

USDe Oracle Design

BY SENTORA

Sentora selects the oracle design that best fits each deployment. Across our deployments we have used market price oracles, redemption price oracles, proof of reserves and fixed price oracles, choosing in each case according to the asset, the liquidity available and the risk borne by lenders.

For USDe we use a Chainlink market price oracle. Our position is that collateral valuation should reflect market conditions, including the possibility that USDe trades below \$1. Hardcoding the price may shield borrowers from some depeg-driven liquidations, but it can expose lenders to losses when collateral is worth less than the oracle reports.

No oracle eliminates risk and each option comes with trade-offs. The choice affects when positions can be liquidated and who bears the loss if collateral cannot cover outstanding debt. We prioritize lender protection over insulating leveraged positions from yield-bearing stablecoins price volatility.

Why we do not hardcode USDe at one dollar

USDe targets a \$1 peg. That target is not a guarantee that it can always be sold or redeemed at \$1. If backing is impaired or liquidity deteriorates, continuing to value USDe at par can overstate the collateral available to repay lenders.

For example, assume USDe trades at \$0.80 while an oracle still values it at \$1. In a market allowing 90% loan-to-value, a borrower could deposit 100 USDe and borrow \$90 against collateral with a market value of \$80. If only \$80 can be recovered, at least \$10 remains uncovered before liquidation costs. The same problem can affect existing loans after a decline in collateral value. Bad debt arises when debt exceeds what can be recovered. Borrow limits, liquidation mechanics, liquidity and other safeguards all affect that outcome, and we assess them before selecting an oracle for any market.

What this means for users

For lenders, market pricing helps limit lending against overstated collateral values. It does not guarantee repayment or eliminate bad debt during unprecedented price moves or illiquid markets.

For borrowers, a market price decline can trigger liquidation even if USDe later recovers its peg. Looping amplifies that exposure: repeated borrowing and redepositing leaves less room for adverse price moves. Borrowers should understand the oracle, liquidation threshold and available liquidity before choosing their leverage.

Our responsibility is to make this trade-off clear. Protecting loopers from price movements by keeping collateral artificially at par can transfer their risk to lenders. We do not consider that an appropriate basis for USDe collateral valuation.