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From CeFi to DeFi: The Evolution and Future of Crypto Credit

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Research and Insights

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Executive Summary

- The crypto credit market offers diverse financial products that provide liquidity and yield opportunities without requiring the sale of crypto assets. Key offerings include lending, borrowing, and crypto credit cards, with operations divided between centralised finance (CeFi) and decentralised finance (DeFi) platforms.
- CeFi primarily serves retail users through centralised exchanges. Meanwhile, institutions access tailored lending solutions via OTC and brokerage channels. The active loan size for CeFi lending surpassed US$22 billion in Q1 2025, grew by 16% quarter-ove-quarter, driven by the private credit platforms.
- DeFi lending has seen significant growth, with its total value locked (TVL) reaching US$63 billion in June 2025. Models include overcollateralised lending pools, collateralised debt positions (CDPs), and flash loans, each offering unique mechanisms for accessing liquidity. Data suggests that the revenues of DeFi lending and CDPs both dropped significantly by 50% and 24%, respectively, from January to June 2025.
- The crypto credit card segment is expanding swiftly, with projections estimating an increase from $1.82 billion in 2025 to $3.58 billion by 2029. The Crypto.com cards exemplifies this growth, offering rewards and robust security to users.
- Institutional interest in crypto credit is accelerating due to regulatory clarity and technological advancements. Recent regulatory developments in the US and Europe promote crypto participation.
- Tokenising real-world assets (RWA) represents a significant frontier for on-chain lending. This integration of RWA into DeFi offers stability and access to capital for borrowers but presents challenges related to legal frameworks and regulatory clarity. With over $14 billion in tokenised private credit and a 42% growth from January to June 2025, RWA tokenisation is a notable trend as institutions explore yield-generating opportunities.
- Driven by the adoption of innovative lending models and stablecoins, crypto credit has transitioned from centralised platforms to decentralised protocols. Future growth will be influenced by cross-chain lending, RWA integration, and advancements in risk scoring. While the crypto credit market shows promise in transforming finance, it must address potential vulnerabilities to ensure sustainability and inclusivity in the financial ecosystem.

1. Introduction

The crypto credit market encompasses a diverse array of financial products that enable users to access liquidity and earn yield without selling their crypto holdings. The main products include:

- **Lending**: Users deposit cryptocurrencies into platforms to earn interest, often at rates higher than traditional savings accounts.
- **Borrowing**: Users collateralise their crypto assets to borrow other cryptocurrencies or stablecoins. DeFi platforms typically require over-collateralisation to mitigate market volatility risks, while CeFi platforms may offer more flexible loan-to-value (LTV) ratios.
- **Crypto Credit Cards**: These allow users to spend their crypto like traditional credit cards, often with cryptocurrency, other rewards, or on purchases. For example, the Crypto.com Visa Signature® Credit Card offers competitive rewards, robust security, and a suite of lifestyle perks, all within a globally accepted, fee-free package.

The crypto credit market operates across two fundamental structural divisions: centralised finance (CeFi) and decentralised finance (DeFi) platforms. CeFi platforms function similarly to traditional financial institutions with centralised control and custody, while DeFi protocols utilise smart contracts to automate lending and borrowing processes without intermediaries. This structural differentiation creates distinct user experiences, risk profiles, and operational frameworks that serve different market segments.

To understand the value of crypto credit, it helps to compare the concept to traditional financial systems. While traditional banks rely on credit scores, income verification, and manual approvals, crypto protocols determine eligibility through collateral and smart contracts. The comparison table below highlights their key differences:

Category	Traditional Finance	Crypto Credit
Credit Access	Based on credit scores, income, identity	More accessible as most don't require KYC
Speed	Days to approve and settle	Executed in real-time
Transparency	Opaque institutional processes	Fully auditable smart contracts

Intermediaries	Banks, underwriters, credit bureaus	Peer-to-protocol via automated code
Collateral Requirements	Overcollateralised with physical properties or other proofs	Mostly overcollateralised

This report focuses on the decentralised lending ecosystem, which represents the most transparent, programmable, and permissionless form of crypto credit. It analyses the design and performance of major DeFi protocols including Aave, Compound, and Sky, paying close attention to their lending models, interest rate mechanics, governance systems, and risk management strategies.

The report will also examine how traditional financial players are piloting blockchain-based credit frameworks, including experiments with tokenised bonds and real-world collateral.

2. Market Overview

2.1 CeFi

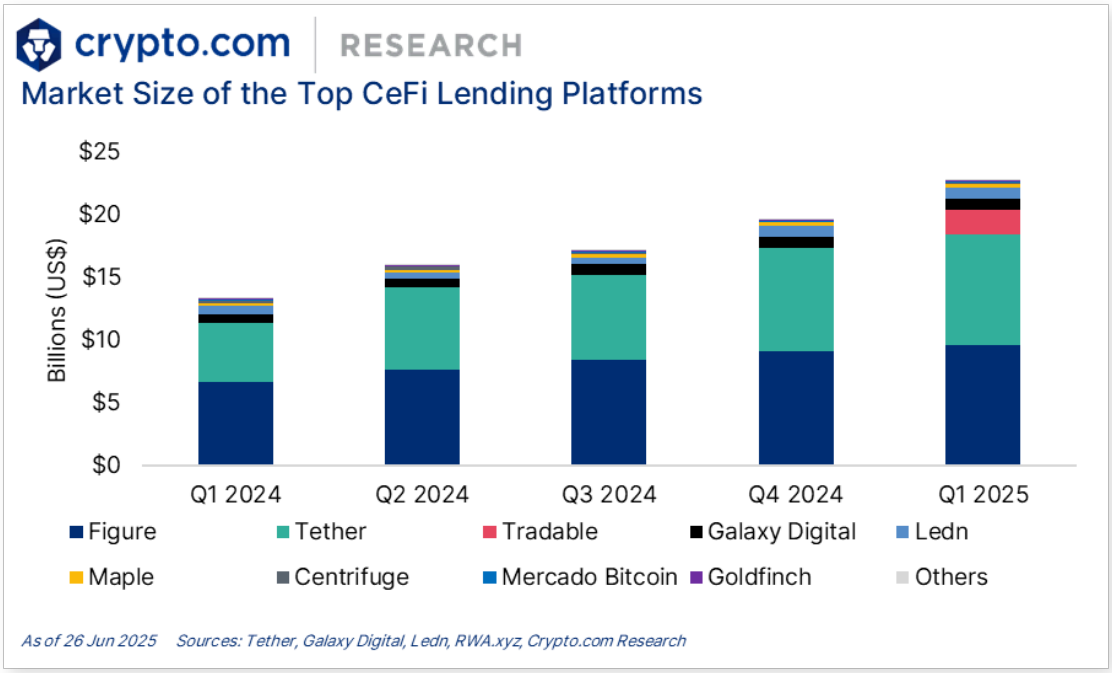
For retail users, the primary access of CeFi crypto lending is through centralised crypto exchanges. Meanwhile, institutions can access crypto loans through Over the Counter (OTC) platforms, brokerages, and on-chain private credit firms with a comprehensive range of tailored lending solutions and products. Notable players include Galaxy Digital and Tether:

Galaxy Digital: A financial services firm that has expanded into crypto lending.

Tether: While primarily known for its stablecoin (USDT), Tether is noted for its role in centralised lending, possibly through partnerships or lending services.

Together with Toronto-based bitcoin-focused lender Ledn, the trio controls a significant 89% of the centralised crypto lending market.

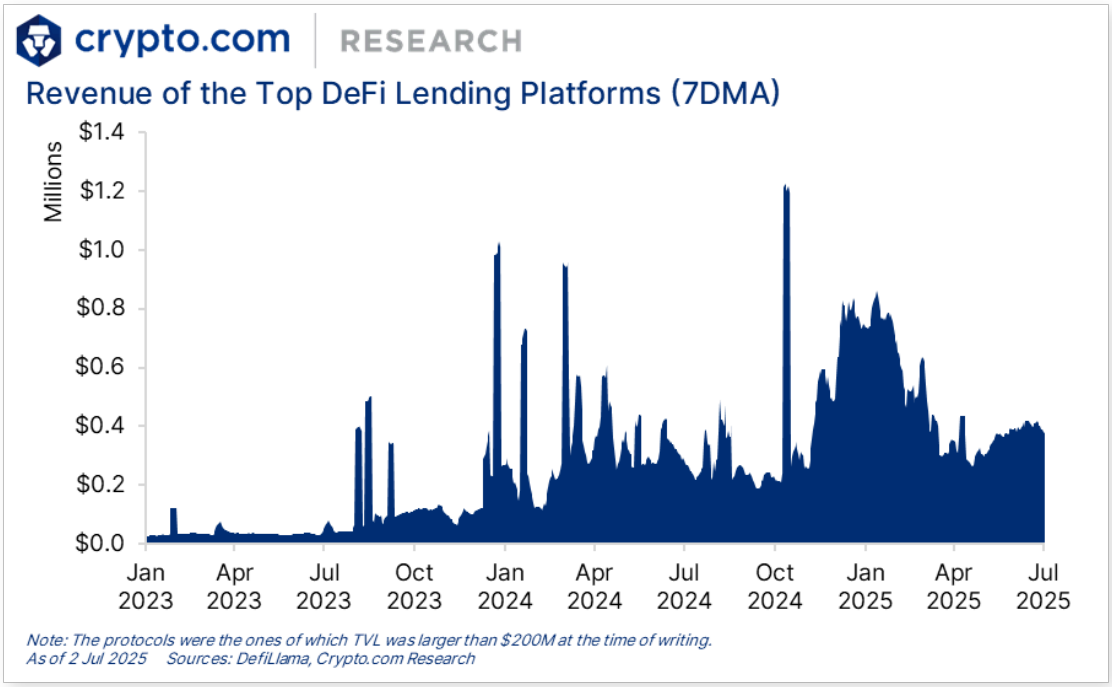
However, if we consider the centralised player that utilise blockchain to manage loans, the CeFi market shifts. Figure, a lending platform notable for home equity lines of credit and crypto-backed loans, surpassing Tether with a significant share.



2.2 DeFi

The DeFi lending sector has experienced particularly strong growth, with TVL reaching $55 billion in June 2025. Furthermore, since early June, the DeFi lending TVL has grown by more than 12%, making it the fastest-growing sector in the entire DeFi ecosystem during this period. This growth on TVL has been driven by renewed stablecoin confidence, easier access to loans, seamless cross-chain lending capabilities, and the rise of real-world asset (RWA) tokenisation. The typical models in DeFi lending and borrowing are overcollateralised lending pool, collateralised debt position, undercollateralised loans, and flash loans.

Meanwhile, the revenues of the top lending protocols (TVL > $200 million) grew by around 7%, from $11 million in May to $12 million in June, while the revenue dropped by 50% from January to June in 2025.



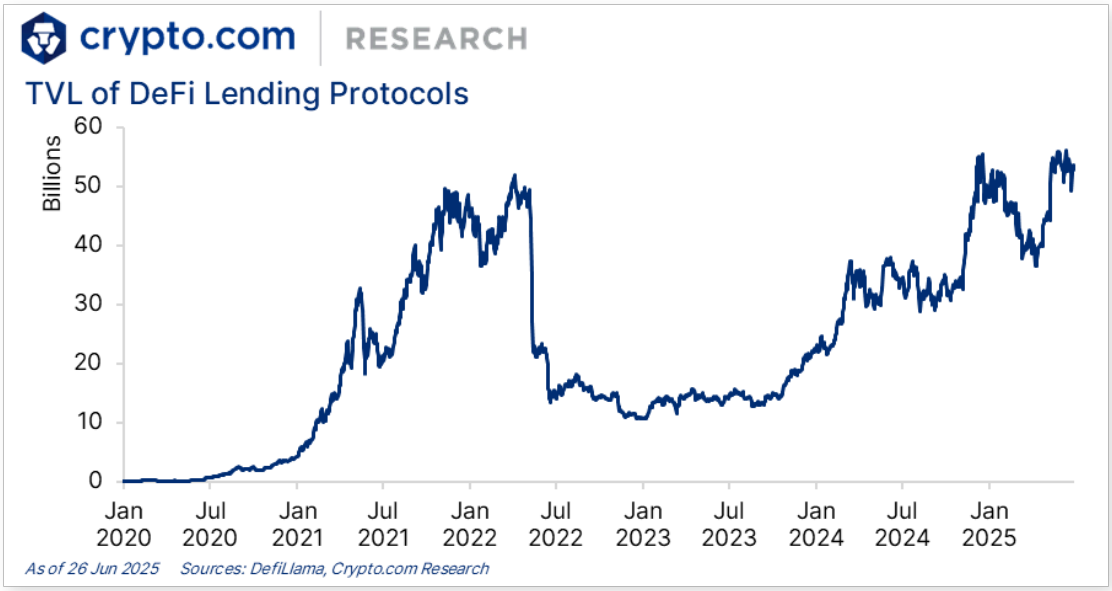
Overcollateralised Lending Pool

The most dominant and established model in DeFi lending is the overcollateralised pool-based system. In this model, users deposit assets into smart contract-managed liquidity pools, which serve as reserves for borrowers seeking on-chain credit. This process is fully permissionless and automated.

The general mechanism works as follows:

Users deposit assets (e.g., ETH) into lending pools to earn yield, while other users deposit collateral (e.g., USDC) and borrow against it. Interest rates are determined algorithmically based on pool utilisation. The higher the borrowing demand relative to available liquidity, the higher the interest rate.

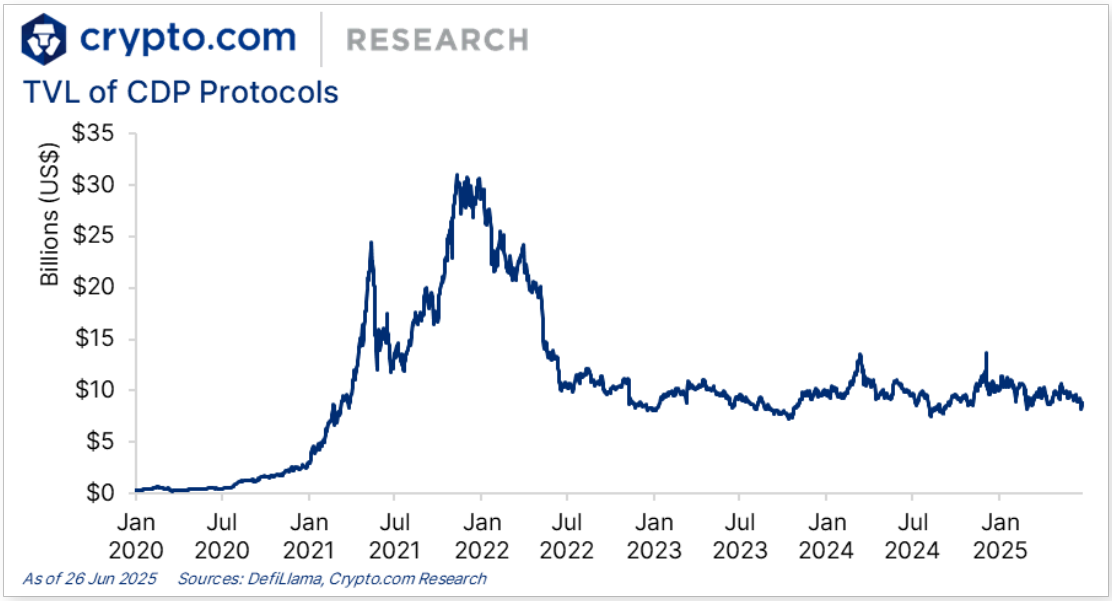
Key parameters in this model include the **Loan-to-Value** (LTV) ratio, which defines the maximum borrowing ratio per asset, the **Health Factor**, which indicates a position's risk level, and **liquidation thresholds and penalties** that determine liquidation conditions. Typically, the required collateralisation ratio is between 125% and 150%. However, stablecoins command more favorable ratios of 110% to 125% due to their price stability.

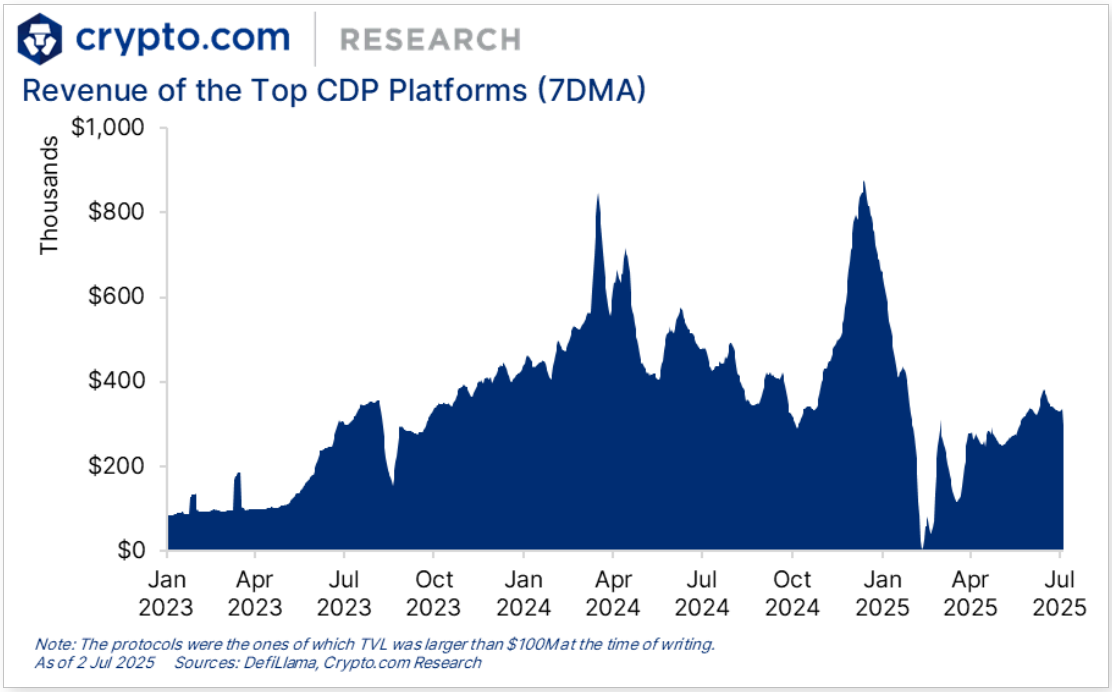


Collateralised Debt Position (CDP) Model

In a typical CDP model, users lock up a certain amount of cryptocurrency (e.g., ETH) in a smart contract, which then mints a proportional amount of stablecoins (e.g., USDS, formerly DAI) against the locked collateral. The collateralisation ratio is a critical safeguard, as it ensures that the value of the collateral exceeds the value of the borrowed stablecoins. For Sky (formerly MakerDAO), it must be at least 150%, meaning that for every one USDS borrowed, the collateral must be worth 1.5 times more.

CDP models enable users to access liquidity without selling their assets, allowing them to maintain exposure to their investments while obtaining funds for other purposes.





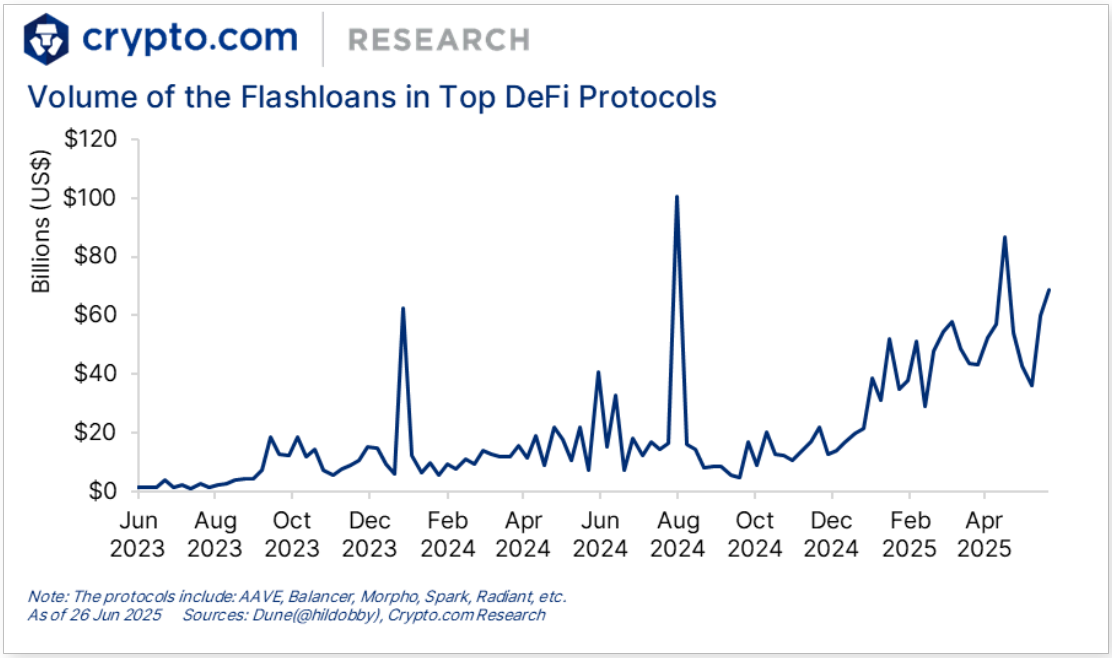
Flash Loans

Flash loans represent a unique DeFi innovation that enables instant, no-collateral borrowing within single blockchain transactions. These loans must be borrowed and repaid within the same transaction, typically within seconds, making them fundamentally different from traditional lending models.

The process operates in three main steps within one transaction: borrowing through a smart contract request, utilising the funds for specific purposes such

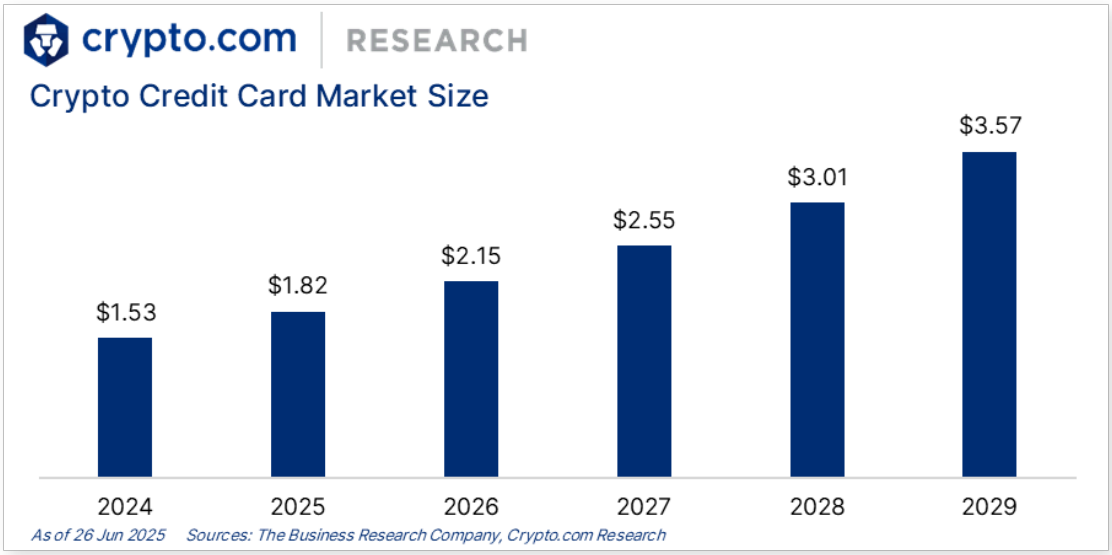
as arbitrage or position management, and repaying the loan with fees before transaction completion. If borrowers fail to repay the loan, the entire transaction is reversed, eliminating default risk.

Flash loans are primarily used for sophisticated trading strategies including arbitrage opportunities between decentralised exchanges, collateral swapping, and liquidation avoidance. They demonstrate the sophisticated financial primitives possible within decentralised protocols and enable access to vast amounts of liquidity for seconds without traditional credit requirements.



2.3 Crypto Credit Card Market

The crypto credit card segment has experienced rapid expansion, growing from $1.53 billion in 2024 to $1.82 billion in 2025 at a CAGR of 18.8%. Market projections indicate continued growth to $3.58 billion by 2029 at an 18.4% CAGR.



The Crypto.com Visa Signature® Credit Card is designed to appeal to both crypto enthusiasts and mainstream users, offering competitive rewards, robust security, and a suite of lifestyle perks, all within a globally accepted, fee-free package:

- Is free to maintain, with no annual or setup fees.
- Offers variable purchase APRs from 18.24% to 32.24%, based on creditworthiness and the US prime rate.
- Allows users to spend on credit and pay later, just like a traditional Visa credit card.
- Operates on the Visa network and therefore accepted at over 90 million merchants worldwide.

3. Institutional Adoption

Institutional adoption in the crypto credit market is accelerating rapidly, driven by regulatory clarity, technological advancements, and the search for diversified yield opportunities. For example, American investment bank Cantor Fitzgerald partnered with Maple Finance to execute the first on-chain Bitcoin loan transaction, depositing BTC to earn an annualised yield of 4 to 6%.

Regulatory Clarity

The US has seen a shift toward a crypto-friendly regulatory environment in 2025. An executive order signed on 23 January 2025 promotes digital financial technology, and the FDIC clarified that banks can engage in crypto-related activities without prior approval. The US Securities and Exchange Commission (SEC)'s Cyber and Emerging Technologies Unit (CETU) and the Cyber Fraud Task Forces (CFTFs)'s digital asset markets pilot programme further support institutional participation. For Europe, the Markets in Crypto-Assets Regulation (MiCA), effective from June 2023, established uniform rules for crypto assets, including lending activities. It emphasises transparency, disclosure, authorisation, and supervision to ensure market integrity and consumer protection.

In June 2025, SEC Chair Paul Atkins announced that he is directing staff to create a new "innovation exemption", a regulatory sandbox for DeFi platforms. This would allow on-chain lending services to operate with fewer burdensome compliance requirements, provided they meet basic standards for transparency, security, and consumer protection.

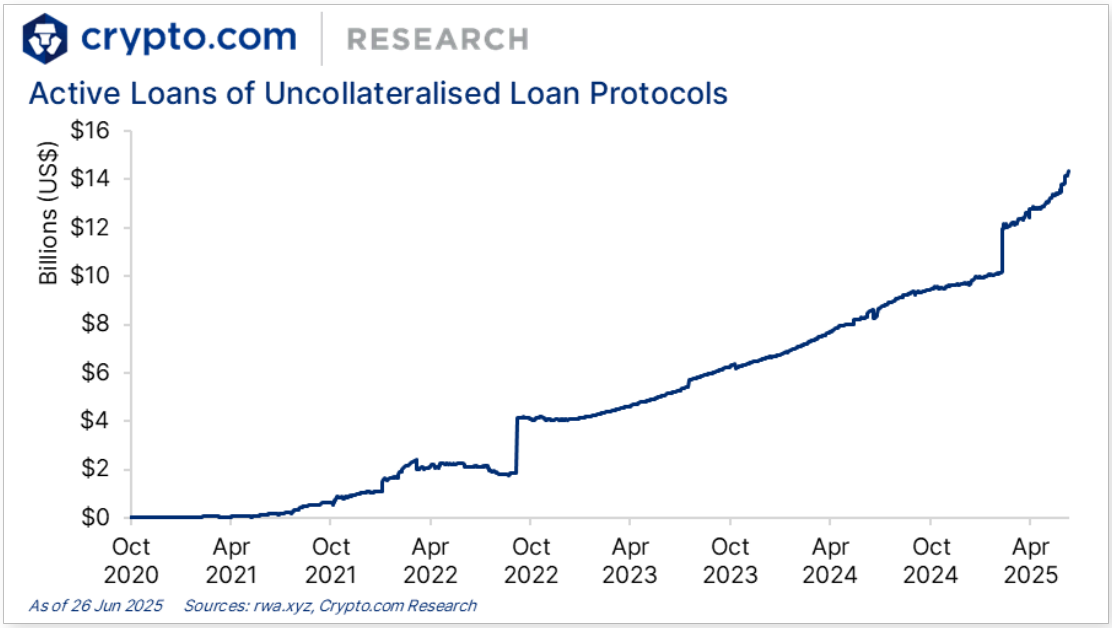
For lending protocols, the action implies the following:

- **Speed to launch:** Platforms could deploy innovative credit products quickly under monitored conditions.
- **Encouraging experimentation:** Lenders might trial new models like undercollateralised loans or cross-chain borrowings without fear of immediate enforcement.
- **Clear compliance guidelines:** Instead of guessing how traditional securities laws apply, developers would have better regulatory clarity.

However, challenges remain. Regulators must ensure that these sandboxes do not undermine investor protection or financial stability. Faulty smart contracts, governance manipulation, or hidden off-chain links could still pose major risks.

RWA

Another trend for institutions engaging crypto credit is through real-world assets (RWA). Over $14 billion of the current $24 billion RWA market is now composed of tokenised private credit, making it the fastest-growing segment after stablecoins. Spark protocol allocated $50 million directly to Maple Finance, building on-chain lending products that generate stable yields for institutional participants. Additionally, over $7.5 billion in tokenised US Treasury bills are now held on-chain, providing institutions with a regulated, yield-generating asset that can be used as collateral or traded in DeFi markets.



4. Outlook

Tokenising RWAs (e.g., real estates, invoices, or bonds) is seen as the next frontier for DeFi lending. Protocols such as Centrifuge, Sky (formerly MakerDAO), and Tinlake are spearheading this improvement.

Centrifuge enables businesses to convert RWAs into NFTs, which are used as collateral in its Tinlake pools. These assets are divided into trenches — "DROP" for senior, fixed-rate exposure, and "TIN" for junior, higher-risk but high-yield capital. By late 2022, Centrifuge had brought over $220 million in RWAs on-chain through collaborations with Sky and BlockTower Credit.

Sky has also begun accepting tokenised real-world collateral, such as bonds and invoices, to mint USDS (formerly DAI), broadening the protocol's collateral base.

As of mid-2023, multiple RWA-backed vaults existed for real estate and short-term business loans.

This shift brings institutional-grade stability to DeFi while allowing borrowers to access capital without liquidating assets. Yet it introduces challenges: establishing legal frameworks, ensuring secure custody, providing reliable asset oracles, and achieving regulatory clarity across jurisdictions.

5. Conclusion

This research has traced the evolution of crypto credit from centralised custodial lending platforms to permissionless, decentralised protocols that now form the backbone of the DeFi ecosystem. The adoption of overcollateralised lending models, automated market makers, and governance-based incentive structures has allowed platforms like **Aave**, **Compound**, and **Sky** to scale rapidly. Throughout this transformation, stablecoins have played a foundational role by offering price stability, liquidity, and interoperability. Their dominance in lending markets has made them essential instruments for both borrowers and liquidity providers. Furthermore, the growth of crypto credit is shaped not just by technological design but also by regulatory signals, infrastructure developments, and growing institutional interest — all of which influence adoption, product design, and risk appetite.

The future of crypto credit will be heavily influenced by the convergence of three major trends. First, **cross-chain lending infrastructure** is rapidly maturing, with interoperability protocols such as LayerZero and Axelar enabling collateral and borrowing to function across chains. This opens new opportunities for asset mobility and composable liquidity. Second, **the increasing integration of RWA** into DeFi lending, including tokenised treasuries, invoices, and real estate, has the potential to improve depth and stability to crypto collateral markets. Protocols like Centrifuge and Sky are already paving the way for this shift. Third, **innovations in risk scoring and decentralised identity (DID)** could enable safe undercollateralised lending in a privacy-preserving way. These mechanisms may ultimately unlock broader financial access without compromising the trustless nature of DeFi.

Crypto credit is one of the most promising applications of blockchain technology for transforming global finance. Its permissionless structure reduces entry barriers, while smart contracts automate key financial functions with transparency and precision. However, with this innovation comes responsibility. The sector must address vulnerabilities, whether technical, financial, or regulatory, to ensure its sustainability in the long run. Regulatory clarity will be critical, especially as DeFi begins to intersect more directly with traditional financial systems and real-world institutions. If innovation can be balanced with solid governance and meaningful safeguards, crypto credit has the potential to extend capital access to underserved populations, reduce reliance on intermediaries, and build a more inclusive and efficient future for finance.

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