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Industry Research Report

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Overview: A Market That Nearly Destroyed Itself — And Why That's Now an Advantage

Crypto-backed institutional lending is one of the most misunderstood asset classes in institutional finance today. Mention it in most allocator meetings and you still get one of two reactions: a dismissive reference to Celsius, or blank curiosity. Both responses are wrong. The 2022 lending collapses were not an indictment of crypto lending as a structure — they reflected risk management failures, aggressive growth strategies, and a brutal macro environment that exposed mismatches across the entire industry. The current market looks nothing like it.

Total crypto-collateralized lending reached an all-time high of $73.6 billion at end of Q3 2025, surpassing the previous 2021 peak by over 6%. But the composition has fundamentally changed. In 2021, the dominant structure was uncollateralized or undercollateralized CeFi loans extended based on relationships and reputation — the same playbook that blew up TradFi in 2008. Today, overcollateralized structures dominate, DeFi's on-chain transparency has replaced opaque back-office operations, and surviving CeFi lenders have adopted full collateralization with public reporting. The market rebuilt itself by confronting its own failure honestly. That matters.

TapCap View: The institutions that will capture the best risk-adjusted returns in this market are not the ones who waited for perfect certainty — they are the ones who did the work to separate the structural improvement from the marketing noise. There is a first-mover advantage here for sophisticated capital. It will not last indefinitely.

Why the 2021 Lending Boom Collapsed — And What Actually Went Wrong

Five companies — Celsius, BlockFi, Voyager, Genesis, and eventually FTX — took down a $34.8 billion CeFi loan book in a matter of months. The cascade was triggered by the Terra/LUNA collapse in May 2022 and accelerated by FTX's implosion in November. But the proximate causes obscured deeper structural weaknesses. Three specific failure modes drove the crisis, and understanding them is essential for appreciating why the current market is structurally different.

The first was aggressive growth without proportionate risk controls. Platforms expanded rapidly during the 2021 bull market, chasing deposits and loan volume in a highly competitive environment. Rehypothecation — the reuse of customer collateral for yield-generating strategies — was common practice across the industry, but capital buffers and risk disclosures did not keep pace with the scale of exposure. When market conditions reversed sharply, those buffers proved insufficient. Genesis's $2.3 billion exposure to Three Arrows Capital, collateralized at less than 50% of loan value, illustrated how the entire industry had underpriced counterparty

risk during the bull cycle.

The second was a structural mismatch between assets and liabilities — a challenge not unique to crypto. Platforms offered short-duration liquidity to depositors while deploying funds into longer-duration, less liquid strategies including DeFi contracts and yield positions. When withdrawals accelerated, the mismatch became acute. The Chicago Fed's post-mortem confirmed the pattern: both Celsius and Voyager were hit by two successive waves of outflows. They managed the first. The second proved unmanageable given the state of their balance sheets.

The third was systemic counterparty concentration across a market that appeared diversified but was not. BlockFi's $680 million exposure to FTX affiliate Alameda Research. Gemini's dependence on Genesis for yield. Genesis's exposure to 3AC. These institutions were deeply interconnected, and the failure of one node cascaded rapidly through the others in ways that no single participant had fully stress-tested.

The Lesson: These failures were not inherent to crypto lending as a structure. They reflected risk management practices, competitive pressures, and market conditions that pushed the industry to extend further than its infrastructure could support. Aggressive growth targets, a prolonged bull market, and insufficient regulatory guardrails created the environment. The model itself is sound. The execution did not match the risk.

The Current Market: Key Players, Structures, and Where Capital Is Moving

The surviving and emerging institutional lending landscape divides into three distinct categories, each with different risk profiles, structural protections, and return characteristics.

CeFi Institutional Lenders

The CeFi market has consolidated dramatically. Tether dominates with approximately 73% of the $24.4 billion CeFi loan book as of Q3 2025, with Galaxy Digital and Ledn holding most of the remainder. These three control roughly 89% of centralized lending. Surviving lenders have shifted universally to full collateralization and public reporting — the kind of structural discipline that was largely absent in 2021.

DeFi Lending Protocols

DeFi has become the dominant force in crypto lending — not the marginal curiosity it was in 2021. DeFi open borrows reached $41 billion in Q3 2025, growing 54.84% in the quarter alone to capture 55.7% of total market share. Aave holds 68.8% of the DeFi lending market with full on-chain transparency, automated liquidation protocols, and zero counterparty risk from custodial mismanagement. Maple Finance has become the institutional DeFi bridge story. Starting as an undercollateralized lender in 2021 — a model that failed alongside its CeFi peers — Maple pivoted aggressively post-FTX to overcollateralized institutional lending. It now manages over $4 billion in AUM, targets $5 billion by year-end, and has structured products specifically for TradFi institutions seeking on-chain exposure with KYC/AML compliance, monthly reporting, and servicer protections that mirror traditional structured credit. Its partnership with Aave, announced in October 2025, brings institutional-grade collateral assets into the DeFi ecosystem at scale. The $100 billion annual loan volume target by 2030 is ambitious, but the trajectory is credible.

Custodians: The Infrastructure Layer

No institutional lending program works without qualified custody. The two dominant players are BitGo and Anchorage Digital Bank. BitGo went public in January 2026, custodies $104 billion in digital assets for 4,600+ institutional clients, holds a national bank charter from the OCC, and processes roughly 20% of all on-chain Bitcoin transaction value. Anchorage Digital holds the only federal bank charter specifically for crypto assets and is backed by Goldman Sachs, Andreessen Horowitz, and Visa. For institutional lenders, custodian selection is not a commodity decision — it is a risk management decision. The counterparty is holding the collateral that protects the loan.

Two Common Models Expected in the Industry

The institutional lending market has converged on two primary structural approaches, each reflecting different investor preferences for control, transparency, and counterparty risk.

The first is the **SPV-based senior secured credit facility**, used by institutional prime brokers and lending desks operating at scale. In this model, the originator establishes a bankruptcy-remote special purpose vehicle that acquires and holds overcollateralized digital asset loans. The institutional capital partner provides a credit facility to the SPV, receives a perfected first-priority security interest in the underlying collateral, and retains the right to approve or decline individual loans via executed term sheets. The payment waterfall is strictly defined: taxes and administrative fees first, then interest, then principal, with equity distributions only after full satisfaction of lender obligations. The institutional lender never touches the underlying borrowers and has no obligation to fund loans it does not approve.

The second is the **SPV-based securitization tranche structure**, used by on-chain asset managers seeking to bring regulated bank capital into crypto lending. Here the originator structures the loan pool into a senior tranche — typically 85% of the facility, targeting a BBB-equivalent rating — funded by the institutional investor, and a junior first-loss tranche, typically 15%, retained by the originator. The originator's first-loss position aligns incentives. The senior investor gains regulatory capital efficiency through rated tranche treatment, monthly reporting, and defined eligibility criteria governing which loans enter the facility.

TapCap View: Both structures get the fundamental alignment right: the originator has skin in the game, the lender has collateral perfection and priority, and the structure is bankruptcy-remote. These are exactly the protections that were absent in 2021. The market has learned.

Key Market Metrics: Terms, Rates, Custody, and Collateral

Metric	CeFi Institutional (Prime Broker/SPV)	DeFi Protocol (Maple / Aave)	Hybrid Structured (Tranche / ABS)
Loan Term	30 days – 12 months	7 – 90 days (rolling)	6 – 12 months
Typical LTV	50 – 65% (BTC)	50 – 75% (BTC/ETH)	65 – 75% max
Margin Call	70 – 75% LTV	~80% LTV (automated)	75% LTV trigger
Liquidation	90% LTV	80 – 85% (on-chain)	80 – 85% LTV
Lender Yield	7 – 10% p.a.	6 – 10% p.a. (USDC)	6.25 – 10%+ p.a.
Custody	BitGo / Anchorage	On-chain (protocol)	BitGo / Anchorage

Metric	CeFi Institutional (Prime Broker/SPV)	DeFi Protocol (Maple / Aave)	Hybrid Structured (Tranche / ABS)
Custody Fee	50 – 75 bps p.a. AUC	Protocol fee ~0.1%	5 – 15 bps p.a. AUC
Collateral	BTC, ETH	BTC, ETH, SOL, XRP	BTC only (typical)
Min Ticket	$5M – $25M+	$100K – $1M+	$50M – $100M+
Transparency	Monthly reporting	Real-time on-chain	Monthly reports + ABS
Rehypothecation	None (contractual)	None (protocol lock)	None (SPV isolated)

BTC Market Depth, Liquidation Execution, and LTV Risk Analysis

The intellectual foundation of BTC-backed lending is Bitcoin's unique combination of deep spot market liquidity, global 24/7 trading, transparent price discovery, and the largest market capitalization of any digital asset. As of early 2026, Bitcoin's 2% market depth — the aggregated bid and ask orders within 2% of mid-price — averages approximately $475 million daily across major venues, with Binance alone accounting for ~32% of that figure. Coinbase institutional data shows passive BTC demand regularly exceeding $50 million on a single platform at levels 5% from mid. Total daily spot volume runs $10-20 billion, with ETF-related flows adding substantial institutional participation. Galaxy Digital's OTC desk absorbed a single 80,000 BTC ($8.6 billion) transfer in July 2025 without destabilizing the market. The average LTV for institutional BTC-backed loans in Q1 2025 stood at 42.68%, reflecting a market that has internalized the cost of getting collateral management wrong.

The critical question for any lender is not just whether collateral can theoretically be liquidated — it is whether a specific position size can be executed at acceptable cost before the loan goes underwater. This depends on three interacting variables: the starting LTV (how much price buffer exists before loss), the speed at which the desk activates after trigger thresholds are breached, and the execution channel used.

The Liquidation Process: How Well-Run Desks Operate

Institutional lending desks run a tiered alert system that engages well before liquidation thresholds are reached. The first tier is a soft warning — typically at 60-70% LTV — where the borrower is notified and given 24-48 hours to post additional collateral or partially repay. The second tier is a hard margin call at 75-80% LTV, where the response window compresses to hours. The third tier is automatic liquidation at 85-90% LTV, at which point the desk has contractual authority to sell collateral without further borrower consent. The tiered structure is essential: it converts a potential shock event into a managed process with multiple intervention points before principal is at risk.

Execution at the liquidation threshold is not a single market order. Well-structured desks pre-arrange OTC relationships with principal dealers — Cumberland, Galaxy, and others — who can absorb large BTC blocks off the public order book with minimal market impact. For loans in the $5-25 million range, the entire collateral position can typically be executed via OTC in a single transaction at spreads of 0.10-0.20% above mid-price under normal conditions. This compares favorably to hitting a public exchange order book, where the same position might move the market 1-3% against the seller depending on timing and depth. The October 2025 liquidation crisis — $19 billion in positions unwound in under 24 hours — validated this distinction in real time: OTC volumes on institutional platforms surged 107% week-on-week while bid-ask spreads held below 0.4% on OTC venues versus nearly 10% on some centralized exchanges. OTC infrastructure was, in practice, what prevented a deeper cascade.

For positions above $25 million, execution requires more active management: splitting the liquidation across multiple OTC counterparties, using TWAP (time-weighted average price) algorithms across exchange venues, or pre-positioning with dealers before the trigger is formally breached. Desks that have not established these relationships before a loan is originated — not when it needs to be liquidated — face materially worse outcomes. The operational infrastructure is not optional. It is a core component of the risk model, and evaluating a lending desk's OTC relationships and execution capability is as important as evaluating its LTV policy.

LTV & Liquidation Analysis: Price Buffer, Execution Window, and Lender Loss Probability

Starting LTV	BTC Decline to Margin Call (~75%)	BTC Decline to Liquidation (~90%)	Historical Frequency	OTC Execution Window	Lender Loss Risk (with OTC desk in place)
30% LTV	–60% decline	–67% decline	Rare (bear cycle trough)	Hours–days	Near zero. Extreme buffer; 2022 bear low insufficient to trigger.
40% LTV	–47% decline	–56% decline	Bear cycle (1–2x / cycle)	Hours–days	Very low. OTC execution easily absorbs position; slippage negligible.
50% LTV	–33% decline	–44% decline	Quarterly stress event	Hours	Low if OTC in place. $5–25M positions executable at <0.2% spread.
60% LTV	–20% decline	–33% decline	Monthly volatility event	Minutes–hours	Moderate. Tight window requires pre-arranged OTC; exchange-only risky.
70% LTV	–7% decline	–21% decline	Weekly intraday move	Minutes	Low–moderate with OTC desk. High on exchange only. Execution speed critical.
80% LTV	Already in call	–10% decline	Near-constant exposure	Immediate	High regardless of channel. Insufficient buffer for orderly execution.

Note: Liquidation threshold set at 90% LTV per CeFi institutional standard. BTC decline figures are illustrative based on standard LTV mechanics. 'OTC Execution Window' reflects time available for an active lending desk to engage principal OTC dealers before principal is at risk — assumes desk has pre-established relationships and is monitoring positions in real time. Historical frequency based on Bitcoin intraday and cycle drawdown data 2020–2025. For positions above $25M, TWAP execution across multiple OTC counterparties is recommended. Exchange-only liquidation at 60%+ LTV in a correlated stress event carries significantly higher slippage risk.

Who Is Borrowing — And Why They Are Not Selling

The borrower universe has shifted as dramatically as the lender market. In 2021, the marginal borrower was a retail participant chasing leverage. In 2026, the dominant borrowers are institutional players with a specific, rational reason not to sell their Bitcoin.

Bitcoin Miners

Miners are perhaps the most natural borrowers in this market. They hold large BTC inventories as a function of their business, face significant USD-denominated operating expenses — power, equipment, facilities — and are structurally reluctant to sell BTC at current prices. A BTC-backed credit facility allows a miner to fund operations, service equipment debt, or expand capacity without liquidating the asset they believe will be worth significantly more in 12-24 months. The collateral is already secured in custody. The loan is simply formalizing the capital structure.

Bitcoin Treasury Companies

The MicroStrategy playbook — raise capital through equity and convertibles, accumulate Bitcoin on the balance sheet — has spawned a category of corporate treasury holders with significant BTC positions and ongoing need for USD liquidity. These companies borrow against BTC to fund operations without diluting

equity or triggering taxable sales. JPMorgan's announcement of willingness to offer loans backed by clients' crypto holdings targets precisely this borrower profile.

High-Net-Worth Individuals and Family Offices

Long-term Bitcoin holders with low cost basis face a powerful tax dilemma: selling generates capital gains; borrowing does not. A borrower who acquired Bitcoin at $10,000 and needs $1 million in liquidity can borrow against the position at a 40% LTV — accessing capital at 8-12% interest rather than paying a 30%+ effective tax rate on a sale. The after-tax math is not close. Borrowing wins decisively unless BTC falls dramatically, which is exactly what the LTV structure is designed to protect against.

Crypto Trading Firms and Market Makers

Institutional trading firms use BTC-backed credit to optimize working capital, fund arbitrage positions, or maintain liquidity buffers without reducing their crypto inventory. Maple Finance reports that its largest institutional borrowers have borrowed over $200 million through the platform — these are not retail participants. They are sophisticated firms with treasury operations that look increasingly like traditional prime brokerage relationships.

A Compelling Use Case: Consider a Bitcoin miner with 500 BTC ($50M at current prices) and $8M in annual operating costs. Rather than selling 80 BTC — incurring taxes and reducing long exposure — the miner borrows $10M at 40% LTV against 250 BTC at 10% interest, paying $1M annually in interest to preserve $9M of BTC exposure that would have been liquidated. If BTC appreciates 50% over the loan term, the retained BTC adds $25M in value against a $1M interest cost. The math is not subtle.

Industry Trends, Risk-Return Assessment, and What Investors Need to Know

Trends to Watch: 18-24 Months

The Bitcoin-backed lending market is projected to grow from approximately $20-25 billion today to $200 billion within a few years, according to Maple Finance CEO Sid Powell. The trajectory is plausible given the institutional adoption curve. Four specific trends will define the next phase. First, bank entry — JPMorgan's announcement signals that the world's largest bank is willing to extend crypto-backed credit, which will drive formalization of lending standards, collateral haircuts, and credit frameworks specific to digital assets. Second, custody commoditization — BitGo's IPO and OCC charter approval, combined with Anchorage's federal bank charter, means qualified custody is becoming a regulated utility rather than a specialist service. Third, DeFi-TradFi bridge structures — Maple's partnership with Aave and similar integrations will bring on-chain transparency to institutional investors who previously required off-chain reporting. Fourth, regulatory clarity — stablecoin legislation and the SAB 121 reversal dramatically lower the compliance cost of participation for regulated institutions.

Why the Risk-Return Profile Is Compelling

At 6-9% yields for senior secured positions with 50-65% LTV against Bitcoin — the most liquid digital asset with $1.7 trillion market cap and global 24/7 spot markets — the risk-adjusted return profile is exceptional relative to comparably structured private credit. Investment-grade private credit yields 6-8% for comparable seniority without the same collateral liquidity. The BTC collateral can be priced in real time and liquidated globally, advantages that a lien on a private company's receivables cannot match. Overcollateralization at

50% LTV means the collateral value must decline by more than 40% before the lender's principal is at risk — and even then, liquidation mechanics activate before that threshold.

Key Risks — Do Not Skip This Section

Collateral volatility is the primary risk. Bitcoin's 30-day volatility averages 40-60% annualized even in calm markets. During the October 2025 liquidation event, $19 billion in perpetual futures positions were wiped in a single session. Spot markets absorbed the shock, but order book depth temporarily collapsed by nearly one-third. At higher LTVs, this creates genuine lender exposure. Liquidation execution risk is real: in thin markets or during correlated stress events, executing a large liquidation without significant slippage requires pre-arranged OTC channels, not just hitting the spot book. Custodian concentration risk should not be ignored — with BitGo and Anchorage dominating the institutional custody market, operational failures at either firm would create systemic disruption. Regulatory risk remains: classification of BTC-backed loans as securities in certain jurisdictions could require registration that current structures do not contemplate. Borrower default risk exists even with overcollateralization if liquidation mechanics fail to execute before LTV exceeds 100% — an acute risk in 24-hour flash crashes.

The Bottom Line

Institutional crypto-backed lending has changed fundamentally since 2022. What emerged from that cycle is a structurally improved market built on better foundations — overcollateralization, bankruptcy-remote structures, qualified custody, transparent reporting, and disciplined liquidation mechanics. The industry absorbed a severe stress test and rebuilt with the lessons applied. The yield premium over comparable TradFi credit instruments is real and likely to compress as more institutional capital enters the space. The first-mover advantage for capital allocators willing to do the diligence now is concrete and time-limited.

Where TapCap Fits. We follow the institutional lending market closely — the structures, the custodians, the originator landscape, and where the risk actually sits versus where it appears to sit on a term sheet. If you are an allocator, family office, or institutional decision-maker evaluating this market for the first time — or trying to separate the credible structures from the ones dressed up to look like them — we are worth talking to.