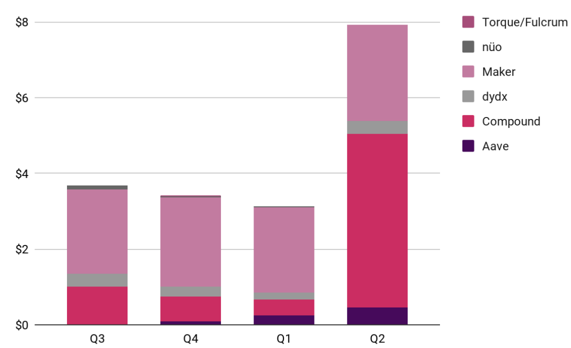
Active Collateral



LTV



Interest Generated



DeFi | Q2 | Commentary

Q2 of DeFi can be summed up by the emergence of the COMP token and, with it, yield farming. Compound saw its AUM increase by 700% to become the leader in locked value amongst DeFi platforms.

Broadly speaking, yield farming is an effort to gain the maximum return on your crypto assets. An example would be an investor shifting their assets from liquidity pool to liquidity pool depending on the yield from each. The introduction of governance tokens further incentivises users to use a particular protocol. Compound, for example, distributes COMP tokens based upon how much of an asset an investor has contributed to the pool. With the recent rise in the value of COMP tokens, this is almost free money for investors and in turn has driven a huge amount of capital into

Compound. To further gains, investors take out loans on Compound and then deposit those funds right back into the platform. This action, coupled with rising demand for stablecoins as the price of ETH has risen, saw Compound increase active debt by an absurd 1,800%.

Along with Compound's explosive growth, Q2 saw the DeFi industry easily cross the $1 billion dollar threshold and will most likely reach $5 billion in Q3 given current growth trends.

Aave continues to show impressive growth as the popularity of their flash loans provides investors exciting opportunities to make large trades without immediately having to collateralize assets. Aave also introduced "uncollateralized" lending with their credit delegation system. When a user deposits assets to Aave, they can allow other users to borrow an amount smaller than the deposit without collateral. Through this, Aave avoids risk by keeping the borrowed assets overcollateralized, but allows individuals to take on the risk with the potential of higher returns[10].

Now there are clear sectors defined by various protocols. Maker acts as the treasury/fed issuing notes and controlling supply. Compound, Balancer, Uniswap, Curve and others offer liquidity and trading pairs creating an efficient market, Aave, Compound, and dYdX provide loans and Aave in particular is pushing the envelope with regards to collateralization. Many of these platforms fulfill multiple roles as well and as a result, we are seeing near constant innovation almost every month and in turn driving interest as well as capital into DeFi.

So is it fair to compare DeFi to the private lending industry? With active debt growing by 252%, it would seem that DeFi has indeed reached a point where private lenders should take them seriously. As Aave continues to issue "under-collateralized" loans and Compound, Balancer and other liquidity pools offer impressive yield rates, the perceived advantages held by private lenders will continue to erode. Given the jurisdictional limitations of private lenders, DeFi could find traction in areas of the world[11] where private lenders and exchanges have been unable to offer their full suite of products.

[10] Further explanation: https://messari.io/article/aave-announces-credit-delegation-enabling-uncollateralized-lending

[11] Mainly the United States, which is the most financially robust yet restrictive nations in the world.

Lenders

We currently categorize our lenders as follows: *DeFi* and *private*. Private lenders are further broken down by their target customers: *consumer* and *institutional*.

Detailed descriptions of each lender can be found at https://credmark.com/the-industry/lender-appendix.

	DeFi	Consumer	Institutional
bZx Protocol	✓		
Compound	✓		
dYdX	✓		
Aave	✓		
Maker	✓		
nüo	✓		
Synthetix	✓		
Uniswap	✓		
Bankera		✓	
BlockFi		✓	✓
Cred		✓	✓
Celsius Network		✓	✓
Constant		✓	
Helio Lending		✓	
Nebeus		✓	
Nexo		✓	✓
Ledn		✓	✓
SALT		✓	✓
Unchained Capital		✓	✓
YouHodler		✓	
DrawBridge			✓
Genesis Capital			✓
Lendingblock			✓
Trinito		✓	

Data Sources[12]

Source	Publisher	URL
DeFi Pulse	Concourse	https://defipulse.com/
Coinbase	Coinbase	https://coinbase.com
Genesis Report	Genesis	https://genesistrading.com/about/insights/
Makerscan	InstaDApp	https://makerscan.io
MKR Tools	Mike McDonald	https://mkr.tools
LoanScan Dashboard	LoanScan	https://loanscan.io
Aave Dashboard	Aave	https://aave.com/
Dune Analytics	Dune Analytics AS	https://duneanalytics.com
Synthetix Dashboard	Synthetix	https://dashboard.synthetix.io/
Celsius App	Celsius	https://celsius.network/get-the-app/
Messari	Messari	https://messari.io/article/aave-announces-credit-delegation-enabling-uncollateralized-lending
Trinito Dashboard	Trinito	https://trinito.io/pool
Glassnode	Glassnode	https://studio.glassnode.com
Bytetree		https://terminal.bytetree.com/bitcoin
Blockchain Whispers		https://blockchainwhispers.com/bitmex-position-calculator/#
Bincance		https://academy.binance.com/economics/the-wyckoff-method-explained
Cointelegraph		https://cointelegraph.com/news/3-reasons-bitcoin-price-could-be-on-the-verge-of-a-new-uptrend
Coindesk	Coindesk	https://www.coindesk.com/defi-yield-farming-comp-token-explained
NEWSBTC		https://www.newsbtc.com/2020/07/14/data-bitcoin-accumulation-phase-10k/

[12] In addition to the many vendors who contributed their data for this report. See “Acknowledgements” below for a partial list.

Article	Lendingblock	https://lendingblock.com/guides/collateral-management

Acknowledgements

The following people contributed data, insights, or other content to this report. Not all reporting vendors chose to be acknowledged.

Contributor	Organization	Title
Abraham, Jarrett	SALT	Director of Corporate Development
Ahmad, Momin	Credmark	Lead Analyst
Alluri, Vamsi	Maker	Integration Engineer
Beach, Charlie	Lendingblock	COO
Cho, Young	Celsius	CFO
Di Bartolomeo, Mauricio	Ledn	Co-founder, CSO
Geiger, Phillip	Unchained Capital	Director of Product Marketing
Jasukaitis, Paulius	Bankera	Project Manager
Kelly, Joe	Unchained Capital	CEO
Kono, Kai	Liquid	Managing Director
Le, Claire	Constant	Business Development Manager
Leon, Daniel	Celsius	COO
Manolov, George	Nexo	Business Development Executive
Mashinsky, Alex	Celsius	CEO
Murphy, Paul	Credmark	CEO
Olson, Mats	Dune Analytics	CTO
Patel, Roshun	Genesis	Analyst
Petterson, Kelly	Lendingblock	CMO & Head of Business Development
Prince, Zac	BlockFi	CEO
Reeds, Adam	Ledn	Co-founder, CEO
Roper, Chris	Constant	Communications Manager
Saint-Donat, Paul	dlab/SOSV	Program Manager
Sato, Asahi	Credmark	Graphic Designer
Shapiro, Max	Bitmex	Associate
Swain, Steve	Lendingblock	CEO & Co-founder
Torrey, Dan	Genesis	Head of Institutional Sales
Trenchev, Antoni	Nexo	Managing Partner
Verma, Siddharth	nüo	Co-founder
Yin, Zhuoxun	dYdX	Head of Operations
Yoo, Eric	Trinito	Chief Strategy Officer
Zumwalde, Neil	Credmark	CTO