

Profitable INVESTING Tips

Stock Market Investing Tips, Techniques, and Resources



What is DeFi Good For?

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Decentralized finance or DeFi is a new financial technology that uses blockchain and distributed ledgers like the ones used for cryptocurrencies. As with cryptocurrencies this system bypasses traditional financial institutions like banks. What is DeFi good for? DeFi offers financial products and services to many who are unable to access traditional means of lending. These systems can be capable of processing loans over the internet in minutes instead of days, weeks, and months.

How DeFi Works

To appreciate how DeFi works you need to consider centralized versus decentralized finance. Banks and corporations hold your money in centralized finance systems. The system includes various third parties whose function is to facilitate transactions, all for a fee. Loans and other transactions commonly take days, weeks, and more for approval and banking services may not be available if you travel outside of the country or even your state.

A decentralized financial system gets rid of many of the middlemen in the traditional system. DeFi uses peer-to-peer networks with security protocols, advanced software, and internet connections. Transactions can take place from anywhere with other parties who are anywhere on earth with an internet connection. Users have personal wallets to hold their money as cryptocurrencies.

Decentralized Finance Is Not Necessarily Anonymous

One of the attractions of DeFi is that one is not dealing with large institutions who now know all about your finances and business. DeFi transactions proceed without your name being attached. However, they can be tracked and traced back to you. As governments proceed with more regulation of the crypto world their activities will likely include DeFi as well. This oversight is meant to protect against fraud and other illegal activities but comes at a price for one's financial privacy.

Defi Specifics

The backbone of decentralized finance is the blockchain. This is the same as cryptocurrencies like Bitcoin. The blockchain's distributed ledger holds financial information instead of crypto and transactions are handled by applications called dApps. When information (either crypto or DeFi) is added to a block in the chain it is cross verified by others in the system and when verification is complete the block is closed and then encrypted. Then a following block is created that includes information about the other block and how to access that info. Because of the cross referencing of information in a chain of blocks one block cannot be changed without the other blocks being affected. Thus, a blockchain is essentially unalterable. That fact and security protocols make for a very secure system.

Products and Services Available Via DeFi

The DeFi system works with peer-to-peer transactions where cryptocurrencies are exchanged for goods or services. The “middleman” is the blockchain and the entity providing the DeFi service. The “middleman” in DeFi still charges for their services. However, transactions are typically faster, more efficient, and available throughout the world.

DeFi Loans

Rather than going to your bank to ask for a loan the DeFi system lets you ask for a loan and then get matched with a lender whose terms you accept. The loan goes into your crypto wallet from where you can use it as cryptocurrency or convert it to dollars, euros, etc. Many lenders require a payment in a currency like the dollar as collateral for the crypto loan. Borrowing money with cryptocurrencies can be a bit tricky. For example, you borrow money when a Bitcoin is \$35,000 and you owe one Bitcoin plus interest. You convert to dollars for whatever purpose. To pay back you convert dollars to bitcoin and add to your wallet. But if Bitcoin has gone up to \$65,000 you now owe more money than the original loan was worth. As we noted in our article about [borrowing money in cryptocurrency](#) it is wise to look at where the crypto market is when you consider a DeFi crypto loan.

As DeFi matures it promises access to loans and other financial services for the approximately 1.7 billion people who do not have access to banking services worldwide. It offers faster and more efficient ways to move money across borders as well.

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