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About Liquity USD (LUSD)

Liquity USD (LUSD) is the USD-pegged stablecoin used to pay out loans on the Liquity protocol. At any time it can be redeemed against the underlying collateral at face value. To borrow you must open a Trove and deposit a certain amount of collateral ([ETH](#)) to it and can then draw LUSD up to a collateral ratio of 110%.

Core Features

Liquity is a decentralized borrowing protocol offering interest-free loans against ETH used as collateral. By utilizing a novel liquidation mechanism and leveraging an algorithmic monetary policy it can offer unprecedented benefits for borrowers.

Interest-free Borrowing

Users can draw the stablecoin LUSD interest-free against their Ether used as collateral. They can thus obtain liquidity for free without any recurring costs.

Since the protocol can generate the LUSD tokens itself, it does not need to pass any capital costs onto the borrowers, nor does it rely on interest rates to regulate monetary supply.

There is a one-time borrowing fee as a percentage of the drawn amount. The fee rate depends on the current base rate, which is algorithmically governed by the protocol based on the redemption volumes.

110% Collateral Ratio

Liquity protocol allows for an unprecedented minimum collateral ratio of 110%, which corresponds to a loan-to-value ratio of 90.09%. This makes borrowing highly capital efficient and allows for up to 11x [leverage on investments](#).

Borrowers need to ensure that their collateral ratio does not fall below 110%, otherwise their positions (“Trove”) become vulnerable to liquidation. The protocol’s efficient, instantaneous liquidation mechanism allows for such a low collateralization ratio, while maintaining a high level of robustness.

Redeemable Stablecoin

LUSD is a fully redeemable stablecoin. At any time, the system allows holders to redeem their LUSD for the underlying Ether collateral at face value. For example: A holder redeeming 100 LUSD would receive \$100 worth of Ether collateral from the riskiest Trove(s), minus the current redemption fee.

The redemption mechanism will create a price floor for LUSD, pushing its price back to parity whenever it drops below \$1. Holders have an incentive to redeem LUSD if they can buy it for less than \$1 and then convert it into Ether at a price of exactly \$1. Every redemption leads to a contraction of the total LUSD supply and to an adjustment of the base rate.

Governance Free

Unlike other platforms, Liquity protocol does not rely on human governance to vote on monetary interventions. All protocol parameters are either preset and immutable or algorithmically controlled by the protocol itself — making human interventions redundant.

By measuring the redemption volumes and applying a time decay mechanism it constantly adjusts the base rate, serving as a basis for both the issuance and the redemption fees.

Cryptocurrency Price Prediction

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