

# What is Lending and Borrowing on Web3?

Defi lending protocols like AAVE and Kamino let you borrow and lend just like with a bank, but with limited custodial risks as funds are stored on smart contracts.

If you lend tokens by locking your tokens in a lending protocol, you will receive an interest like traditional banks on your tokens. Its mostly shown as APY (Annual Percentage Yield).

Borrowing a token you would need to pay the APR (Annual percentage Rate).

There are lending protocols that allows you to deposit and receive funds an annual yield in return. Besides depositing that allow you to borrow tokens against your own deposited tokens as collateral.

A lot of people use those applications as a way to borrow tokens for trading. Having both lenders and borrowers in the same market, the price to borrow (APR) is increasing with the more tokens being borrowed. To put it simply, with lending protocols APY gets higher, if less people lend tokens.