# DeFi Stablecoin Yields: Disconnected From Reality

**Laurence Bristow and Marco Macchiavelli | Oct. 9, 2026**

The GENIUS Act of 2025 provides a legal framework for payment stablecoins.[1] Among its provisions, the Act requires payment stablecoins to be backed by short-term safe assets and prohibits issuers from paying interest or yield to stablecoin holders in connection with the holding, use or retention of stablecoins.[2] However, the legislation does not restrict stablecoin holders from lending them out on decentralized finance (DeFi) platforms to earn interest. Currently, little is known about the dynamic properties of these stablecoin yields and their connection to traditional money market rates.

This note describes how stablecoin yields are determined on DeFi platforms and shows that they are volatile and often much higher than traditional money market rates. These characteristics are primarily driven by periods when crypto markets are bullish and the demand for leverage rises. Operational disruptions, such as DeFi platform hacks, also produce stablecoin yield spikes.

## The Determination of Stablecoin Yields

DeFi platforms facilitate short-term, collateralized stablecoin loans on public blockchains—their analog in traditional finance being a repurchase agreement. Lenders supply their stablecoins to a collective pool and in return receive a token which earns a share of the interest paid by borrowers. DeFi protocols require borrowers to post collateral that exceeds the value of the loan they wish to take out (Macchiavelli, 2025). Stablecoin lenders can withdraw their funds from the pool at any time, as long as there are enough spare stablecoins in the pool that are not being borrowed.

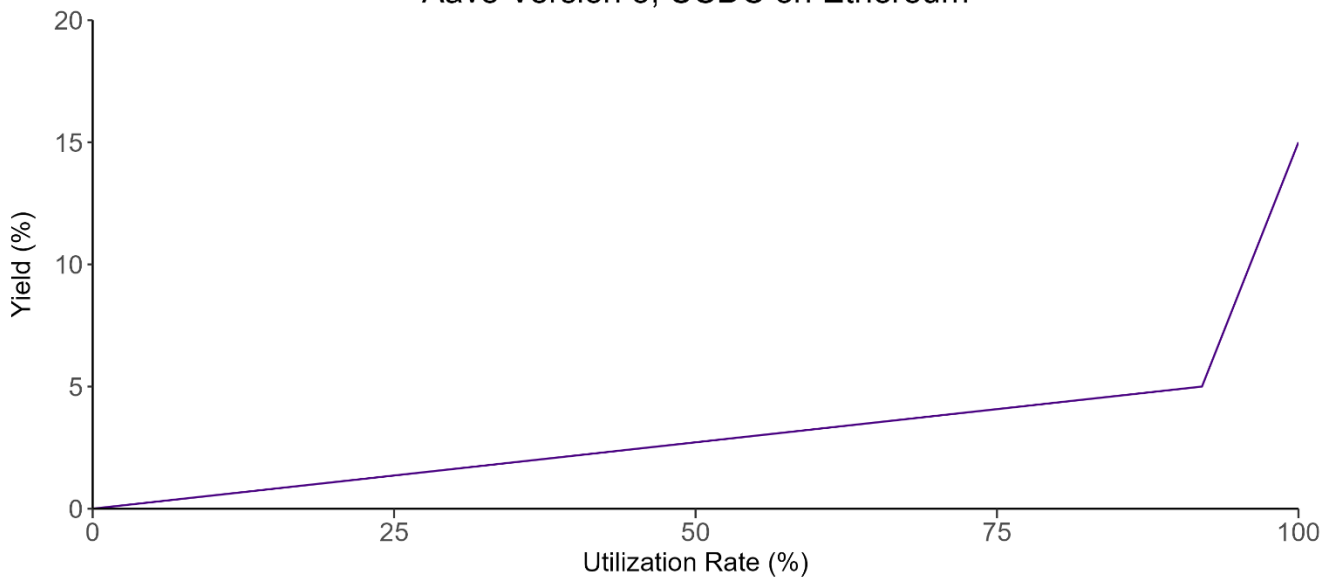
[1] See https://www.congress.gov/119/plaws/publ27/PLAW-119publ27.pdf. The Act becomes effective on January 8, 2027. The Act defines a "payment stablecoin" as a "digital asset" (i) that is, or is designed to be, used as a means of payment or settlement and (ii) the issuer of which: is obligated to convert, redeem, or repurchase it for a fixed amount of monetary value, not including a digital asset denominated in a fixed amount of monetary value; or represents that such issuer will maintain, or create the reasonable expectation that it will maintain, a stable value for it relative to the value of a fixed amount of monetary value. 12 U.S.C. § 5901(22).

[2] The list of permissible assets backing the outstanding payment stablecoins include the following: (i) United States coins and currency or reserve balances at a Federal Reserve Bank; (ii) demand deposits at an insured depository institution; (iii) Treasury bills, notes, or bonds with maturity of 93 days or less; (iv) money received under a repurchase agreement, where the stablecoin issuer sells securities with the agreement to repurchase them with an overnight maturity; (v) reverse repurchase agreements backed by Treasury securities; and (vi) securities issued by a government money market fund that is invested solely in underlying assets (i) through (v).

In two of the largest DeFi protocols, Aave and Compound, the stablecoin yield is mechanically determined by the ratio of the tokens borrowed and lent, known as the utilization rate.[3] Exhibit 1 plots Aave's interest rate model as a function of the utilization rate for one of the largest stablecoins, USDC, on the Ethereum blockchain. A higher utilization rate represents more stablecoin borrowing or less stablecoin lending. As utilization rises, so does the yield paid to lenders. Then, at a certain point (known as the kink), the stablecoin yield rises more rapidly for every additional increase in the utilization rate. Rapidly rising yields attract new lenders with higher returns and encourage borrowers to repay their now more expensive loans.

**Exhibit 1: DeFi Interest Rate Model**

Aave Version 3; USDC on Ethereum




Source: Aave.

## DeFi Stablecoin Yield Data

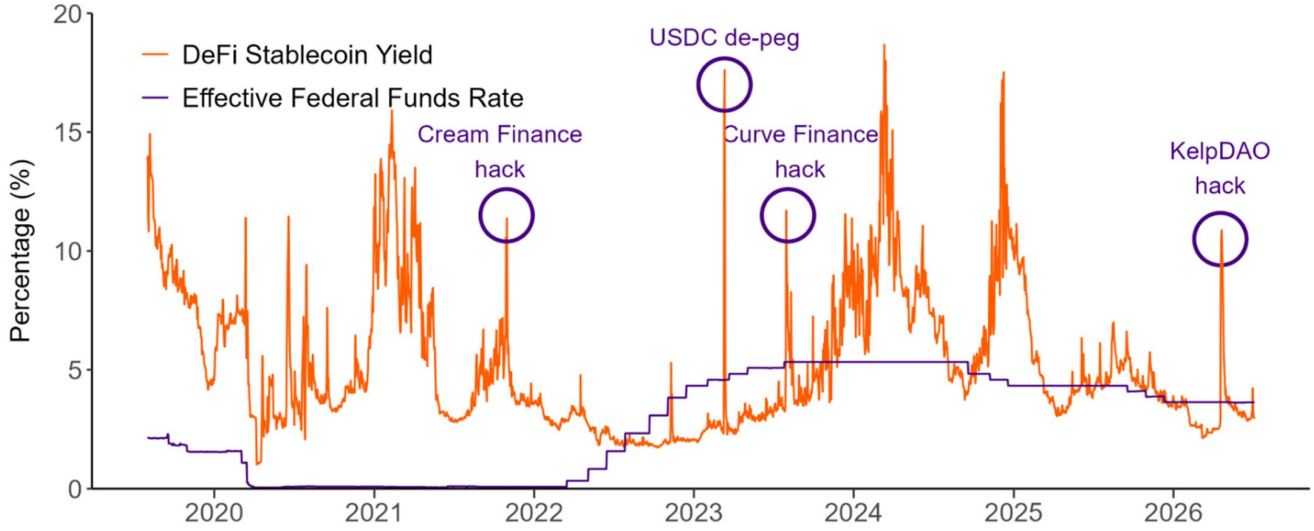
Our stablecoin yield data come from Steakhouse Financial and Dune Analytics. We specifically use information from the Aave and Compound protocols for the top five stablecoins by lending volume: Tether's USDT, Circle's USDC, USDS/DAI, Ethena USDe and PayPal's PYUSD. Within each protocol, users have the option of borrowing and lending stablecoins in several distinct pools for each combination of protocol version, blockchain and stablecoin. For example, a user could choose to lend their USDC to version 2 of the Compound protocol on the Ethereum blockchain. Alternatively, that user could also decide to lend their USDC to version 3 of the Aave protocol on the Base blockchain.

To construct a representative stablecoin yield index, we first calculate the 24-hour realized return for borrowing and lending in each pool (the combination of protocol, version, blockchain and stablecoin), annualized as a simple annual percentage rate. Then, we take an average across all pools, weighted by the outstanding volume lent in each pool at midnight UTC. Finally, we define the DeFi stablecoin yield as

[3] Notable other protocols are Morpho and Sky. Morpho is a peer-to-peer matching engine for borrowers and lenders on Aave and Compound protocols which currently has around $500m in total value locked (borrowing plus lending volume; link). Interest rates on Morpho are close to those we calculate since the matching occurs from Aave and Compound. Holders of the crypto-collateralized DAI and USDS stablecoins can lend their coins in the Sky protocol to earn interest, with current lending volumes at around $5 billion (link).

the midpoint between borrowing and lending rates.[4] Exhibit 2 plots our daily DeFi stablecoin yield against the effective federal funds rate (EFFR) from August 2019 to April 2026.

**Exhibit 2: DeFi Stablecoin Yield versus Effective Fed Funds Rate**




Source: Steakhouse Financial; Dune Analytics; FRED; BPI calculations.
Note: DeFi stablecoin rate the midpoint of borrowing and lending rates. Borrowing and lending rates are calculated as a end of day volume-weighted average rate of USDT, USDC, DAI/USDS, USDe and PYUSD across Aave and Compound lending protocols.

## Why Are Stablecoin Yields So Volatile?

There are three striking features of stablecoin yields, as shown in Exhibit 2.

First, stablecoin yields appear to be disconnected from the EFFR: the correlation is 0.1 and not statistically different from zero. For example, after the onset of the COVID-19 crisis in March 2020, the EFFR stayed at 25 basis points for about two years, while stablecoin yields swung wildly between 400 and 1,600 basis points. Once the Federal Reserve started to increase interest rates to fight inflation in early 2022, stablecoin yields at first traded below EFFR for one year but then moved above EFFR and stayed elevated for several months.

Second, there are short-lived episodes of elevated yields and extreme volatility which coincide with lender panic or a rapid surge in borrowing. For instance, in October 2021 a hacker drained $130 million from a DeFi protocol known as Cream Finance. Fearing that other DeFi protocols were vulnerable to the same hack, lenders rushed to withdraw their funds, and stablecoin yields spiked to nearly 12 percent (first circle in Exhibit 2). In July 2023, a hack on Curve Finance caused the value of its token to drop dramatically. Since a large amount of the Curve Finance token was posted as collateral on Aave, lenders withdrew from the Aave protocol as they feared large potential losses from undercollateralized loans, leading to a spike in yields (third circle in Exhibit 2; Blockworks News). Finally, in April 2026, hackers were able to borrow against fake collateral on Aave before "escaping" with the borrowed crypto. Yields spiked as lenders withdrew their funds from Aave fearing large losses (fourth circle in Exhibit 2; Bristow and Macchiavelli, 2026).

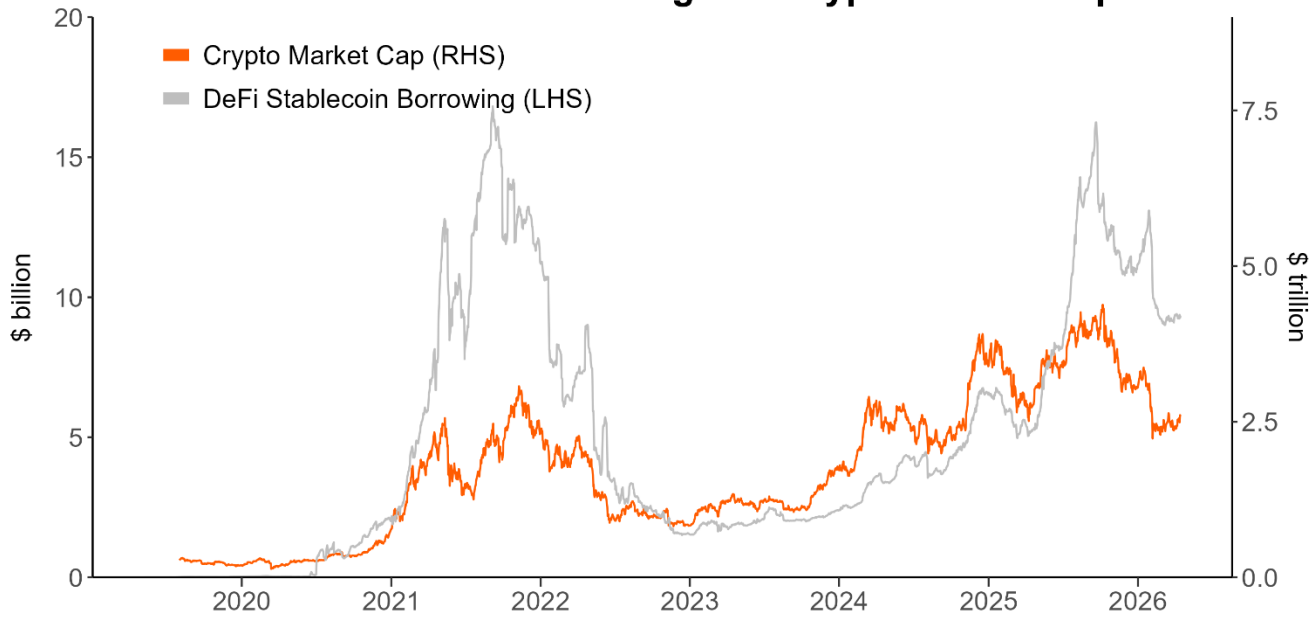
[4] Not all stablecoins are lent out. Some remain idle in the pool, while still earning a yield. Suppose that the borrowing rate is 5 percent and only 80 percent of the coins are lent out while the remaining 20 percent are idle in the pool. Stablecoin lenders, regardless of whether their actual coin is being borrowed or stays in the pool, earn 80 percent of 5 percent, which equals 4 percent.

Another spike occurred on March 10, 2023, when USDC de-pegged due to its exposure to the failed Silicon Valley Bank (the second circle in Exhibit 2; Anadu et al., 2025). The de-pegging led to people selling their USDC and buying the relatively safer (at that time) USDT, pushing the price of USDT above $1. Investors rushed to borrow USDT on DeFi protocols to sell it at a premium, resulting in high yields on Aave and Compound.

The third striking feature is that stablecoin yields have been notably elevated and volatile for long periods of time in 2021, early 2024 and around 2024 year-end. On each occasion, increased demand for leverage amidst a boom in crypto prices led to high demand for borrowing on DeFi protocols (Barbon et al., 2025; Cornelli et al., 2025).

Exhibit 3 shows how periods of rising crypto prices (orange line) coincide with increased stablecoin borrowing on the Aave and Compound lending protocols (grey line). As described above, when demand for borrowing is high, utilization rates can rise above the kink point. Beyond that point, stablecoin yields are not only elevated but also more sensitive to small changes in utilization, making them more volatile as well.

**Exhibit 3: DeFi Stablecoin Borrowing and Crypto Market Capitalization**




Source: Steakhouse Financial; Dune Analytics; coingecko; BPI calculations.

## Conclusion

Unlike investors in traditional money market funds, payment stablecoin holders may not receive interest or yield from the stablecoin issuer. Instead, investors can earn a yield by lending stablecoins on DeFi platforms, where crypto speculators borrow them to take levered bets on crypto assets. Stablecoins are the crypto-native form of money predominantly used in this parallel crypto universe, where stablecoins are used to buy and sell crypto assets and are lent to crypto speculators. It is then not surprising that stablecoin yields are completely divorced from traditional money market rates.

Our findings raise additional questions for future research. For example, what are the monetary policy implications of stablecoin yields being unanchored to money market rates? How can there be

substantial and persistent gaps between stablecoin yields and traditional money market rates? Can DeFi platforms affect stablecoin yields and, if so, for what purpose?

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