Sentora®

AN IN-DEPTH REPORT BY SENTORA

Borrowed Elasticity

Onchain credit, leverage, and funding that stays.

PART 2 OF 2
Companion report: Vaults are Like SPVs

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Executive Summary

Part I of this report argued that the on-chain vault is the special purpose vehicle of the current cycle, and it closed on the question that argument leaves open: who supplies the capital, on what terms, and why does it stay.

This report answers that question, starting with a concession most of the industry still prefers to whisper: the vault economy is missing the defining power of banking.

A bank does not lend out deposits it has gathered. Instead, it creates the deposit in the act of lending (the Bank of England said so flatly a decade ago). Its balance sheet expands to meet demand, constrained by capital, profitability and the policy rate. A vault cannot do this. Every dollar a vault lends must first be saved into it. That single difference, an elastic balance sheet against a pre-funded one, explains more about on-chain credit than any technology choice: why the yields behave the way they do, where they actually come from, why the system imports its returns from the traditional markets it left, and why its funding, still mostly hot money, runs at the first sign of stress. Sentora call the difference the elasticity gap. This report prices it, then follows the system across it: yield rented from the fiat curve, liquidity engineered where a discount window would stand, funding earned rather than assumed.

Key findings:

- **The gap is the price of admission, and it bought regulatory legitimacy and full reserve backing.** The BIS is right that a pre-funded system has "no room to create leverage when it is required." But inelasticity is not an oversight; it is the concession that bought the system its regulatory legitimacy (the GENIUS Act mandates full reserves), and it relocated leverage from where it was consolidated out of sight to where most of it sits in public state. In the same era, fiat banking retired its reserve requirement: the Federal Reserve cut the ratio to zero in March 2020, by then a formality under its ample-reserves framework, but a pointed one.

- **The money multiplier moved to the collateral side**. Loopers, pledged vault shares and re-lent yield tokens rebuild leverage on top of fully-funded rails, theoretically without bound, but empirically bounded by margin and leakage, exactly as the eurodollar multiplier was sixty years ago. That debate ended without anyone measuring the number. This one does not have to: Sentora is enabling the on-chain version of this as an index..

- **Post-convergence, there is no free premium left.** The spread between the on-chain secured rate and SOFR compressed from roughly 800 basis points in early January 2025 to almost exactly 100 basis points by December. Although this narrowing was not linear, as of the August 16, 2026 fixing, the USDC leg sits approximately 70 basis points above the latest SOFR print, while the USDT leg trades below it. (Note: CDOR launched in June 2025; its January average was closer to 725 basis points according to back-computed historical

data.) Yield now comes from three identifiable sources (leverage demand inside the system, cashflows imported from outside it, and incentive spend manufactured to look like interest), and any headline number that cannot be decomposed into those three is not a rate; it is marketing.

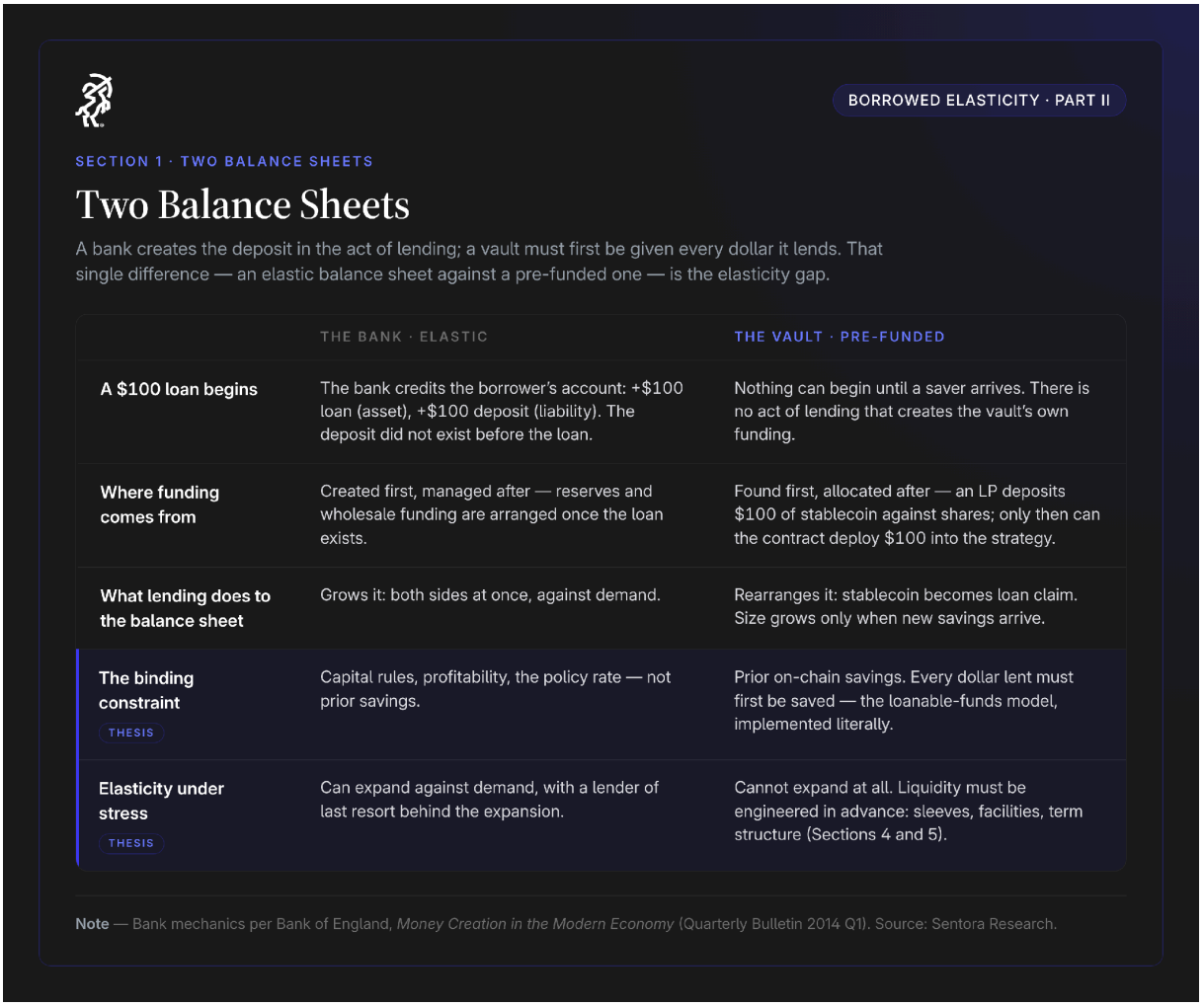
- **The funding franchise can be rebuilt, and the precedents say it must be.** Money market funds, fully pre-funded, still ran in 2008 and 2020. The FDIC's brokered-deposit findings rhyme almost line for line with platform float routed to the best posted APY, with one mechanical difference: brokered deposits were insured hot money, gated by FDICIA's capital test, while on-chain float is uninsured and ungated, with no standard yet linking a protocol's ability to solicit it to the quality of its book. The constructive program is structural: term share classes, funding-concentration disclosure, insurance attachment, and one published number, the Incentive Dependency Ratio, that turns "sustainable yield" from a claim into a test.

Like Part I, this report ends with a test it can fail.

1. Two Balance Sheets

The folk model of banking (savers deposit, banks lend the deposits on) is wrong. The Bank of England devoted a Quarterly Bulletin article to killing it: "Rather than banks receiving deposits when households save and then lending them out, bank lending creates deposits." When a bank approves a loan, it credits the borrower's account; the loan and the deposit come into existence together as a bookkeeping act. What stops a bank from doing this without limit is regulatory capital, the profitability of the marginal loan and the price the central bank puts on money. In the Bank's words, "the ultimate constraint on money creation is monetary policy."

The vault is the opposite machine. A smart-contract vault cannot credit anyone's account into existence. It holds what savers have delivered, allocates it under a mandate, and returns it. Put the two machines side by side and the difference is arithmetic:



BORROWED ELASTICITY · PART II

SECTION 1 · TWO BALANCE SHEETS

Two Balance Sheets

A bank creates the deposit in the act of lending; a vault must first be given every dollar it lends. That single difference — an elastic balance sheet against a pre-funded one — is the elasticity gap.

	THE BANK · ELASTIC	THE VAULT · PRE-FUNDED
A $100 loan begins	The bank credits the borrower's account: +$100 loan (asset), +$100 deposit (liability). The deposit did not exist before the loan.	Nothing can begin until a saver arrives. There is no act of lending that creates the vault's own funding.
Where funding comes from	Created first, managed after — reserves and wholesale funding are arranged once the loan exists.	Found first, allocated after — an LP deposits $100 of stablecoin against shares; only then can the contract deploy $100 into the strategy.
What lending does to the balance sheet	Grows it: both sides at once, against demand.	Rearranges it: stablecoin becomes loan claim. Size grows only when new savings arrive.
The binding constraint THESIS	Capital rules, profitability, the policy rate — not prior savings.	Prior on-chain savings. Every dollar lent must first be saved — the loanable-funds model, implemented literally.
Elasticity under stress THESIS	Can expand against demand, with a lender of last resort behind the expansion.	Cannot expand at all. Liquidity must be engineered in advance: sleeves, facilities, term structure (Sections 4 and 5).

Note — Bank mechanics per Bank of England, *Money Creation in the Modern Economy* (Quarterly Bulletin 2014 Q1). Source: Sentora Research.

Figure 1. Two balance sheets. A bank creates the deposit in the act of lending; a vault must first be given every dollar it lends.

The uncanny part is that this machine was designed on paper, twice, decades apart, as a reform of banking. The Chicago Plan of 1933 proposed to split banking's two functions: money fully reserved, credit funded by capital that had to be raised before it could be lent.

When two IMF economists revisited the plan in 2012, they described what banks would become under it: banks "would become what many erroneously believe them to be today, pure intermediaries that depend on obtaining outside funding before being able to lend." Written in 2012 about a 1933 proposal, that sentence describes an on-chain vault's asset side to the letter. The liability side keeps the match honest: the Plan's lending trusts could draw treasury credit (an elastic, state-administered funding line with no on-chain analogue), and their claims were not demandable at par, which is exactly the run-proofing feature today's vaults still lack (Section 5's subject).

Loanable funds itself is not new: every closed-end lender, whether a private credit fund or a CLO, obtains funding before it lends, and that family manages trillions. The true novelty lies in the perimeter itself. The on-chain dollar system is the first case of an entire credit system,

money and credit together, running at scale on the textbook loanable-funds model (within the stablecoin-vault economy this report maps, every dollar lent was first saved), and the closest thing yet built to the Chicago Plan's architecture: narrow, fully-reserved money (GENIUS-compliant stablecoins, barred from paying interest) beside credit provided by separately funded, loss-absorbing capital (vaults).

One scoped exception proves the perimeter: CDP-style issuers (Sky's USDS, Aave's GHO) mint their liability in the act of lending, a real pocket of collateral-constrained elasticity that sits outside the GENIUS full-reserve family and is small beside it. John Cochrane's "run-free" blueprint (demandable claims backed by short Treasuries, credit funded by equity-like capital) is the same design once more. Crypto built it by accident, but the construction is no less real for that.

The consequence deserves its own name, because it governs everything downstream: banks can expand their balance sheets against demand, and vaults cannot expand at all. The BIS put the critique precisely in its 2025 Annual Economic Report: "Any additional supply of stablecoins thus requires full upfront payment by its holders (i.e. a strict cash-in-advance setup with no room to create leverage when it is required for the functioning of the system)." This report accepts the diagnosis and declines the verdict on elasticity, the one of the BIS chapter's three tests of money (singleness and integrity are the others) that this report takes up. Elasticity in the fiat system is bought with an apparatus (deposit insurance, supervision, resolution regimes, a lender of last resort) that exists precisely because elastic balance sheets run. The pre-funded system traded the expansion away and received two things in return: legitimacy the offshore periphery never had (full reserve backing is exactly what the GENIUS Act demands), and leverage that sits where it can be measured, which is the next section's subject. What it did not receive is immunity from runs.

Perry Mehrling's pairing gives the design axis its vocabulary: every monetary system trades elasticity against discipline.

- The fiat system errs toward elasticity and adds discipline back by regulation.
- The on-chain system errs toward discipline and is now engineering elasticity back in through instant-redemption sleeves, credit facilities and insurance: *borrowed elasticity*.

Neither pole is stable, and the design question is never which pole to occupy but where to put the give. The historical footnote is almost too pointed: in March 2020 the Federal Reserve cut reserve requirements to zero (retiring a ratio its ample-reserves operating framework had already made non-binding) in the same era crypto was rebuilding full-reserve money from scratch. Two systems, passing in opposite directions: one formally closing the book on required reserves just as the other wrote full reserves into its charter.

2. The Multiplier Moved, It Didn't Die

The sharpest structural claim this report makes is that the money multiplier did not disappear on-chain. It moved from the liability side of the balance sheet to the collateral side.

Banks multiply money by creating deposits against loans, a process that is chartered, capped by Basel arithmetic, and consolidated away from public view. Vault systems multiply credit by re-using collateral. A looper deposits collateral, borrows stablecoin against it, buys more collateral and deposits again; vault shares are themselves pledged as collateral in other markets; yield-bearing tokens are wrapped and re-lent. Each layer is a real, secured position on a fully-funded rail, and the stack of layers is leverage all the same.

The arithmetic is worth doing once in public. In the PRIME/PYUSD market on Morpho (a market whose vault Sentora curates, analyzed from on-chain state at block level), the core borrow demand is looping at roughly 4× leverage. At a 75% loan-to-value, a looper earning 7.00% on collateral and paying just under 5% on stablecoin debt nets (7.00% − 0.75 × 4.992%) ÷ 0.25 = 13.02% on equity. That figure is a frictionless ceiling: it assumes continuous rebalancing at a constant loan-to-value, and gas, swap slippage and liquidation risk pull realized returns below it. The same arithmetic is the fragility. At 4× leverage, each percentage point of borrow cost moves the looper's return by three, and at a 7% borrow rate the loop stops beating the unlevered asset entirely. Beneath the yield sits the balance-sheet fact that matters here: $144.9m of debt standing on $50.6m of looper equity, nearly three turns of credit on one turn of capital, inside a system in which every vault is, individually, fully funded.

The pathological case is already on the record. Part I told the November 2025 Stream/Elixir failure as this cycle's SIV moment; through this section's lens it is something more precise. Elixir's deUSD was roughly 65% backed by loans to Stream through private vaults: circular backing, a hidden fractional structure inside a nominally fully-funded system, discovered only at failure. The episode supplies the elasticity gap's first theorem: pre-funding is a property of a single balance sheet, and it does not compose. Chain enough fully-funded vehicles into a circle and the system can be fractional even though every link is not.

This debate has been run before, about the last offshore dollar system, and the transcript is worth reading. Milton Friedman argued in 1971 that eurodollars, like domestic deposits, were created by "a bookkeeper's pen": fractional in principle, with a theoretically unbounded multiplier. He conceded the empirics in the same essay: "100% of the outstanding deposits would be created deposits and the potential multiplier would be infinite. Yet the actual multiplier would be close to unity."

Fred Klopstock, at the New York Fed, put the effective eurodollar multiplier at roughly 0.50 to 0.90, below one, and Helmut Mayer at the BIS agreed the leakages were "very large." What bounded offshore money creation was never a reserve requirement; it was leakage, since dollars lent out of the eurodollar layer did not come back as eurodollar deposits. The frame

fits on-chain looping without alteration: re-collateralization is theoretically unbounded and empirically bounded, by liquidation thresholds, haircuts, and collateral leaking to exchanges, to other chains, to idle wallets. Sixty years ago the question was "do offshore dollars multiply?" and the answer was: less than you fear, more than zero, and nobody was measuring it.

Three consequences follow:

- **Uncapped, but visible**. Bank leverage is chartered, capped, and hidden from public view, whereas on-chain leverage is emergent, uncapped, and largely visible on-chain. Although no standard index currently tracks the system's effective multiplier, positions on public, permissionless contracts (which represent the vast majority of today's looping) can be calculated directly from chain data by mapping loops, share-collateral graphs, and rehypothecation chains. The primary blind spot lies in private vaults and off-chain legs, precisely where Stream/Elixir's circular leverage was hidden; any credible index must explicitly report the proportion of the system visible to it. While the eurodollar debate ended after sixty years without producing a definitive metric, the on-chain system can do better: Sentora is developing an **On-Chain Credit Multiplier** to measure effective system leverage as total credit exposure per unit of un-looped base stablecoin, designed for quarterly release alongside CDOR.
- **The Friedman-Klopstock test.** Critics will argue that looping makes the on-chain system "just as fractional" as the banks it declines to be. The precedent supplies the reply: potential multiplier infinite, effective multiplier bounded by margin and leakage.
- **No circuit breaker.** The fiat system eventually gated hot funding by capital strength; on-chain, nothing links a protocol's ability to solicit TVL to the quality of its book. That asymmetry, and what to do about it, is Section 5's subject.

3. Where Yield Comes From

A system that cannot create the money it lends must earn its yield from somewhere. In this case, "somewhere" turns out to be exactly three places.

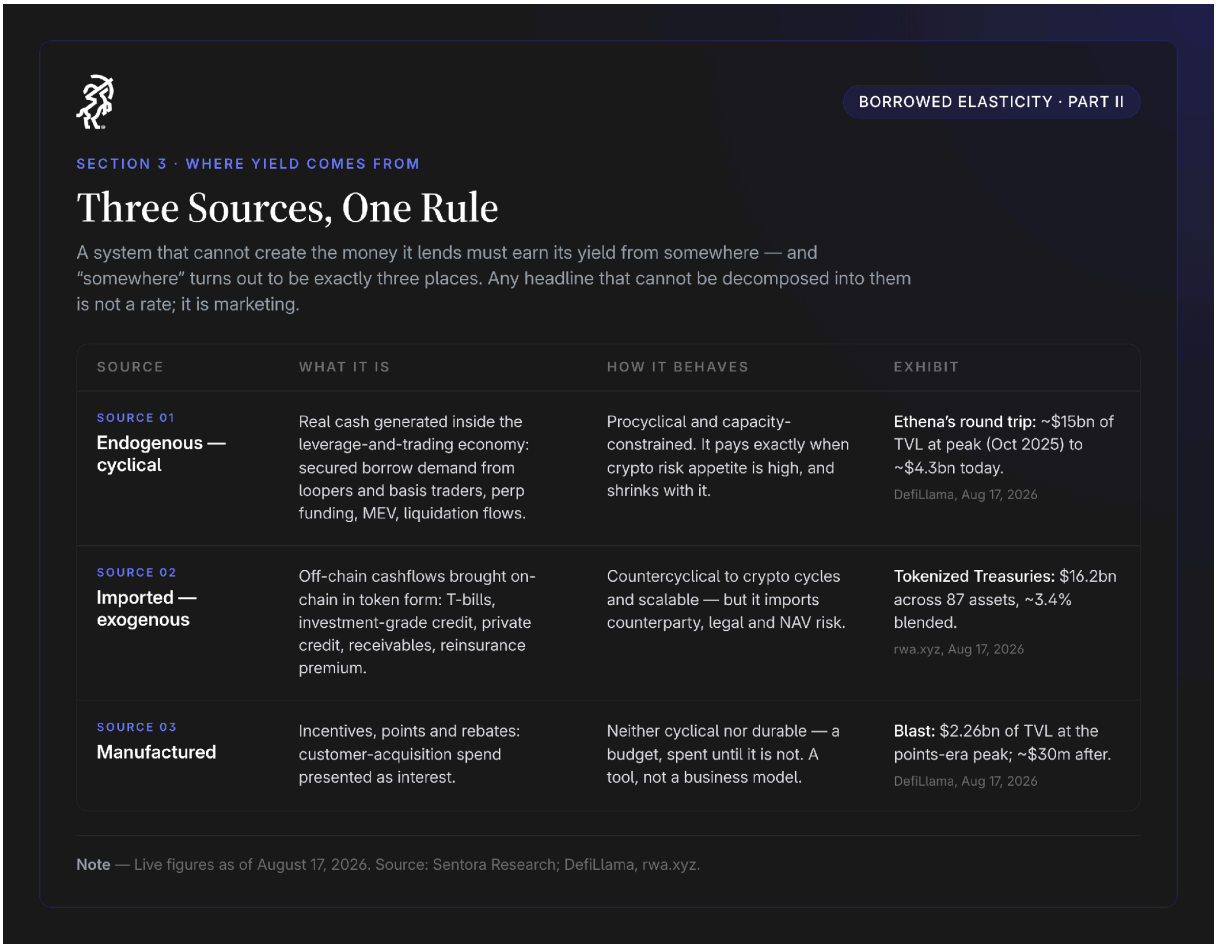


Figure 2. Where yield comes from. Three sources, and the rule that any headline number must decompose into them.

The second row deserves the plainest sentence in this report: on-chain finance rents its risk-free curve from the fiat system. A tokenized T-bill's yield is the Fed's policy rate wearing a token wrapper; a tokenized credit fund's spread is the fiat credit market's spread. Importing them is not a defect (Section 4 is about how well the pipeline works), but it should end the habit of describing imported carry as "DeFi-native yield." Nothing about it is native except the wrapper.

The third source is the one the industry discusses least precisely, so it rewards a worked example. Our incentive analysis of the same PRIME/PYUSD market asked a symmetric question: to deliver depositors the same all-in APY while leaving borrowers' effective cost unchanged, is the subsidy cheaper routed to the supply side or the borrow side? The answer is an identity. The net cost is the same to the dollar (the extra $546,000 the borrow-side route would spend flows through the market as interest and returns as performance fees), but the

routes are not equivalent in behavior. Borrow-side subsidies are less efficient: they reward all borrowers, even though only the sponsor's vault recaptures the interest. They are also harder to control, as the headline rate depends on the interest-rate model and takes weeks to adjust to target. Additionally, they rely on borrowers manually claiming rewards and create a risk misalignment by encouraging borrowers to increase debt on a book where the vault absorbs all bad debt. The general lesson survives beyond the case: incentives change who hands the money over, not how much money exists. A subsidy does not manufacture a return; it spends an acquisition budget.

Then the arithmetic that makes the taxonomy urgent.

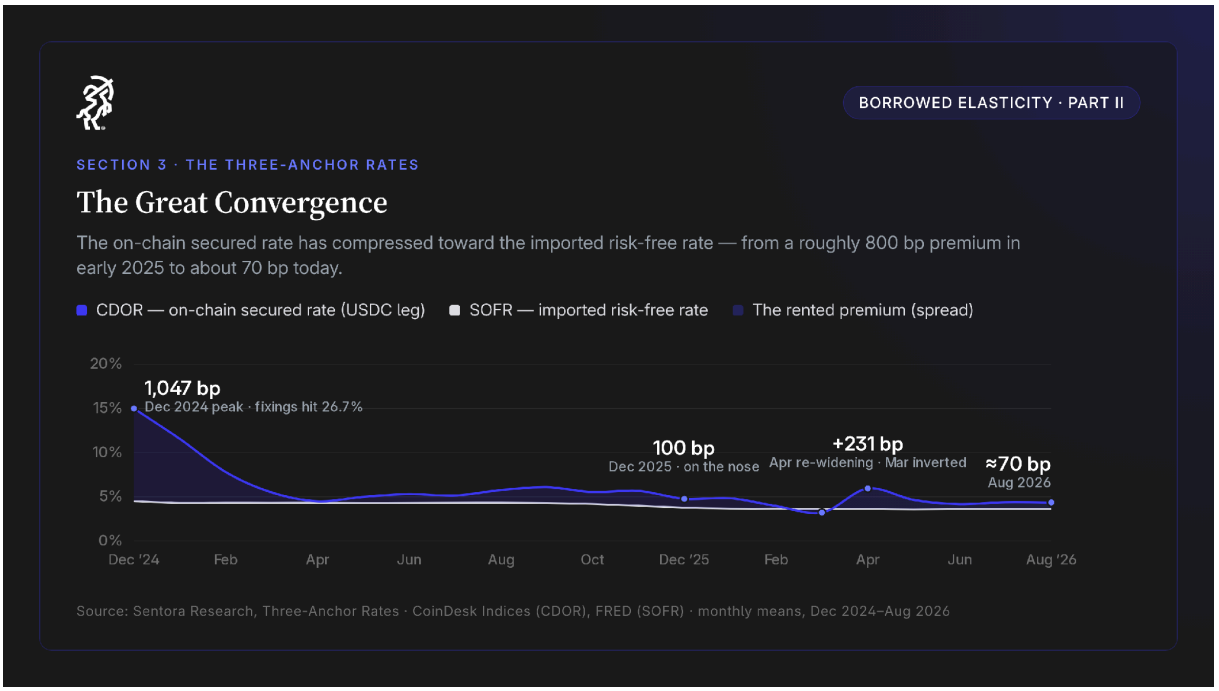


Figure 3. The Great Convergence. CDOR (USDC leg) against SOFR, monthly means, December 2024 to August 2026; the rented premium compresses from roughly 800 bp to about 70 bp.

In early January 2025, CDOR, the CoinDesk Overnight Rate, the benchmark born in the on-chain lending market (Part I, Section 2), stood near 12.5% while SOFR sat near 4.4%: a spread of roughly 800 basis points on the opening fixings (averaged across the month, nearer 725).

One caveat belongs on that starting point. CDOR went live on June 17, 2025, with a methodology history computed back to May 2023, so the January reading is the index's back-computed series. The spread it records is real, but nobody could yet trade the benchmark that printed it. By December 2025, the pair averaged 4.78% against 3.78%, a monthly mean spread of 100 basis points on the nose. The compression has held at the endpoints, though not as a straight line: the USDC leg fixed below SOFR every day of March 2026, then April re-widened to a 230-basis-point average before settling. On the August 16, 2026 fixing, the USDC leg stands at 4.32% (the June 30 factsheets print the same level, with

the USDT leg at 3.32%) against a SOFR print of 3.62% (August 12, 2026): roughly 70 basis points over the imported risk-free rate, with the USDT leg clearing below it. (The convergence series is from our Three-Anchor Rates work, restated for this draft from the author's CDOR/SOFR daily fixing file, with SOFR carried forward over weekends and holidays to match CDOR's daily calendar.) Meanwhile the LP's opportunity cost has stopped being an off-chain abstraction: the aggregate tokenized-Treasury market, $16.21bn across 87 assets, yields roughly 3.4% blended, redeemable from a wallet (rwa.xyz, re-verified Aug 17, 2026). The native secured market now clears perhaps 100 to 300 basis points over the imported risk-free rate.

The 800-point "DeFi premium" that funded the tourist era is gone. A vault paying 6 to 8% sustainably today must be doing one of two things: taking genuine credit or complexity risk and being paid for it, or manufacturing the difference. There is no third source, which is what the taxonomy is for. And none of this is decline. An 800-basis-point spread over the risk-free rate for secured overnight lending was never a golden age; it was a small market paying tourists to try it. Convergence toward a professional spread is what maturity looks like. The convergence killed the tourist trade; what remains is the professional trade, underwriting priced risk at professional margins.

The dependency evidence says the market's core has already crossed, by dollars if not yet by door count. The incentive layer is still live at the frontier: Merkl alone counts 1,037 running campaigns across some 750 incentivized opportunities (api.merkl.xyz, Aug 17, 2026), including Aave's USDT0 market on Plasma, whose incentivized lend and borrow legs carry roughly $670m and $610m of TVL. But a full parse of the DefiLlama yield dataset (Aug 17, 2026) replaces this report's earlier directional sample with something sharper: of the 67 stablecoin pools above $100m, 17 still draw more than 30% of their gross APY from rewards, yet those pools hold just 14.7% of the $32.8bn universe, while the 47 pools that pay no reward at all hold the bulk of the rest. The distribution is bimodal. Large pools are either essentially organic or visibly subsidized, with almost nothing in between; only three of the 67 sit anywhere between zero and the 30% line. The largest pools anchor the organic pole: Sky's sUSDS ($4.7bn at 3.52%), Maple's syrupUSDC ($2.5bn at roughly 4.8%, its yield generated by a secured lending book, interest-driven by construction), Circle's USYC ($3.0bn at roughly 3.2%). The cliff that awaits the other pole is also on the record: Blast's chain TVL peaked at $2.26bn in June 2024 and holds roughly $30m today, a 98.7% collapse once the points era ended.

The discipline that follows is the one we formalized in the Incentive-Adjusted Yield Framework: force every quoted APY into four buckets (organic yield, incentive uplift, strategy premium, and the liquidity-and-exit discount) and treat any number that cannot be decomposed as not decision-grade.

The six categories Sentora's vault risk framework monitors (concentration, liquidity, interest-rate risk, duration, leverage and correlation) sit behind the strategy-premium and

exit-discount buckets, and Section 5's disclosure program is where the two frameworks meet. Section 5 compresses that discipline into a single published ratio.

4. The Import Pipeline

If yield must be found rather than created, the finding has a natural sequence, and the system is visibly climbing it.

1. First, import the rate: tokenized bills and money-market funds anchor the base, a step now effectively complete and commoditizing.
2. Second, import the spread: diversified credit, receivables, private credit, reinsurance premium, where the pipeline is working now.
3. Third, originate natively: underwrite from data only these rails can see, such as payroll flows, platform receivables and on-chain repayment histories, at which point the yield is no longer imported at all.

Every Fed cut compresses the first rung and pushes capital up the ladder.

The pipeline's current state, in round numbers (snapshots Aug 16-17, 2026; re-pull at publication): aggregate tokenized Treasuries of $16.2bn across 87 assets at roughly 3.4% blended; Ondo's OUSG and USDY at roughly $0.45bn and $2.1bn; Superstate's USTB at roughly $0.96bn with same-day redemption, and already serving as collateral on Aave's Horizon RWA market, which carries about $0.25bn of TVL against $0.11bn of active loans; OpenEden's TBILL near $0.25bn; Maple's syrupUSDC above $2.5bn at roughly 4.8%; Securitize's ACRED running a levered strategy; Centrifuge's JTRSY serving as collateral inside the M0 stablecoin stack; the Midas family at roughly $130m across 31 chains. The truly interesting factor is the plumbing, with the product Sentora knows from the inside offering the clearest cross-section of it.

mWIN is a Wellington-managed diversified credit strategy (investment-grade corporates, CLOs, CMBS, RMBS, ABS) targeting roughly 5%, issued on-chain via Midas. Redemption runs daily at T+1 as standard, with a fee-based instant option running through an engineered liquidity waterfall Midas calls its Open Liquidity Architecture: an internal liquidity sleeve, a staked-liquidity credit facility, an OTC liquidator network. Sentora designed the DeFi integration and the risk curation: an isolated Morpho market pairs mWIN as collateral against PYUSD loans, with the market's liquidation loan-to-value derived from a bespoke risk dossier (rate sensitivity, credit spreads, redemption mechanics, liquidity frictions) rather than from a generic haircut.

Now look down the stack, because that is where the reveal is.

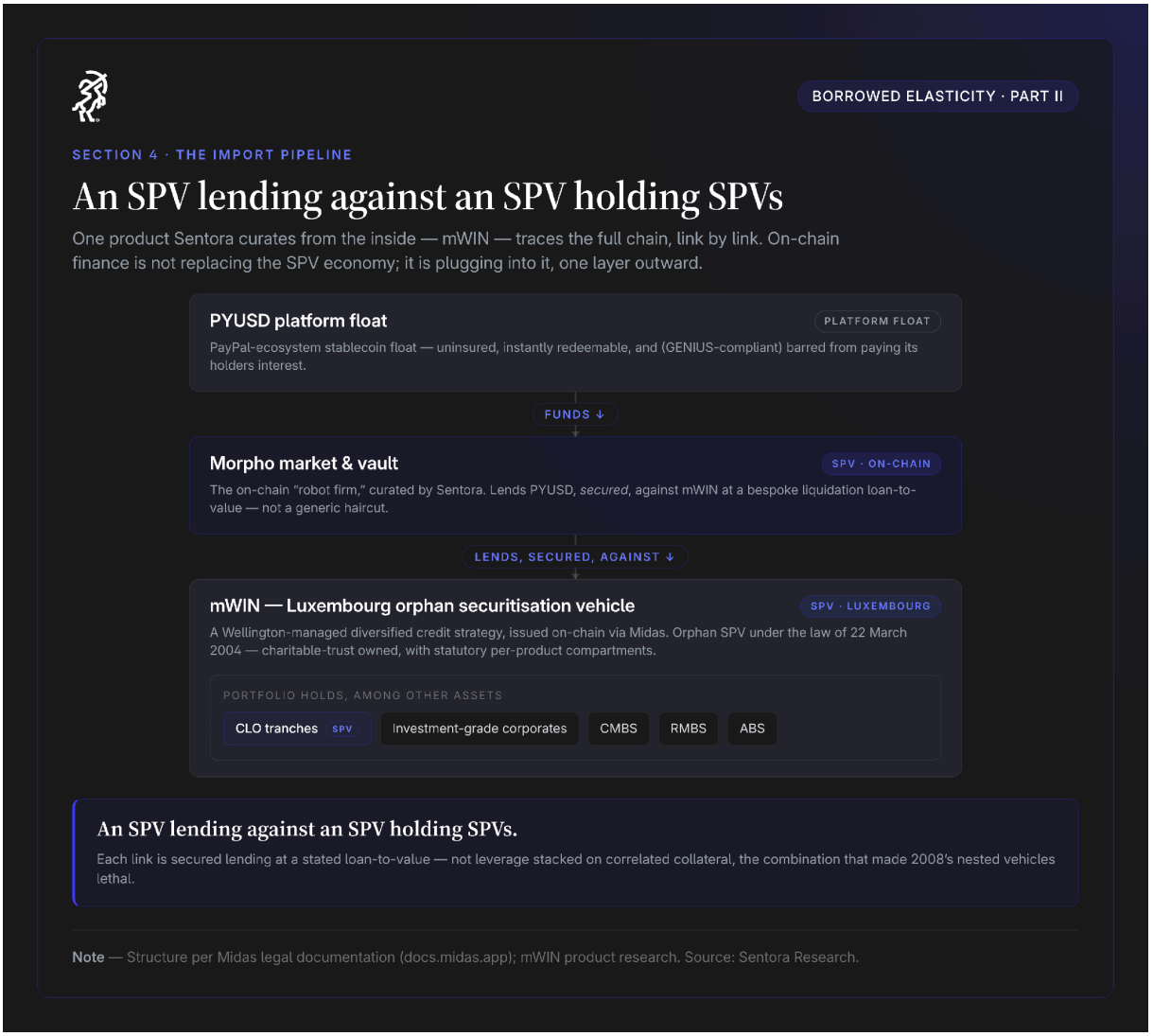


Figure 4. The import pipeline, one product deep. An SPV lending against an SPV holding SPVs.

Midas issues through a Luxembourg securitisation vehicle under the law of 22 March 2004: an orphan SPV, owned via charitable trust, with statutory per-product compartmentalization. (A second Midas issuer, a German GmbH, provides only contractual rather than statutory segregation for certain products, a per-product legal distinction that diligence should not skip).

The full chain therefore reads: PayPal-ecosystem stablecoin float (PYUSD) funds an on-chain robot firm, the Morpho market and its vault, which lends, secured, against a token issued by a Luxembourg orphan SPV whose portfolio holds, among other assets, CLO tranches: securities issued by SPVs. An SPV lending against an SPV holding SPVs, and, where the borrower's trade is the loop, financing the next subscription into it. This distinction is key: each link represents secured lending at a defined loan-to-value ratio rather than leverage stacked on correlated collateral: the exact mix that proved fatal for 2008's nested vehicles. The list of import risks below outlines what to monitor to avoid that scenario. Part I argued that vaults are this cycle's

special purpose vehicles. mWIN physically instantiates this thesis. In other words, on-chain finance is plugging into SPV economy, and extending it one layer outward.

And mWIN is borrowed elasticity in miniature. The vault cannot create credit, so it imports a Wellington credit book. Its funding cannot be deposits, so it is platform float. Its redemption promise, instant-ish expectations, sits over T+1 credit assets, so an engineered liquidity waterfall stands where a discount window would. Every design choice is a workaround for a banking capability the chain refuses to replicate, and each workaround, unlike its banking ancestor, is priced and visible.

The import risks should be stated here, before critics state them, and our own published work supplies the list. Stale NAV marks against 24/7 lending markets create "an adverse selection machine": informed holders exit against the stale mark, and remaining depositors absorb the difference. Liquidation assumes a buyer, and many tokenized credit instruments have holder counts in the single to low double digits, while their liquidity sleeves are "typically parked in the same on-chain money markets whose stress would drive redemptions." The Stream episode should make nobody dismiss that circularity. The underlying credit is procyclical with stablecoin liquidity itself. And workouts are slow by nature: defaults resolve "at the speed of workout negotiations and courts," while liquidations execute at bot speed. Add a fifth, structural risk: issuer concentration, since a handful of import issuers are becoming the monolines of this cycle.

These factors demonstrate the clear need for term structure, disclosure, and insurance to be established while the import pipeline remains in its early stages.

5. Rebuilding the Funding Franchise

Banks' unfair advantage was never elasticity alone. It was cheap, sticky, insured funding, a franchise assembled from deposit insurance, switching costs and habit. The vault economy's funding is the opposite on every axis: rate-sensitive, instantly redeemable, and routed by a new kind of broker, front-ends and platforms steering float toward the best posted APY.

Part I closed with the licensing answer to why the float routes through vaults at all; the harder question is why it stays. Two precedents from the pre-funded family of vehicles say the honest answer is: today, across the hotter layers of the stack, mostly it doesn't.

The money market fund is the closest ancestor, born in 1971 (the Reserve Fund) as a Regulation Q workaround: fully pre-funded, unlevered, pass-through yield. Structurally, it is the stablecoin vault's direct forebear, and its record removes any illusion that full funding is safety. In the week of September 15, 2008, investors pulled roughly $300bn, about 14%, from prime money funds; in March 2020, prime funds lost about $200bn, near 20% of assets, in weeks, and the Federal Reserve stood up a liquidity facility for the second time in twelve years. Pre-funding removes credit creation. Liquidity transformation is the residual disease, and a

vault offering instant redemption over T+1 assets carries it regardless of how fully it is funded, which is why term structure and gates are load-bearing design, not product options.

The brokered deposit is the regulatory precedent for the LP base. The FDIC's study language reads like a description of mercenary TVL: "Brokered deposits are considered volatile, interest rate sensitive deposits from customers in search of yield", and, empirically, "as brokered deposit levels increase, the probability that a bank will fail also increases." The 1980s S&L failures ran on exactly this funding, and the response, FDICIA's Section 29, bars weakly capitalized banks from taking brokered deposits at all. The mapping onto platform float routed programmatically to the best-posted vault APY is close, down to the broker economics: front-end revenue shares mirror deposit-broker fees.

Brokered deposits were insured, so their holders had no reason to price the bank; hot money ran toward the highest bidder however weak its book, and Section 29's capital gate exists to break exactly that loop. On-chain float is uninsured; it runs from weakness, behaviorally the money fund's twin, economically the brokered deposit's. What carries over is the gap: no gate of any kind links a protocol's ability to solicit hot TVL to the quality of its book. Some linkage will eventually exist, written by regulators or by the industry's own standards; this report's program is offered as a draft of the standards version, not to preempt supervision, but to hand it something already tested.

Sorted from hottest to stickiest, the vault economy's funding is a four-layer stack, and the evidence deserves to be shown in both directions:

- **Mercenary DeFi capital**. Follows the posted number and leaves with it. Blast is its portrait ($2.26bn of TVL at the points-era peak, roughly $30m today, per DefiLlama, Aug 17, 2026), and the FDIC's sentence above applies to it verbatim.
- **DAO and protocol treasuries**. Slower and governance-gated, but concentrated: treasury and institutional mandates are large relative to the vaults they enter, so single treasurers can be single points of run. The concentration is the market's own trajectory. Sentora's May 2025 report It is a Feature, Not a Bug estimated that crypto's capital base has flipped from roughly 80/20 retail-to-institutional to 20/80, the bulk now controlled by a small cadre of early, active institutional players (the author's estimate, from deposit-size analysis on Aave).
- **Platform-embedded float**. The strategic layer: balances inside payroll, messaging and exchange apps, behaviorally sticky because the user is there for the payroll or the trade. Both readings are on the record. Kraken's DeFi Earn, curated by Sentora, reached $611m from more than 80,000 depositors in under six months, with zero liquidations to date in the markets it allocates to: packaged embedded float gathers, though two hedges belong on the claim. The liquidation record is a borrower-side statistic (a supply-only product's depositors have no liquidation of their own to suffer), and, as Part I noted, it is

calm-market evidence. World's 39m network members, 18m of them Orb-verified humans (July 2026), meanwhile translate into only about $29m of TVL on World Chain: roughly a third of a percent of Morpho's $8.0bn on the same aggregator basis (DefiLlama, Aug 17, 2026; the aggregator nets active loans out of deposits, and Morpho's own dashboard reports $12.4bn of deposits against $4.6bn of loans, so this report quotes the aggregator basis wherever venues are compared). Reach does not equal deposits. And the reward is often not what it looks like: a third-party decomposition (Fintech Blueprint, June 2026) models Deel's roughly 4% reward as about three points of reserve yield plus one point of engineered subsidy on a modeled $1bn float. Deel itself has published no balance or retention figures as of August 2026, so today's platform float is still partly manufactured, and the dependency measure below applies to distribution partners too.

- **Term-locked shares**. The funding the system barely has yet, and the top of the stack for a reason: it is the only layer whose stickiness is contractual rather than behavioral.

The constructive program is three pieces of structure and one number.

- **Term share classes**. Demand, notice and term tranches on the same vault, with liquidity explicitly priced across them ("vault CDs" is the honest nickname), and redemption gates priced as the liquidity-and-exit-discount bucket of the yield decomposition rather than buried in documentation. Senior labels should be reserved for vaults whose liability terms match their asset liquidity: the anti-SIV covenant, offered as a product feature rather than imposed as a regulation.

- **Insurance attachment**. Capitalized, transparent on-chain cover of the kind Part I sketched, funded and capped where the monoline guarantee was leveraged, and, the half of the monoline lesson usually skipped, with its capital held outside the risks it insures. The monolines died as much of correlation, wrapping mortgage risk while holding it, as of leverage. Firelight, incubated by Sentora, is one live implementation; the design point is general. Cover should attach at the share-class level, priced per tranche, with the cover pool's whereabouts disclosed beside the cap, so protection is a term of the liability rather than a marketing badge.

- **Funding-concentration disclosure**. Top-ten LP share, per vault, published, and computable today from public state. Depositors can see the loan book; they should also see who stands beside them in the queue.

- **The Incentive Dependency Ratio**. IDR = incentive uplift ÷ total APY, published per vault, with a threshold convention: a vault reading below 20% for two consecutive quarters qualifies as self-sustaining. The 20% line is a convention this report proposes, not a derived constant, but the data is kind to it: in the Aug 17 full-pool parse, large stablecoin pools cluster at the extremes, with only three of 67 falling between zero and 30% reward share, so any threshold in that band separates the same two populations. It converts

"sustainable yield" from a marketing claim into a disclosure, and it is computable from data that already exists.

The idea that ties the chapter together and is the standard this report proposes is that a vault is self-sustaining when its organic yield (endogenous plus imported, with incentives at zero) clears the LP's hurdle (the tokenized-bill rate plus the vault's risk premium) at an Incentive Dependency Ratio below threshold, with liability terms matched to asset liquidity. Every clause of that sentence is measurable from public data. A funding franchise is not gathered on-chain the way banks gathered it, by insurance and habit. It has to be constructed, clause by clause, and disclosed.

6. The Falsifiable Close

Part I closed with a test, because a thesis that cannot be wrong is not worth publishing. This report owes one too. The elasticity gap itself is not the testable part; that vaults cannot create their funding is arithmetic. What is falsifiable is the constructive claim built on top of it: that a pre-funded system's leverage stays measurable and bounded, and that its funding can be made durable by structure rather than by subsidy. Three markers, on the same end-2028 clock as Part I:

1. **Measurement.** Sentora will publish the On-Chain Credit Multiplier. I expect the first readings to land nearer the eurodollar's sub-unity empirics than the fractional-reserve textbook's multiples: visible leverage, bounded by margin and leakage. If the index instead shows effective leverage compounding without bound, the "visible and bounded" half of this report is wrong.
2. **Term structure.** By the end of 2028, term or notice share classes hold at least one dollar in ten of curated-vault TVL, on the same named-curator measure Part I pinned its test to.
3. **Self-sustainability.** By the same date, the ten largest stablecoin vaults publish, or can be independently computed to run at, Incentive Dependency Ratios below the 20% threshold through a full incentive cycle.

If, by then, the system is still funding itself hot, undisclosed and un-termed, the constructive half of this report failed, and I will say so.

The gap itself will not close. Banks will keep the power to create money, and with it the apparatus that power requires. Vaults will keep the obligation to find every dollar first, and with it the disciplines this report has priced: yield rented until it can be originated, liquidity borrowed until it can be term-funded, funding deserved rather than assumed. Sixty years of eurodollar history suggest the two systems will not remain strangers; the offshore market ended up inside the perimeter it was built to avoid. But the offshore market's mistake ran in a fixed order: opacity first, scale second, rescue third. A pre-funded system that publishes its

balance sheet every block gets to run the order in reverse: measure first, then scale. That is the whole advantage. It would be a shame to waste it.

Notes and Sources (selected)

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- Full citation register with URLs and verification status: internal dossier, sections 7 and 8, and addendum A9.