

FALCONX

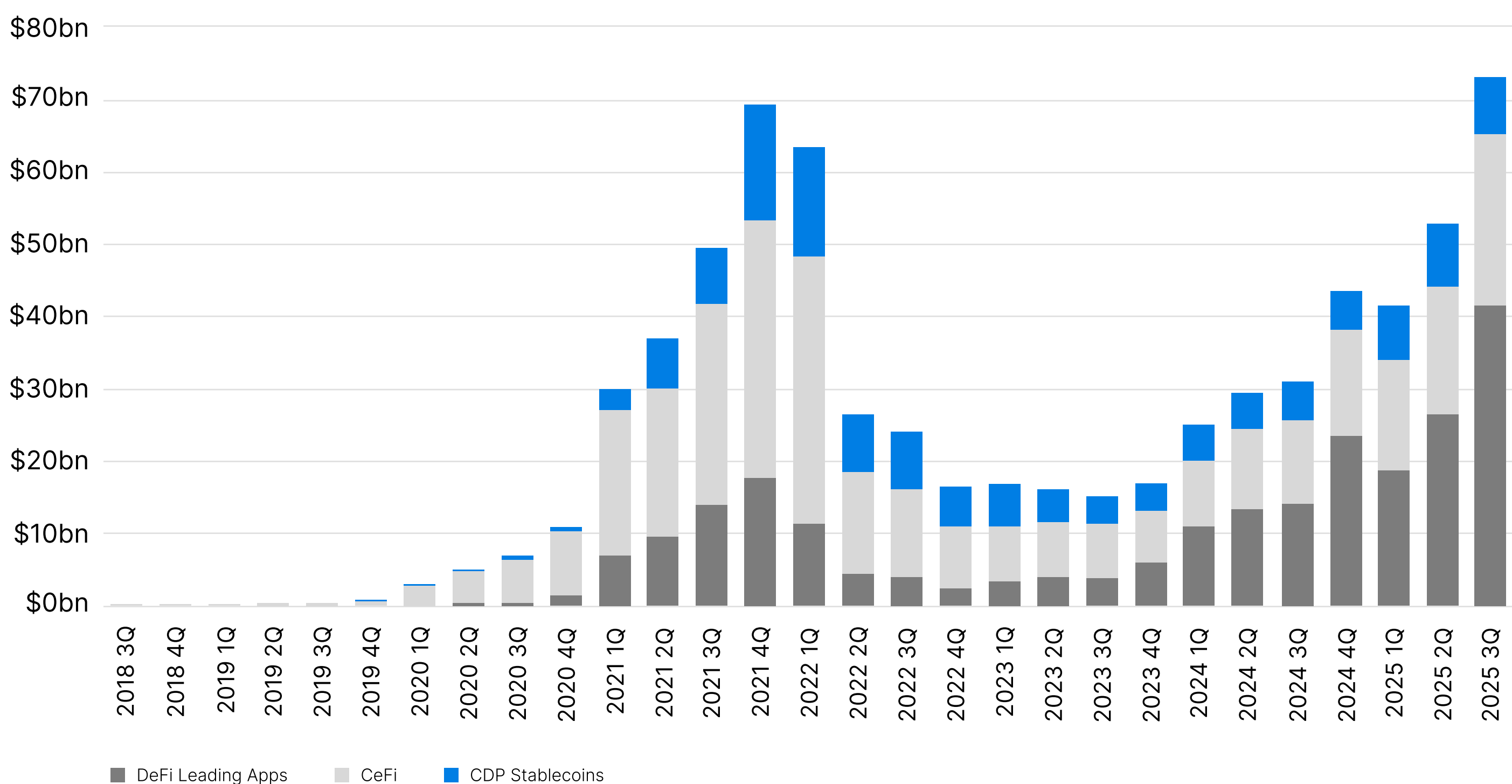
 LIONSOUL
GLOBAL

Institutional Digital Asset
Lending After the 2022
Crunch: Consolidation,
Transparency, and the Road
Ahead

The digital asset lending crunch of 2022 has been widely recognized as a systemic failure.¹ It began with the collapse of Terra’s algorithmic stablecoin in May 2022, cascaded into the insolvency of hedge fund Three Arrows Capital (3AC) in June, and culminated in November with the implosion of leading exchange FTX, where subsequent investigations and criminal convictions revealed large-scale fraud and misappropriation of customer assets.

Together, these events exposed deep structural weaknesses across centralized lenders and prime brokers that had expanded rapidly during the 2020–2021 bull market in digital asset prices. Major centralized lending platforms (CeFi), including Genesis, BlockFi, Celsius, and Voyager, halted withdrawals, entered restructuring, or went bankrupt, erasing billions of dollars in customer assets and choking liquidity across the market.² As a result, digital asset lending volumes dropped by roughly 78% from their peak during the crisis.³

CeFi + DeFi Lending Market Size by Quarter (Inclusive of CDP Stablecoins)



Source: Galaxy Research

Post-mortems by regulators, courts, and independent examiners converged on a familiar diagnosis: thin collateral, poor risk controls, and opacity in both balance sheets and inter-firm exposures. A clear example was Voyager, a leading retail-facing crypto broker and lender with roughly \$5.9 billion in assets.⁴ The company extended loans to 3AC totaling between \$650 million and \$935 million.⁵ When 3AC defaulted, Voyager quickly spiraled into Chapter 11, with legal proceedings highlighting that underwriting and concentration limits were insufficient for the size and correlation of the exposure. Celsius, meanwhile, ran an even looser book. The examiner’s 2023 report describes a firm that marketed safety and transparency while operating with significant unsecured and under-collateralized institutional loans and masking losses, behavior the report likened to a “Ponzi-like” pattern.^{6,7}

So what actually broke the market in 2022?

What Went Wrong: Counterparty Risk, Collateral, and Opacity

At a structural level, three things failed simultaneously. First, counterparty risk ballooned in a small, tightly networked lender-borrower universe, where the same funds borrowed from (and traded through) multiple platforms using overlapping collateral.⁸ Second, collateral quality and monitoring lagged reality.⁹ Many loans were either uncollateralized or collateralized by volatile or related-party assets, with haircuts and margining that did not keep up with market moves. Third, balance-sheet opacity meant credit officers and external stakeholders could not see absolute or conditional exposures in real time, obscuring feedback signals and allowing liquidity runs to snowball into insolvencies.¹⁰

The size and visibility of the 2022 credit crunch significantly impacted investor confidence in digital assets. In a global EY-Parthenon survey of about 1,034 retail digital asset investors, usage of crypto for long-term investment declined by around 16–20% between 2022 and 2024.¹¹ Institutional investors, who had accumulated ETH heavily in 2021, turned net sellers in Q2 and Q3 of 2022.¹² In addition, 29% of traditional hedge funds were reported as investing in digital assets in 2023, down from 37% in 2022, indicating pullback in institutional engagement following the crisis.¹³ Lending volumes fell sharply, bottoming out at \$6.4 billion in outstanding CeFi loans by Q4 2023, an 82% decline compared with the Q1 2022 peak.¹⁴ The market has since recovered and is now experiencing a new phase of its evolution, characterised by tighter collateral standards, improved risk management, and greater transparency.

Digital Asset Lending Today: Rebuilding On Stronger Rails

But the market didn't die. It consolidated, recapitalized, and rebuilt on stronger rails. By Q4 2024, total digital asset lending (CeFi, DeFi, and CDP stablecoins) had recovered to \$36.5 billion.¹⁵ This is still 43% below the 2021 peak of \$64.4 billion, but the notable part is that it is growing on fundamentally different terms.¹⁶ DeFi borrowing surged nearly an order of magnitude from the 2022 bottom to \$19.1 billion, capturing 69% of all crypto lending by year-end.¹⁷ CeFi, meanwhile, has consolidated to fewer players, replacing the pre-crisis leaders with lenders that survived through stronger capital, tighter risk management, and clearer business models.

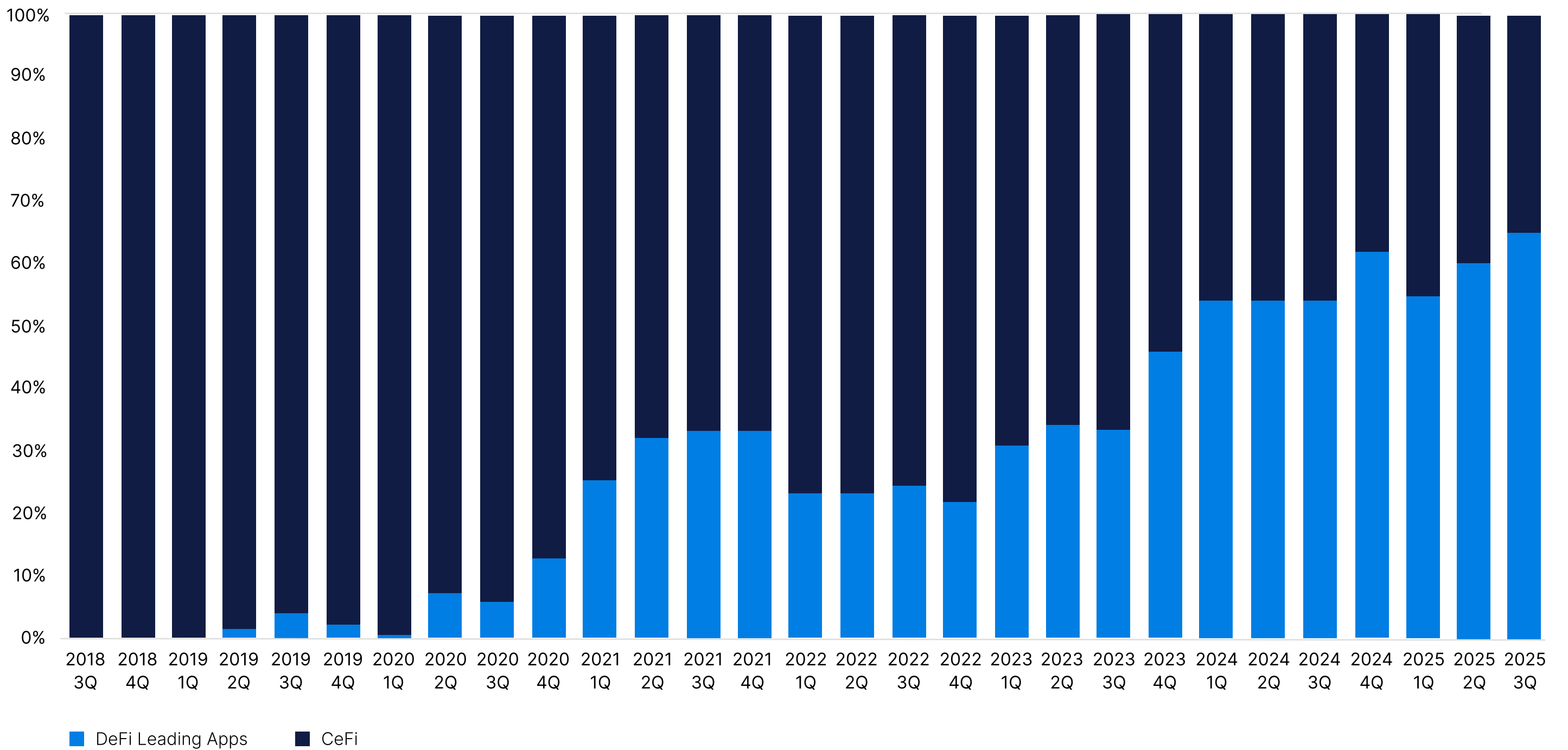
The trend has accelerated throughout 2025. DeFi lending hit an all-time high of \$40.99 billion in Q3 (up 55% quarter-over-quarter), while CeFi expanded meaningfully to \$24.38 billion (+37.1% QoQ).¹⁸ As borrowing demand rebounds, the crypto lending market is blending CeFi's relationship-driven flexibility with DeFi's on-chain transparency and permissionless pools of capital.

DeFi Outstanding Loans at Record Highs



Source: FalconX Research and Artemis

CeFi + DeFi Lending Market Size by Quarter-End (Exclusive of CDP Stablecoins)



Source: Galaxy Research

DeFi’s continued strong performance has relied on transparency (positions visible on-chain) and automated risk management (collateralization, oracles, liquidation logic). The presence of collateral, which constrains credit creation, enabled DeFi protocols to liquidate positions predictably in 2022.¹⁹ That said, DeFi remains exposed to its own set of risks such as smart contract vulnerabilities, oracle failures, governance risk, and liquidation cascades that can amplify volatility during stressed conditions.

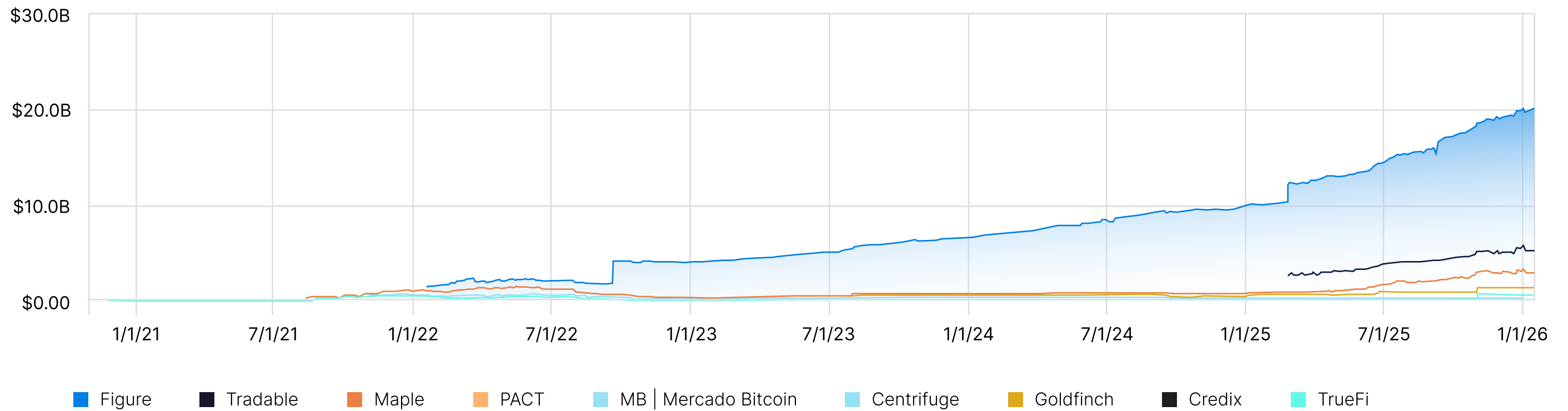
CeFi lenders, by contrast, were forced to negotiate collateral and repayment terms in private while depositors headed for the exits, creating a liquidity crunch.²⁰ While CeFi benefits from clearer legal recourse and growing regulatory oversight, it also introduces counterparty opacity and balance sheet risk. This contrast has defined the post-crisis landscape: DeFi scaling via transparency and automation, and CeFi reinventing itself in a more regulated, risk-aware, and institutionally credible form.

The Rise of On-Chain Private Credit and Tokenised Debt

A defining post-crunch innovation has been the rise of on-chain private credit, comprised of lending pools and credit funds that originate and manage debt directly on blockchain rails.²¹ Unlike retail DeFi lending protocols, these pools are structured to finance institutional borrowers such as market makers, trading firms, and increasingly real-world credit exposures like SME loans, receivables, and fund financing. On-chain private credit originations surpassed \$14 billion by July 2025 and ended the year at over \$20 billion.

Active Loans Value	Total Loans Value	Current Avg. APR	Total Loans
\$20.12B	\$35.67B	~10%	~2,875

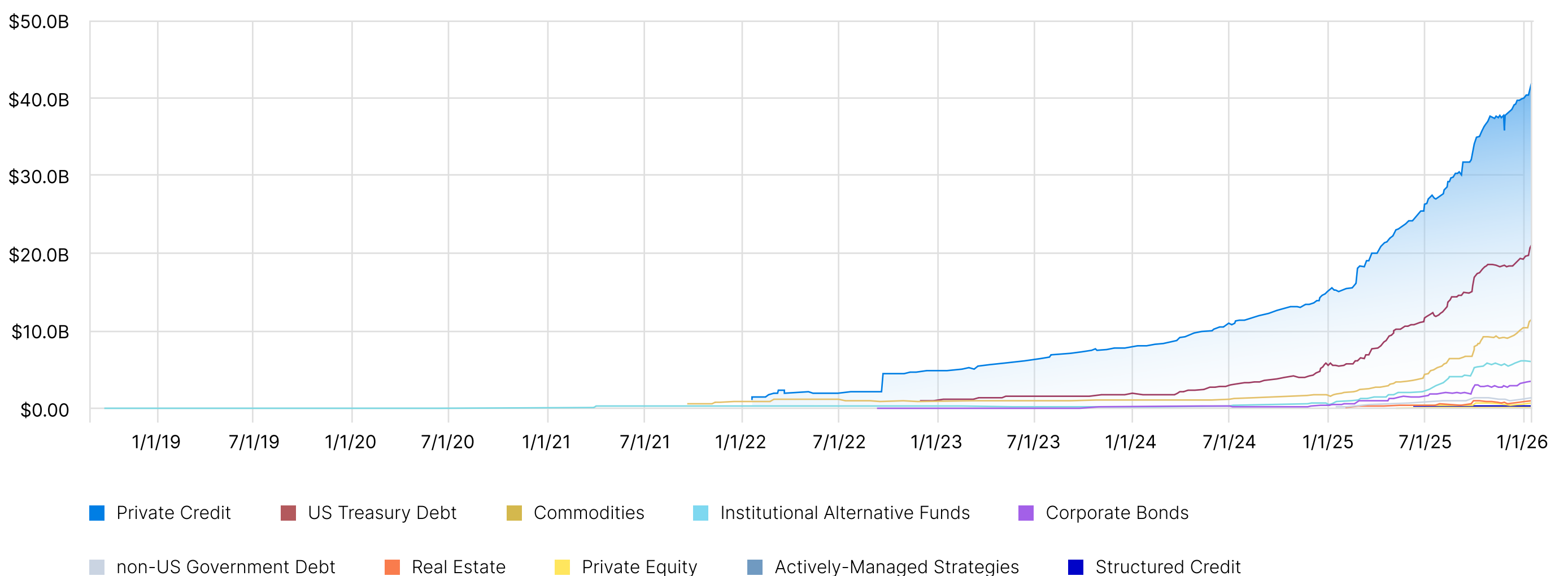
Private Credit Metrics



Source: rwa.xyz, as of December 31,2025

The institutionalisation of the tokenised private credit segment is also rapidly maturing, with the launch of the first tokenised private credit fund announced in September 2025. This growth is reinforced by the wider trend toward real-world asset (RWA) tokenisation, which has overall grown from under \$10 billion in 2022 to \$40 billion by the end of 2025, with private credit now representing approximately 50% of the total.

Total RWA Value



Source: Coin Telegraph

After growing fivefold since 2022, BCG forecasts that 10% (\$16 trillion) of global GDP could be tokenized by 2030, while Standard Chartered estimates the value of tokenized assets could climb as high as \$30 trillion by 2034.²² Despite the growth, tokenised private credit still constitutes only 1% of the overall estimated \$1.7 trillion private credit market.

The speed of expansion is being matched by the integration of tokenised private credit into institutional-grade structures, with on-chain pools now adopting KYC'd borrower groups, segregated custody, permissioned access, and reporting frameworks aligned with traditional due-diligence processes. Fund managers are beginning to integrate on-chain loan data into LP dashboards, with 24/7 observability of collateral reducing information asymmetry. For treasury desks, family offices, and investment funds, the overall shift is toward secured yield with greater transparency. The combination of CeFi loans, collateralised DeFi protocols, and tokenised private credit pools now offers institutional investors a broader toolkit to diversify across yield, risk, and liquidity preferences.

The New CeFi Lending Frontier: 3 Themes with the Potential to Reshape the Industry

Key themes of this transformation include leading CeFi brokers stepping in to fill gaps from the prior cycle, bringing diligent risk management, and offering a broader set of services to deliver efficiency to borrowers. On the DeFi side, activity has surged with lending deposits and outstanding loans at record highs, and CeFi lenders are increasingly participating. Finally, the rapid intersection of crypto and traditional instruments ('tokenization of everything') has the potential to reshape the lending landscape in the years to come.

Growing CeFi Product Capabilities

One reason large CeFi brokers are becoming increasingly competitive in the lending market is through providing a platform of multiple services, allowing for more flexibility to leverage different products for a better outcome for the borrower. For example, the lending desk of a large broker can leverage its in-house spot and derivatives desks for a loan transaction that combines the benefits of those desks into one in a capital efficient manner. Examples of this could include combining a loan with a hedge, facilitating leveraged purchases, or leveraging native inventories to improve deal economics.

While accessing capital on-chain is easy and efficient (not to mention permissionless and transparent), its lack of customizability doesn't make it a "one size fits all" solution, but often an augment to a broader levered portfolio. CeFi lending will come into place when bespoke lending arrangements are required whether they be fixed term loans, customized LTVs based on credit diligence, removal of auto-liquidation parameters, or unique legal constructs. Most importantly, the white glove service large desks offer can be particularly useful for both lean and large funds to save them time or enable complex financing solutions smaller players might not be able to.

CeFi lenders are increasingly leveraging DeFi as a source of capital

Notwithstanding the above, the convergence of CeFi and DeFi has been able to yield interesting outcomes and posed a new dynamic for CeFi lending desks. Whether it be for tapping into DeFi as a new source of inventory/flexible pool of capital, or using DeFi to monetize positions that previously would have sat idle. Aave remains particularly attractive for desks that can access it given its long track record, billions of dollars of available capital, and ease of use.

Leveraging such protocols effectively trades CeFi counterparty risk for protocol risk, variable rate risk, and the risk of auto liquidations (but offers an interesting alternative to the traditional "open-term" CeFi loan which oftentimes would carry the risk of lender recall).

Beyond just accessing lending protocols though, many CeFi desks have found ways to leverage DeFi as sources of potential counterparties (i.e. institutional earn vaults) or sources of capital investment. For example, FalconX has partnered with Pareto and M11 Credit on a tokenized Structured Credit Facility that packages FalconX-originated loans into an on-chain private credit vault. Further, a levered strategy of this Pareto FalconX vault is also available through a collaboration with Gauntlet and powered by Morpho. Likewise, Galaxy has recently made public announcements around their current, and continuously growing, use of Aave as a key differentiating pillar vs. "traditional" sell-side crypto desks.

ETFs, Tokenization of Everything Merges Crypto & TradFi Lending

As cryptocurrencies and tokenized stocks become ubiquitous, there will be an increasing need to offer lending against all of these instruments under one roof. This could lead to crypto brokers becoming broker-dealers to accommodate this, or M&A activity as TradFi seeks to expand in this area. Moreover, with ETFs taking a growing share of the market, there will be increasing demand to borrow against such wrappers (especially as the use of LSTs within ETFs grows in the US and abroad).

ETFs Are Seeing More Share of the Crypto Market, Driving Lending Demand

U.S. Spot BTC Volume as a Share of Total BTC Spot Market Volume (7-Day Moving Average)

From January 2025 to January 2026. Only including volumes for U.S. trading days.



Source: FalconX with data from Bloomberg and Coin Metrics. Exchanges included in spot volume calculation: Binance, Coinbase, Crypto.com, Deribit, Gemini, itBit, Kraken, and OKX

Already, there are reports that major traditional banks are stepping into the crypto lending space, with reports of JPMorgan accepting IBIT as collateral, while others such as Cantor Fitzgerald officially launched their BTC-backed lending program, with FalconX participating. This cohort only continues to grow and has led to close partnerships between traditional finance and their equivalents within the crypto-native sell-side.

In addition, payments have been an extremely strong driver for banks, card issuers, and payment processors to adopt distributed ledger technology. As stablecoins and cryptocurrencies generally can settle instantly, repo markets and instant liquidity can be offered 24/7 with sophisticated and permissionless methods to handle origination/repayment. The desks that are able to tie these elements together with traditional FX, spot market liquidity, and credit provisioning, will have a unique offering that otherwise would take legacy financial institutions significant time to ramp up into. One can expect to only see more and more partnerships between traditional financial institutions and crypto-native CeFi dealers which will likely manifest into exclusivity arrangements, acquisitions, and joint ventures in the years to come.

About Lionsoul Global

Lionsoul Global is a digital asset investment firm delivering thought leadership, education, and institutional-grade asset management services through its proprietary investment platform. Lionsoul Global's investment platform offers multiple pathways to digital asset exposure across differentiated strategies and investment mandates for qualified investors in select jurisdictions, including via the offering of a variety of private crypto funds and separately managed account strategies.

About FalconX

FalconX is a leading institutional digital assets brokerage serving the world's top institutions, offering comprehensive access to global digital asset liquidity and a full suite of trading services. Our institutional credit desk delivers solutions spanning margin and OTC lending, prime brokerage finance, and structured products, enabling counterparties to access customized credit structures that support complex trading, liquidity, and treasury strategies.

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