How Safe Is a Stablecoin Savings Account?

By: www.ProfitableInvestingTips.com

Stablecoins are cryptocurrencies with stable prices. The most stable are those that are pegged to a major currency like the US dollar and have one to one reserves of that currency. Because these cryptocurrencies have a predictable value over time they are used for decentralized finance contracts, to transfer money, for loans, and as interest-bearing investments. In other words, you can use a deposit of stablecoins with a lending platform like Coin Rabbit to **earn interest**. That raises the question, how safe is a stablecoin savings account?

Advantages of Earning Interest with Stablecoins

If you routinely use stablecoins to send money or do business in decentralized finance you can also earn interest on stablecoins that are simply in the account and waiting to be used. Interest rates range anywhere from a fraction of a percent to rates provided by money market accounts in the three to five percent range. There are even crypto businesses that will pay as high as sixteen percent on stablecoin deposits. Like with a bank, rates will vary with how long you are tying your money up.

Risks of Stablecoin Interest Bearing Deposits

With any financial arrangement there can be risks. First of all there are stablecoins that are backed one to one by currencies like the US dollar. And there are stablecoins that rely on a computer algorithm to maintain their price and do not have the dollar, euro, or yen as backing. Many algorithmic stablecoins went bust during crypto winter. If you see an exceptionally high interest rate you need to wonder just how safe your stablecoin investment is. You really want to deposit your money with a stablecoin business that has a major currency backing the value of their token in order to make sure that your deposits are safe.

Risk of Forfeiture on Loans

The basic business plan of a stablecoin business that pays interest is that they make money by loaning out money. They loan money at higher rates than they pay for deposits. This is how banks do business as well. It is important for the business that they properly vet their loans. The high interest rates that they expected to charge in order to pay for deposits are worthless if too many borrowers are unable to pay.

Do Stablecoin Lending Business Have Reserves?

Banks in the USA are required to have reserves to cover potential losses. Losses can happen because too many people are unable to pay back their loans. Another way that banks get hurt is when they invest in long term US Treasures and then interest rates go up. If they need to cash out their long term bonds they will take a loss and maybe experience a run on their bank and go bankrupt. This is exactly what happened with the **banking mess** with Silicon Valley Bank recently. What you would like to know is if the company's reserves are in dollars or another major currency. Or are they in another cryptocurrency? During crypto winter any token that was not a currency-backed stablecoin experienced horrific losses.

There Is No FDIC for Stablecoins

When thousands of banks went under during the Great Depression, Congress created the Federal Deposit Insurance Corporation. This federal agency insures bank deposits with separate insurance on every single account with a different account number. The current coverage is $250,000 per account. No such coverage exists for stablecoin deposits. Thus, one needs to look at deposits with stablecoins as being more speculative than with money in a bank. It makes perfect sense to gain interest on money that you are putting to work in DeFi and do not currently need. For longer term investing it may be wiser to look for more safety or at least to be aware of the risks that are involved.

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