Ranch Finance

Documentation

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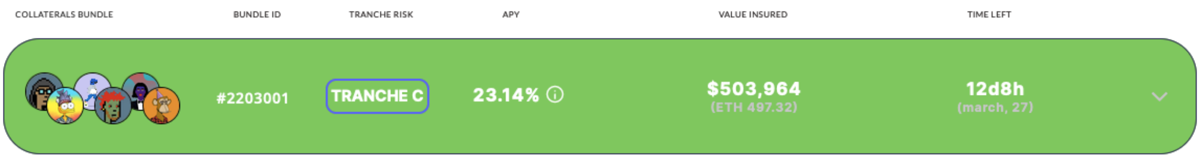
#Ranch Finance

Quick Introduction

Ranch.finance allows you to go **long** or **short** on **NFT-backed loan bundles**. Your favorite NFT collections are serving as collateral for some loans on NFTfi ? Provide insurance on it through Ranch Finance and farm a yield.

On the other hand, if you are skeptical when it comes to specific collections, or to the NFT space for the upcoming months, you can buy some insurance on the bundles. In case of a default, you will be paid back the value of the loans by the insurers.



Every bundle is introduced as shown above. The six NFT loans composing the bundle are shown followed by the **Bundle ID** on the second column.

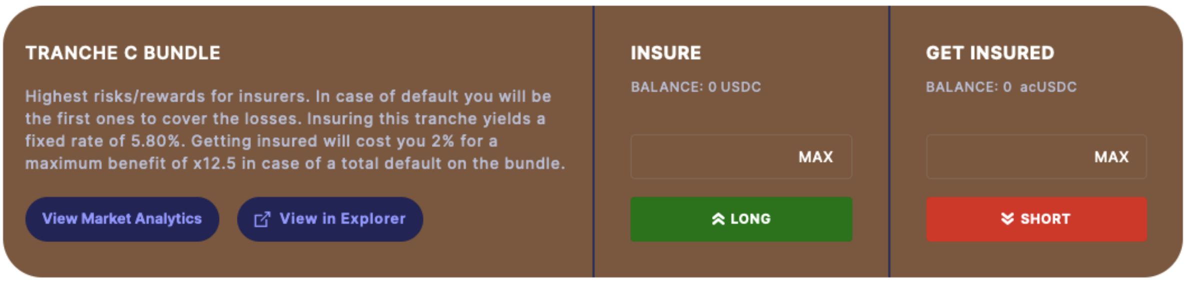
The category of risk of the bundle for the insurer is then indicated through the **Tranche Risk** of the bundle. Please read more about our Tranches in the dedicated section.

The **APY** allows the users to check the price of the insurance. It reflects on how much the insurance sellers may receive by farming the bundle and how much the insurance buyers may have to pay relative to what they may earn.

Value insured displays the total value locked-in by insurance sellers. In case of total default, this value indicates how much the insurance buyers will get paid.

Finally the **Time Left** indicator allows us to check how much time is left before the closing on this bundle.

By clicking anyplace on the green banner you will display the **detailed view** with the available actions : Selling insurance or Buying insurance.



Every 24 hours the insurance rate is adjusted *and orders left open are thus closed.*

Naked Credit Default Swaps

On a financial level, Ranch Finance offers a **naked Credit Default Swaps** (CDS) market on **NFT-backed loans**. Naked Credit Default Swaps are credit default swaps which are not backed by the underlying asset (the loan). Holding a naked CDS is like getting automobile insurance without owning a car or taking fire insurance on someone else's house.[1] As Ranch Finance is bundling these Naked CDS, insurance providers are exposed to **synthetic Collateral Debt Obligations**[2].

You are essentially **shorting** or **longing** the underlying bundle through Ranch Finance. **Buying insurance is being short** and **selling insurance is being long**.

These naked credit default swaps allow investors and traders to take positions on assets without actually owning the assets. It greatly increases the size and scope of the market. Ranch Finance allows you to take positions on specific assets and manage your risks accordingly.

Sell insurance

Ranch Finance allows you to **go long** on a bundle by selling insurance. In this situation, you are **confident** that the **loans in the bundle will get reimbursed** and thus sell insurance hoping that they don't default. You are essentially earning a yield by providing insurance to the insurance buyer.

Loans from the bundle are reimbursed → Insurance **sellers** are **earning** a yield

The **insurance value** must be **locked-in** in order to access the yield. Beware : the seller takes on the risk of default and may lose all his funds in case of a credit event.

Selling insurance can be translated to being long the underlying collateral of the insured loans.

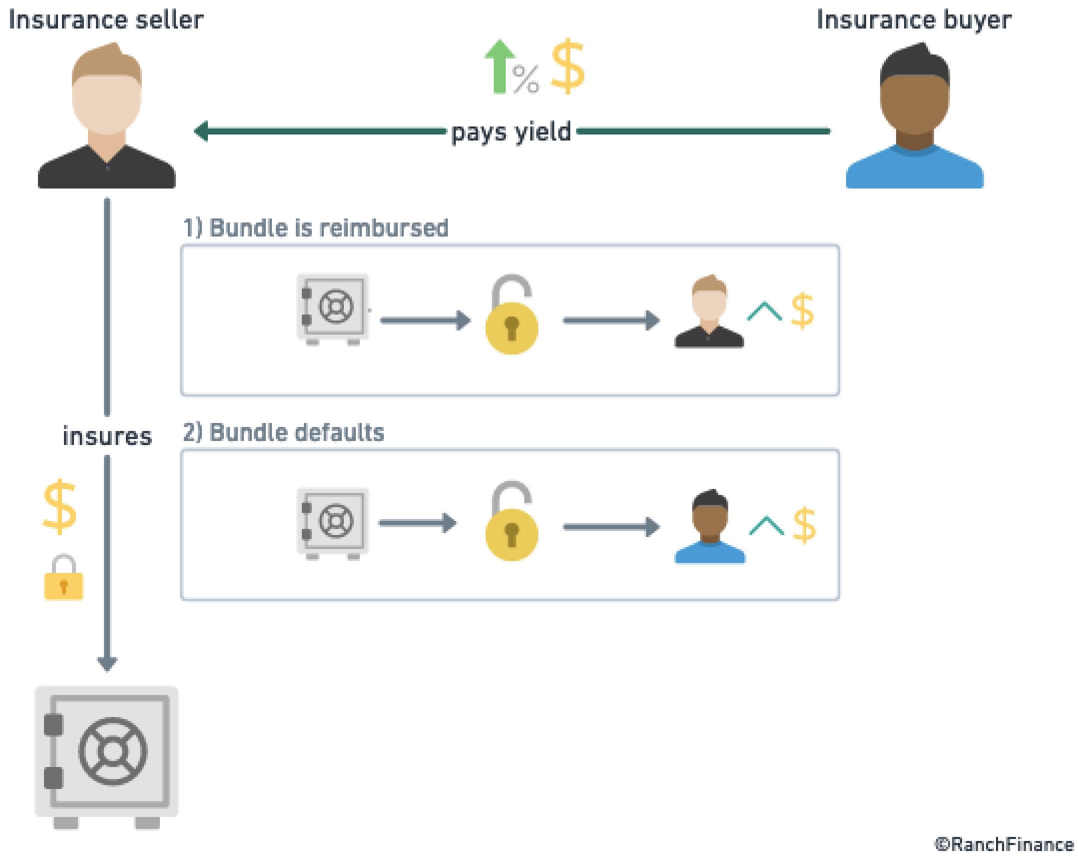
Buy insurance

Ranch Finance also allows you to **go short** on a bundle by buying insurance. In this situation, you are **confident** that the **loans in the bundle won't get reimbursed** and thus buy insurance with the hope that they default.

Loans from the bundle default → insurance **buyers** are **earning** the insurance value

By buying insurance, you are essentially paying a yield to the insurer in anticipation of a default on the bundle.

[1] Naked Credit Default Swaps - Overview, How It Works, Pros and Cons
[2] https://en.wikipedia.org/wiki/Synthetic_CDO



This schema gives us a visual understanding. Initially, **the insurance seller locks the insurance funds** in the smart contract in exchange for a specific **yield paid by the insurance buyer**.

Once the time left on the bundle expires, we face **two situations** :

1) The underlying loans of the bundle are reimbursed
2) The underlying loans of the bundle default

In the first situation, loans are repaid, the insurance seller thus gets his locked funds back and enjoys the yield he earned.

In the second situation however, the bundle defaults. The insurance buyer earns the lock funds. The insurer is at a loss.

Tranches

Tranches are slices of insurance with **varying risk and rewards** to appeal to a diverse range of investors. These Tranches essentially allow for **flexibility** on otherwise sometimes-risky financial products.

Ranch Finance will offer three different Tranche ratings : **A**, **B** and **C ratings**. Tranche **C** being the **riskiest** and Tranche **A** being the **safest**.

Each tranche is a **financial product** related to a bundle of NFT-backed loans. You can check which Tranche you are working with through the **Tranche Rating** column.

Tranche A Insurance providers will be the last ones to lose their investment in case of a default. In exchange for a lesser yield.

Tranche C Insurance providers will be the first ones to lose their investment in case of a default. In exchange for a better yield.

Tranches will be made available later as they require more liquidity. In the beginning every bundle will be an A Tranche

Below is a more dynamic explanation by Jared Venett from the movie the Big Short.

#Underlying assets

Starting with classic NFT collections such as **Bored Ape Yacht Club** or **Crypto Kitties**, Ranch Finance aims to offer different underlying assets. Loans backed by different non-fungible assets.

NFTs

NFTfi.com is currently the leader when it comes to **NFT loans**. They offer a market for NFT holders and liquidity providers. Learn more about them through their introductory medium post or through their twitter account @NFTfi. We are also currently scouting arcade.xyz.

We hope to be able to build upon a diversity of similar services in the future but at the moment NFTfi appears to be a good starting-point for us.

Real Estate

Our team is currently monitoring **tokenized real-estate projects**. Still an emerging sector in crypto, loans backed by tokenized real estate face a lot of **regulatory pressure** in order to get a good grasp on the token world.

Such a market would consequently bring loans collateralized by such tokens. Ranch Finance is closely following projects such as **Real-T** or the **Bacon protocol** in order to be ready for an integration.

Others

Ranch Finance is also monitoring very diverse assets ranging from **real-life artworks** to **tokenized wine bottles**. Our targets are non-fungible assets backed loans protocols. A lot of these projects are fraudulent or pure scams and we are truly cautious when it comes to our research.

#Governance

$RCH Token

The Ranch token economics are currently being designed and hope to enable **community ownership** and **active stewardship** of the project.

Not being a true protocol in itself, this token can be considered as closer to a stock or private equity than it is to a community token. A share of the RCH token supply will probably be allocated to the team, early investors and early users. Through its path, the Ranch token should offer a **sustainable open environmen**t for Ranch Finance.

Owning the $RCH token should constitute a direct incentive to the well-being of the project through benefits and responsibilities.

The scope of these benefits and responsibilities may include :

- Monthly earnings from the Ranch Finance fees
- Adjusting the Ranch.finance fee level (capped to a maximum)
- Underlying protocols to include/exclude
- Assets (NFTs) to include/exclude
- Excluding or including some parameters from the credit rating calculations

Work in progress as of April 2022.

Credit Rating

Credit ratings try to **accurately and timely measure credit risks**. They translate through the **insurance rate** : a fee locked upfront by the insurance buyer. It is the cost of his insurance relative to the insured principal.

The riskier the bundle is, **the greater the risk**, **the greater the insurance rate**. This means you will have to pay more for insurance on a prone-to-default bundle. Essentially because you have a higher chance to cash in the insurance.

The insurance rate for a bundle (and the tranches of this bundle) are refreshed every day.

On Ranch Finance, the insurance rate is shown as a **daily rate**.

F.A.Q

- When will we be able to trade on Ranch Finance ?

  We hope to offer a launch this year. A roadmap will be made available as soon as possible.

- Who is the team behind the project ?

  We'd rather stay anonymous for the moment. To give some details we're a team of five with quants, devs and a senior economist. We are mainly working remotely.

- Why provide insurance instead of directly lending on NFTfi.com ?

  Ranch Finance allows for more liquidity. While a limited number of loans is available on NFTfi, an unlimited amount of insurance on these loans can be offered or purchased on Ranch Finance. It also allows smaller investors to join the NFT financial ecosystem as Ranch Finance also allows for smaller investments.

- Weren't Credit Default Swaps a big part of the 2008 crisis ?

  They played their part indeed ! As a lot of actors defaulted, the seller of CDS contracts had to provide insurance. The main issue being that these sellers weren't able to provide insurance payments. With Ranch Finance, insurance payout is locked in by the insurer in order to avoid such a situation.

- Where can I read more about the NFT financial ecosystem ?

  NFTfi provides good reads on the subject through their Twitter account @NFTfi.

Support

If you have any questions, please contact us through Twitter @RanchFinance or by mail ranch@ranch.finance.
Other channels will hopefully be made available as the project grows.