

Probability of failure (risk), f

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

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

Zero profit
condition
 $\pi_0 = 1 + \rho$

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

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

$$\pi > 1 + \rho$$

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

δ_1

δ_2

δ_3

Interest factor, δ

