

Probability of failure (risk), f

$$f(\delta_2) = \frac{3}{4}$$

$$\frac{1}{2}$$

Zero profit
condition
 $\hat{\pi}_0 = 0$

$\hat{\pi}_0$

$\hat{\pi}_1$

$\hat{\pi} > 0$

δ_1

δ_2

δ_3

Interest factor, δ

Excluded borrower's BRF
 $f(\delta, k_1 < k^0)$

Marginal borrower's BRF
 $f(\delta, k_2 = k^0)$

a

n

b

BRF for borrower
with more than
minimum collateral
 $f(\delta, k_3 > k^0)$

