

Aave should create a new loan type where a portion of the interest paid by the borrower contributes to a reduction in their collateralization ratio. As borrowers build credit they become able to take undercollateralized loans. Lenders sacrifice a portion of their yield by diverting it to collateral reduction, but enable novel borrowing behavior.

In the case of a borrower successfully building a credit history but then defaulting on an undercollateralized loan, the lender would still ensure net profit over the lifetime of the lender-borrower relationship.