

AAVE

Aave is a non-custodial decentralized liquidity market protocol. Users can participate as suppliers or borrowers. Suppliers earn rewards for providing liquidity to the market while borrowers can borrow assets in an overcollateralized or undercollateralized manner.

Aave is open source, meaning anyone can build a third party service or application to interact with the protocol.

To interact with the protocol you need to first supply assets to the market. After supplying you start earning rewards and can now borrow assets using what you supplied as collateral. Any interest you earn by supplying funds helps offset the interest rate you accumulate by borrowing.

When borrowing assets on Aave you need to take into consideration your health factor. This factor is the numeric representation of the safety of your deposited assets against the borrowed assets and its underlying value. The higher the value is, the safer the state of your funds are against a liquidation scenario.

There is no fixed time period to pay back the loan. As long as your position is safe, you can borrow for an undefined period. However, as time passes, the accrued interest will grow making your health factor decrease, which might result in your deposited assets becoming more likely to be liquidated. A liquidation is a process that occurs when a borrower's health factor goes below 1 due to their collateral value not properly covering their loan/debt value.

The protocol has its own currency \$AAVE that serves as governance. \$AAVE is used to vote and decide on the outcome of Aave Improvement Proposals (AIPs). Apart from this, AAVE can be staked within the protocol Safety Module to provide security/insurance to the protocol/suppliers. Stakers earn staking rewards and fees from the protocol.

There's also an Aave native stable coin \$GHO, it is an overcollateralized, decentralized and fully backed. Suppliers can use the assets they have supplied as collateral to mint \$GHO or borrow it. Unlike many stablecoins, the oracle price for GHO will be fixed. Decentralized stablecoins such as GHO are transparent and cannot be changed. Interest rates are defined by the Aave DAO and repaid interest is redirected to the DAO instead of the asset suppliers. Discounts are available to borrowers staking AAVE in the Safety Module.