# Frankencoin: How is Return Generated and Paid Out?

Return generation in the Frankencoin system works similarly to the lending business at a bank. Borrowers pay fees, which are passed on to savers in the form of a return.

### Borrower Pays

Fees flow into the system

### System Processes

Savings module calculates claims

### Saver Receives

ZCHF returns are paid out

### Source of Return

The return primarily comes from fees that borrowers pay when they mint ZCHF against crypto collateral such as WBTC or ETH.

When a user opens a position, they initially pay the fees for the entire duration of the loan, which flow directly into the system's reserve pool.

### Payout Mechanism

A smart contract (Savings Module) calculates each saver's claim based on the current system-wide base rate.

The system calculates the return for the saver in real-time in the background and pays out the ZCHF from the reserve pool.

# How is the Reserve Pool Filled?

The reserve pool (Equity Pool) is fed from four sources:

### Borrower Fees

The fees paid upfront by borrowers for the entire duration flow directly into the equity pool and form the primary revenue source of the system.

### Sale of FPS Tokens

Users can acquire Frankencoin Pool Shares (FPS) by depositing ZCHF into the reserve pool. FPS tokens, similar to shares, allow the holder to participate in the success of the Frankencoin system.

### Minter Reserve

When a user mints Frankencoins, a portion of the minted amount is retained as "Minter Reserve" to initially protect the specific position.

In the case of liquidation profits, the surplus from this reserve also flows into the pool.

### Governance Fees

To propose a new position (e.g., a new token as collateral), 1000 ZCHF must be paid into the pool. This functionality is intended to prevent arbitrary positions from being proposed and thus keep governance and monitoring by system participants traceable.

With the FPS token, users own a share of the reserve pool. If the system is successful, the pool grows and the value of FPS increases. Liquidation losses and returns to savers directly reduce the pool size and thus the value of FPS tokens.

# What Happens When the System Comes Under Pressure?

The Frankencoin system has a three-tier security architecture. It ensures that even in extreme market scenarios, the stability of the system is maintained.

If a position is liquidated at a loss due to a sharp drop in the price of the deposited collateral, these system losses are covered as follows:

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|---|---|
| 1 | **Individual Minter Reserve**<br>First, the reserve of the affected borrower is used up. |
| 2 | **Reserve Pool**<br>If this is not sufficient, the losses are covered by the equity capital of the system. The value of FPS tokens decreases in this case. |
| 3 | **System-Wide Reserves**<br>In extreme scenarios, reserves from other positions can be drawn upon. |

The "worst case": Should all buffers and reserves be completely exhausted, there is a theoretical risk that the value of the Frankencoin could fall below one Swiss franc (de-peg). However, the probability of this is considered very low due to the high over-collateralization of currently approximately 230 percent. This means that for every Frankencoin in circulation, collateral worth 2.30 CHF is deposited in the system.

**230%**

**Over-collateralization**

Since the inception of Frankencoin (March 2023), the system has not recorded any liquidations with losses, despite sometimes sharp price fluctuations of the deposited collateral, such as in October 2025.

More information about Frankencoin: **https://frankencoin.com**

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