"There is no national price bubble [in real estate]. Never has been, never will be."

- David Lereah (chief economist of the National Association of Realtors), 2005.

# Deferred Distress: Apparent Stability in the US Residential Real Estate Market

*Fleeting affordability, policy-derived distortions, and hidden credit and leverage effects*

**Introduction and Thesis:**

In 2005 the confidence of the National Association of Realtors was not unfounded; it rested on the data of its time, and that data looked sound until it did not. The residential real estate market in the United States today presents a similar puzzle. The housing-price-to-median-household-income ratio sits at roughly 4.7x against the 3.2x averaged throughout the 1990s, and existing home sales are near three-decade lows, yet national delinquency sits at 3.55%, below the 4.16% recorded in June 2019, and nominal prices remain marginally positive. Either the market is far more resilient than its strains suggest, or its measurements are telling us less than they appear to, and this essay explores the latter.

The apparent stability of the US residential real estate market is, in part, an artifact of how distress is measured, recorded, and recognized rather than evidence of its absence. Policy, accounting rules, and the aligned self-interest of borrowers, servicers, lenders, and agencies delay the recognition of distress, while the cushions said to protect the market, namely homeowner equity, the housing shortage, and the institutional buyer, are thinner, and in the case of equity less evenly distributed, than aggregate figures suggest. We argue using 3 pillars given below that distress and leverage in the market are heavily understated, and, as a result the housing market might be overheated.

**A (massively abridged) history of residential real estate in the United States:**

A history of the residential real estate market in the United States is far too massive for a short section in an essay to ever possibly cover, but this section hopes to provide an abridged account of recent history I find provides insight into the state of the market today. Just as "Success carries within itself the seeds of failure, and failure the seeds of success." (Howard Marks, Mastering the Market Cycle), I find that within the real estate industry affordability carries the seeds for unaffordability, and unaffordability the seeds for affordability. However, while this cycle left unabated has been a great mechanism for asset prices, markets, economies, and nations to rise and fall, residential real estate is a unique asset class where external mechanisms via political, economic, and personal incentives do a greater deal than almost any other to clash against this cyclical force, albeit unsuccessfully.

The history of the residential real estate market can be divided into multiple regimes: the first when prices tracked incomes, and the present where they do not. During the 1960 to 1980 period residential real estate tracked household incomes such that the price-to-household-income ratio remained stable; however, after 1980 the foundations for a deep divergence were laid. During this pre-1980s period housing finance was done by local institutions and the originator usually held the mortgage on its own balance sheet. Pricing of homes was forced to be disciplined due to the incentives of the originators to ensure income was sufficient and home buyers had a large enough debt-to-income capacity.

After 1980, securitization of residential mortgages into RMBS provided cover for originators. Cost of capital fell with increasing capital supply, proliferation of credit tranching, and securitization severing balance sheet risk of mortgages and misaligning incentives of originators, servicers, and home buyers. Volume of transactions began to take precedence over credit quality. The financialization of mortgages via securitization changed the mortgage market from one chasing household income to that of investors chasing yield, and this detachment marked a permanent shift in the utility derived from mortgages. In addition, there was an increased rate of household formation. The number of households, not population alone, acts as a true indicator of demand, and it increased rapidly during these years.

The next major event was the global financial crisis. The crisis was largely driven by a rapid loss of investor confidence in collateral quality and reflexivity driving pessimism in the market. The price discovery mechanism faltered as the sentiment became fear-driven due to a flight to safety, while the underlying fundamentals faltered to a lesser extent than sentiment implied. Erdmann, a senior affiliated scholar at the Mercatus Center, in his book "Shut Out", provides an alternate perspective to the GFC. He argues that the 2005 bubble was a function of domestic migration out of closed access cities, which accounted for 16% of the population with only 7% of the permits, into the cities that received their outflow, while open access cities such as Dallas, Houston, and Atlanta, which accounted for 5% of the population and 9% of the permits, built enough to avoid a bubble, and a mismatch of demand and supply leading to hyperlocal housing shortages and surpluses. However, Mercatus does have inherent institutional bias due to its underlying goals of furthering deregulation. Irrespective of the cause, misunderstood credit quality alone is not sufficient to explain the GFC; however, the large damage caused as a result spurred a government response through regulatory, fiscal, and monetary means.

This led to the next major change in the residential real estate market. The GFC ushered in a Federal-Reserve-led era of mandate-driven purchasing and agency-backed lending, in which the government became an explicit price-insensitive purchaser and insurer of mortgage credit. The wealth effect generated via homes being more affordable for consumers through cheap financing and a disproportionate multiplier effect through housing price appreciation that served to increase consumer confidence led to housing becoming a well-understood political lever against economic slowdowns through forbearance, loss-mitigation programs, and FHA loans. Intervention that took place at the height of the GFC to clamp down on a rapidly deleveraging economy transformed into an increasingly used policy tool.

As noted earlier, the housing-price-to-median-household-income ratio is approximately 4.7x, as compared to the 3.2x averaged throughout the 1990s. Since 2009, policy initiatives, government-aided leverage, and low interest rates (along with long-term fixed-rate mortgages being a quirk of the USA's residential real estate market) have caused a sustained split in this ratio. This does not account for increasing quality as homes become larger and better equipped; however, escrow, property taxes, and down payments are dollar-denominated and not based on real value or quality. Due to Basel III adoption, its subsequent weakening, and mortgage financing being moved from that of relatively more transparent bank balance sheets into those of shadow financial institutions, credit risks now have been transferred out of the traditional financial system and into non-depository institutions. This parallel opaque system is now larger than in 2008, albeit with significant differences.

**Pillar 1: Fleeting affordability and the fault lines in demand and supply:**

One of the largest drivers of housing prices is the interaction of demand and supply, and these may be supported by large non-economic forces that provide artificial demand supports, whose inception we saw in the previous section; however, even with this support the economic effects of fleeting affordability, both in perception and reality, are causing bottlenecks in demand. A standard quote during home purchases these last two years has been "date the rate, marry the house"; we assert that significant non-rate-related factors have also been contributing to increased unaffordability.

The total monthly cost of a home has risen to roughly two and a half times its 2020 level, reaching $3,120 per month in Q4 2025 as compared to $1,240 per month at the end of 2020. The income required to purchase homes has reached roughly $120,800 versus $68,700 five years earlier. We can see that only 32% of households qualify and 16% of renters can pass these thresholds. According to the NAR in 2025 the first-time buyer share of purchases reached 21%, which is an all-time low, and median first-time homebuyer age reached 40, which is an all-time high. Homes may have improved and there is still debate on quality-adjusted housing prices, however, payments, purchases, and the affordability metric are dollar-denominated.

These dollar-denominated housing requirements limit the addressable market of new home purchasers as median household cash savings is $8,000 (Survey of Consumer Finances, 2022) with renters at roughly $1,810 median saving, against $14,300 needed at 3.5% down and $81,700 at 20% on a home priced at roughly $408,000. The real dollar demands of home purchasing seem to be unaffordable to a very large segment of the population. Rate relief in the future through reducing interest rates, be it through monetary easing or federal programs, does not resolve this constraint for responsible home buyers as the down payment alone is unaffordable for a large segment of the population. Rate decreases alone are not sufficient to kickstart the purchases of housing for the marginal affordable home purchaser.

The rise of a prominent K-shaped economy in the USA has further contributed to this as the marketplace for homes has grown increasingly distorted. The economy faces structural weakness, increased uncertainty, and record aggregate student loan and credit card debt, concentrated in the lower leg of the K, contributing to a reduced ability of responsible home purchasing. The average home purchaser searching for entry-level homes is getting priced out with transactions in the upper leg of the K being the only ones feasibly taking place. NAR has highlighted that homes valued at above $1 million have had +14.8% YoY sales growth as of July 2026 while the median buyer is priced out. The pool of transactions has shifted upmarket in the housing industry.

Unaffordability has been rising due to rising non-mortgage carrying costs too. Property taxes have risen 31% and average monthly insurance premiums have risen 72% from 2019 to 2025 (ICE Mortgage Monitor, March 2026, via JCHS). These non-interest costs that have risen lead to potential delinquency even on paid-off homes and are non-mortgage-rate-related costs. These are backward-looking figures that show that increasing costs may cause strain on buyers. A study by Truework titled "Homeownership on the Edge" published on July 23, 2026, surveyed 1,000 recent home buyers and found the following results: 85% say that refinancing within three years is important to their financial health, 50% say that the mortgage is unsustainable without a lower rate, and 73% planned to refinance from the outset. This shows that the adage of "date the rate" has deeply penetrated the housing market and with a relatively hawkish Fed, at the time of writing this essay, expected refinancing is a strong reason contributing to the buoyancy of the housing market, and may also be a systemic risk prevailing in the industry. These borrowers, according to industry practitioners, make up the majority of the housing market's retail purchasers in recent years and represent the pipeline of the industry as a whole, which is further exacerbated because, with fixed-rate mortgages, relief arrives only through a refinancing for which the borrower must qualify again.

Several population dynamics are further contributing to this factor. Household growth has slowed down to 1.1 million in 2025, down from 2 million during the pandemic. Net international migration has halved from 2.7M in 2024 to 1.3M in 2025. The Census Bureau projects 321,000 in 2026, a third of the 2001-2019 average of 900,000. Migration is a large component of raising house prices through driving demand. Wilson and Zhou, in "The Impacts of Unauthorized Immigration on U.S. Labor and Housing Markets: New Evidence from Administrative Microdata", stated that an increase in Unauthorized Immigrant Worker Flows (UIWF) equal to 1% of initial employment raises local employment by 0.96%. During the 2021 to 2024 boom, that same 1%-of-employment inflow raised local house prices by 2.2% and rents by 1.4%. This shows evidence for how immigration raises housing prices. However, it is likely this elasticity of prices works in reverse too with reduced worker flows, although housing rents and prices have a tendency to be sticky. This effect has been occurring through domestic migration across other housing market microstructures too, with two strong examples being Florida and Austin. Sunderji highlights that net domestic migration in Austin is down roughly 65%, from 44,000 to 15,000 a year between 2021 and 2024, and has led to rents being about 8% below peak. Lambert has highlighted that net domestic migration in Florida is roughly 23,000 in 2025 against 314,000 in 2022. Sunderji has framed this as the housing cycle rather than a durable shift in demand due to housing and economic policy, but the softening demand has significantly affected both micro markets.

As new homes continuously get built into a market facing weakening demand, supply effects are only exacerbating the fault lines. The beginnings of a silver tsunami (or at least a rising tide) in the market have led to an increase in the availability of homes. The cohort of 65-plus householders in 2025 is projected to shrink by 1.4M householders annually from 2025 to 2035. Unsold completed new home inventory is also at its highest level since 2009: up 54% in two years (JCHS), and ResiClub separately reports that builder unsold inventory has reached a 15-year high. The short-term rental market has weakened in several micro markets and STRs are getting converted back to traditional homes as their business models begin to suffer. New stock opens up each day as vacant homes, seasonal homes, and especially property stuck in probate, which is becoming a large factor due to the population dynamics previously mentioned, begins to flow into the supply. Offsetting this, average weekly rates on a 30-year fixed-rate mortgage averaged above 6.5% in both 2024 and 2025, and half of all outstanding mortgages carried rates below 4% as of late 2025, leaving many homeowners with a strong financial disincentive to relocate. Residential mobility fell to a record low of 11.2% in 2024, driven by a decrease in homeowner mobility.

JCHS provides data that homeowner vacancy has increased from 0.7% in Q2 2023 to 1.1% in Q1 2026 and renter vacancy has increased from 5.6% in Q2 2022 to 7.3% in Q1 2026. Additionally the equilibrium gap for available homes has reduced from roughly 700,000 for sale and 800,000 rental homes in 2022 to 400,000 and 200,000 homes by early 2026. Since 2022 new construction "has reduced the shortage of vacant units by 900,000," against total estimated shortfall of homes of roughly 1.2 to 5.5 million. This provides directly contradictory evidence to the argument previously in this section. The pipeline that produced these units is contracting. Single-family starts are down 7%, multifamily completions are down 20%, units under construction are down 11%, and existing listings up 5%. The product mix of housing supply is shifting from new construction to the existing units. The floating inventory of existing homes is susceptible to delistings and whims of retail owners in a way that newly completed units are not. According to Redfin, 5.8% of listings were pulled off the market in April 2026, tied with December 2025 for the highest share since March 2020. A delisting takes a home out of measured supply without a sale, which flatters both the price and the months-of-supply figure. Redfin itself notes that the rise in delistings is propping up home prices. Builders, with new developments, and existing newly motivated home sellers are fighting for the same increasingly distressed marginal purchaser. These two series compete with each other in a tug of war: when existing home listings rise, there is downward pressure on newly built homes and vice versa. A builder cannot be a highly strategic seller and is much more motivated than existing homeowners as unsold homes carry interest costs on their balance sheets, which is especially pronounced for listed homebuilders who need to show higher operating asset turnover. Builders solve this with increased rebates, heavy discounting, and other incentives that distort the top line statistics. Price discovery therefore happens where withholding is impossible.

**Pillar 2: Policy-led distortions:**

Since 2008, the GSEs, Fannie Mae and Freddie Mac, have been under government conservatorship and provide a credit guarantee. Ginnie Mae on the other hand provides a timely payment guarantee. Under a credit guarantee, the GSE steps in when the loan resolves as a loss. The servicer advances missed payments in the interim but the obligation is bounded, and after four months of missed payments the GSE takes it over. Under a timely-payment guarantee, the investor is entitled to the scheduled payment on schedule regardless of what the borrower did, and the Ginnie issuer funds that gap until final credit resolution, with no cap. The guarantee, however, runs to the investor rather than to the servicer. What the servicer holds is a reimbursement claim, and industry practitioners such as Melody Wright highlight that the strength of that claim is relatively overstated. FHA does not reimburse the first two months of delinquent interest, and claims are curtailable where the servicer misses a procedural timeline, so even a clean claim recovers less than the advance. The reimbursement mechanism has also not been tested with today's composition of servicers, revealing an underlying fracture point that sits with the nonbank issuer funding an uncapped obligation on short-term debt.

After the GFC and the Basel III changes, banks have grown increasingly averse to holding mortgage assets and there has been an exodus from banks holding mortgages. Basel III was designed to make the financial system safer by increasing the equity requirements for banks against risky assets. Banks found it too expensive to hold Mortgage Servicing Rights (MSRs) and have largely exited that business as they found it to be highly capital-punitive. MSRs can count toward CET1 (Common Equity Tier 1) up to 10% of CET1 individually, and up to 15% when combined with deferred tax assets and significant investments in other financial institutions. Smaller banks get a 25% individual limit. Anything exceeding these thresholds is treated as a dollar-for-dollar deduction from CET1 capital. Amounts below the threshold are risk-weighted at 250%, up from 100% under Basel I, so there is no size at which holding MSRs is capital-efficient for a bank. Per FSOC data, bank servicing share has fallen from roughly 96% of mortgage balances in 2008 to approximately 41% by Q2 2025, though the capital treatment is a documented cause of that exodus rather than the sole cause. This has led to servicing being split from the loan, and the parties holding each have become even more divided than before. Originators, servicers, guarantors (most often the government) and investors are becoming increasingly fractured groups. Foreclosure is extremely expensive, slow, and exposes the servicer to curtailment if a timeline is missed. Modification stops the advance clock and keeps the MSR marked as performing. So the servicer has a straightforward economic preference for deferral, independent of whether deferral is right for the loan or the investor. Similar mechanisms of each party acting on its own incentive have led to fragility and stress in the system.

These policy changes have combined with credit facilities such as warehouse lines, and accounting practices such as gain-on-sale, to magnify this fragility. Policy has led to fragility in the non-bank mortgage industry which came to replace the banks after the GFC; this industry has no deposits to smooth volatility as an alternative source of funding and is increasingly opaque. Roughly 85% of origination is non-bank, and these firms hold MSRs as an asset that is highly opaque and marked to model. For non-banks holding MSRs, rising delinquency simultaneously increases advances, depresses MSR marks and can trigger margin calls. Non-banks holding agency-backed loans, such as FHA loans, face significant advance risk even where they face no credit risk, and those advances pose liquidity risks as the loan moves through judicial foreclosure. Originators separately carry repurchase liability arising from representation and warranty breaches at origination, which can persist for years. This fragility concentrates in FHA. Roughly 11% of active loans, but more than half of all serious delinquencies, are FHA loans. Loans with 3.5% down, low minimum FICO, and compensating factors have become commonplace. The FHA program, according to practitioners, has created a pipeline for future delayed delinquencies. This is also a significant contagion across industries as homebuilders are among the largest FHA originators through captive lending arms, controlling the list price, the financing and the comparable sales in a single subdivision. Thinly capitalised nonbanks hold the liquidity and operational risk as they service government-insured loans, and the government faces the credit risk, explicitly through FHA and VA insurance and through conservatorship for the GSEs. Since the loans are obligations and it would be politically disastrous if they fail, the government has responded with significant accommodations to delay delinquencies and provide stability to this system: advance facilities during COVID, forbearance excluded from credit reporting, 12-month modification reporting, TPP carved out of issuer ratios, and more. Each of these accommodations was defensible on its own terms, and each has moved the moment of recognition later and in doing so muted the market's economic reaction function. Rules that were designed to provide relief have instead created the conditions for opacity to persist.

Originally, the Dodd-Frank Act of 2010 created the ability to repay rule, effective January 2014, which required a good-faith determination that the borrower can repay. Loans meeting the Qualified Mortgage criteria received protection from liability. The government created a 43% debt-to-income (DTI) requirement as the General Qualified Mortgage (QM) threshold. However, these requirements were relatively soft from the day they were created as the temporary GSE QM definition provided exemptions for anything Fannie or Freddie purchased. These already soft rules were replaced by a rule issued in December 2020, with mandatory compliance from October 2022. The General QM Final Rule removed the 43% DTI threshold requirement and replaced it with a price-based test. The Consumer Financial Protection Bureau (CFPB) argued that a loan's price "is a strong indicator of a consumer's ability to repay and is a more holistic and flexible measure of a consumer's ability to repay than DTI alone," and a specific DTI limit "could impair access to responsible, affordable credit". On the same day, seasoned QMs were created as a category. First-lien fixed-rate loans originated as non-QM can season into safe-harbour QM status after they have been held in portfolio for 36 months, are not securitised, have no more than two 30-day delinquencies, and no 60-day delinquency. The CFPB asserted that a default after 36 months "is usually not attributed to deficient loan underwriting but rather to a change in the consumer's circumstances". A loan changing from non-QM to QM through the passage of time alone only exacerbates the problem and creates misaligned incentives as the portfolio holder gains protection and the borrower loses a defence when this occurs.

The above was one example in detail of misaligned regulation, but this has only continued. Some more examples: In 2020 with the CARES Act forbearance was excluded from delinquency reporting, a rule from which every party benefited at once and none had to coordinate. In 2023 the FASB ASU 2022-02 and the corresponding call-report change resulted in the elimination of Troubled Debt Restructuring (TDR) accounting for entities that adopted the Current Expected Credit Losses (CECL) standard, replacing it with a 12-month disclosure regime that reduces transparency and weakens credit risk disclosure by masking volumes, reducing the scope of disclosure, increasing management discretion, and breaking the comparability of time-series data. In April 2026, Ginnie Mae APM 26-06 temporarily began to exclude loans on Trial Payment Plans (TPPs) from issuer delinquency ratio calculations for compliance purposes. Not every rule has run in this direction, as ML 2025-12 in October 2025 made distress look worse rather than better by counting loans on trial plans as delinquent, which is why the Center for Responsible Lending attributes roughly 92% of the rise in FHA serious delinquency between September 2025 and January 2026 to reclassification. VantageScore is now used by the GSEs and FHA for credit checks, which scores roughly 33 million more consumers (per VantageScore) by incorporating rent, utility and telecom data and therefore changes who becomes scoreable. The CARES Act, ASU 2022-02, and APM 26-06 came from three different bodies, and every one moved the moment of recognition later. The hope of creating more affordable, open, and inclusive mortgages, combined with the political requirements of elected government, has led to a further weakening of regulations through reclassification and rule changes. This is particularly problematic as it is not deregulation with free-market forces being allowed to operate, but instead government guarantees and price floors that are occurring in the market.

**Pillar 3: Hidden Credit Effects:**

Hidden credit distress persists and its recognition is delayed in the system, and the housing industry in particular, largely due to policy and aligned self-interest, has created an ouroboros-like cycle of credit reliance.

The chain by which a borrower's distress reaches house prices is largely shaped by geography and policy. The chain begins when a home payment is missed. The lender then classifies the loan as delinquent in certain buckets, such as 30 days, 60 days, 90 days, etc. After 90 days the loan is seriously delinquent, and once the borrower is more than 120 days delinquent the servicer can generally begin the legal process that leads to foreclosure. If the home is in a state where foreclosure happens via non-judicial means then it takes in the order of months; however, if the home is in a state where foreclosure happens judicially through the courts, this process can take in the order of years. If the home is sold at the foreclosure auction, that auction is itself a distressed sale; if it is not sold, it becomes Real Estate Owned (REO), replaces the loan on the lender's balance sheet, and is later sold by the lender. Foreclosures and lender-led sales are among the least preferred outcomes as recovery is rarely sufficient, due to the nature of them being highly motivated, time-sensitive sellers. Campbell, Giglio and Pathak, in "Forced Sales and House Prices", find that foreclosed homes sell at a discount of roughly 27% and that a nearby foreclosure lowers the price of neighbouring homes. Distressed sales affect comps of nearby homes and pull down appraisals of nearby homes. Eventually these sales lead to lower home sale prices through a localised contagion-like effect and finally drive down home price indices. A forced sale is therefore the primary way credit distress reaches the price of a home, and where no sale occurs, the distress never shows up in the index.

We can also see a distortion in the Case-Shiller index that occurs through its construction itself. There is a deep lag in terms of index recognition. The Case-Shiller index is a three-month moving average of sales, and a sale enters it only once the deed is recorded. Publication adds roughly two months, so a sale reaches the headline months after it closes. This creates a further time lag between top line figures and the ground reality. Furthermore, it does not include condos and co-ops and measures only sales of single-family homes. This excluded segment is affected the most by insurance increases and special assessments. So the index registers forced sales late, and forced sales in the condo segment not at all.

The chain described earlier, which represents how this distress should appear in the index, is cut by individual participants due to self-interest. In 2020 the CARES Act required lenders to report borrowers in forbearance who had been current as current to the credit bureaus, causing the above chain of events to be cut at the start itself. The adoption of FASB's ASU 2022-02 eliminated Troubled Debt Restructuring (TDR) accounting and replaced it with a 12-month disclosure window for modifications. Once-delinquent loans that were modified report as current under their new terms and, after 12 months, drop out of the modification disclosure entirely, heavily reducing the visibility of credit distress on lenders' balance sheets. Bill Moreland (BankRegData) has shown using the FDIC call-report data that roughly 5 to 8% of bank mortgage books had modified loans, against the 1.5 to 2% visible as delinquent. Transparency in the above chain has been substantially reduced and there is a consistent moving of the goalposts that makes it harder for time series data to be applicable from the past. This leads to loans cycling through modification and back to current without surfacing in analysts' reports. The servicer, which funds the advances and absorbs the curtailment risk, prefers modification to foreclosure. Similarly for agency loans, Melody Wright observes that FHA borrowers have returned to delinquency after using successive partial claims, although FHA restricted repeat partial claims in 2025. Servicers, banks, and agencies have all created mechanisms where delinquencies are underreported.

We also see that the price effects realised through foreclosure auctions are getting distorted, in particular for FHA and agency backed mortgages. Historically, when an FHA loan went to foreclosure, the servicer would take ownership of the house, then hand it over to HUD through conveyance. HUD would then sell the home and pay the servicer, however, this process was archaic, slow, and expensive. An alternative route has become increasingly common as the rules have been updated: Claims Without Conveyance of Title (CWCOT). The servicer can skip handing the home to HUD and instead directly auction the home. The servicer opens the auction with a floor bid, i.e. a reserve price, which HUD calculates by applying an adjustment factor for holding and selling costs to an appraised value. This causes further distortions in the market as homes going through foreclosure auctions no longer clear at a market price but instead have a centrally determined administrative floor price that is agency driven. Whether this pushes comparables down or props them up depends on where HUD sets the bid; the point is that a formula rather than a market sets the comparable.

Another method for credit distortions occurs through off-balance-sheet financing and relabelling. Banks sell non-performing and re-performing loans to private credit funds and aggregators. However, the buyer is often financed by a bank itself. As a result, the underlying real asset is still financed by the bank but the exposure on first glance is offloaded. The servicers of these buyers are often not obliged to report to the MBA or ICE surveys, so the loans drop out of the delinquency data entirely. The economic exposure remains the same, but the accounting treatment has changed and the distress is now hidden.

Even though the foreclosure chain gets delayed and distorted through hidden credit effects, delinquencies are accumulating behind these delays. Additionally, every party in this cycle is better off with the cut in place. The borrower stays housed and avoids a credit event. The servicer prefers modification, which stops the advance clock and keeps its servicing rights valued as performing. The bank keeps the loan out of the non-performing category that drives its capital requirements. The agency defers recognising the loss on its insurance fund. The investor keeps receiving scheduled payments, so the security looks current while the loan is not. No party needs to intentionally coordinate with the other to keep the chain slowed as simple self-interest leads to mutually driven concealment. Forbearance and modification kept people housed and were defensible policy on their own terms; the claim here is about what the record shows, not whether the interventions were justified. However, even though there is a slowdown in this chain, the pressure is building and foreclosure data is showing it, such as foreclosure starts being 43,200 in June 2026 (ICE), which is a six-year high and up 29% from May, even as foreclosure sales remain 46% below 2019 and national delinquency sits at 3.55% against 4.16% in June 2019. Serious delinquency is at 878,000 loans (ICE, June 2026), which is the highest since mid-2018 outside the pandemic, although, as noted earlier, most of the FHA component of that rise reflects the ML 2025-12 reclassification rather than new distress. Wright on servicer masking and Moreland on bank masking reach the same conclusion from two different datasets.

**A Case for Stability:**

The above three pillars have described and proposed different mechanisms by which a system would hide distress if it existed; however, this alone does not prove that it exists. In this section we hope to provide alternate cases, supported by informed industry practitioners to give a balanced perspective to this argument. Although we might disagree, acknowledging the existence and surveying the counterarguments is integral to developing a mosaic for this market.

One of the largest factors providing the stability of the housing market is the equity cushion that exists. According to JCHS homeowners hold $34T in equity, with about $295K on average per homeowner. A homeowner with equity sells instead of being foreclosed on, so the forced-sale chain from Pillar Three never starts. This is one of the biggest differences when compared to the GFC, where negative equity turned missed payments into foreclosures and strategic default became common. However, the average hides the equity pattern. It is concentrated among long-time owners with low rates. This further contributes to the low transaction volumes described in Pillar One. The marginal borrowers (recent FHA borrowers with 3.5% down, and Truework's buyers depending on a refinance) are the ones with thin equity, who are most susceptible to delinquencies. Distress, where it appears, is concentrated in the lower arm of the K.

Another counterargument is that post-2010 underwriting is stricter than it was in 2005 and 2006, and the 30-year fixed-rate mortgages that are prevalent now cause homeowners to have low fixed interest rate payments. So, the homeowners who purchased homes in a low interest rate regime cannot face a sudden increase in debt service payments. However, this is not true for insurance, property taxes, and the other variable costs that come with home ownership. Property tax delinquencies can lead to municipalities foreclosing on low-equity or abandoned homes. To this end, insurance has increased 72%, property taxes are up 31% from 2019 to 2025, and half of recent buyers surveyed by Truework say their mortgage is unsustainable without a lower rate. Also, the 43% debt-to-income test was replaced with a price-based test, so "tight underwriting" is harder to measure than it was.

There is also a deep shortage of homes with estimates ranging from 1.2 to 5.5 million homes being necessary. Erdmann's supply-side argument suggests that restrictive zoning in the constrained metros sets a structural floor under prices that credit problems cannot break. The gap has narrowed (from 700k for sale and 800k for rent in 2022 to 400k and 200k), vacancies are rising, and the pipeline of new homes is shrinking. The shortage is also local rather than national: a shortfall in constrained metros does not support prices elsewhere.

The above are some of the most compelling arguments for the case of stability and sustainability of the residential real estate market. The cushions and the pillars of distress can be true simultaneously because they sit with different borrowers in an increasingly unequal economy.

**The Purchaser of Last Resort**

If we are to believe the thesis of this paper that is built on the three pillars described earlier, it is important to ask who absorbs distressed supply if the distress described in the pillars reaches the market. After the 2008 GFC the Federal Reserve bought agency MBS in bulk through quantitative easing, becoming a buyer that did not care about price. In 2012 institutional investors bought foreclosed single-family homes in bulk and turned them into rentals, with Blackstone's Invitation Homes among the largest. These two waves of bulk purchases helped clear the foreclosure pipeline; even though there was a drastic correction, economic forces acted to create a floor price based on both regulation and financial profit incentives.

Both buyers have since changed. The Fed ended balance sheet runoff on December 1, 2025, and it reinvests MBS principal payments into Treasury bills, so its mortgage holdings continue to shrink (about $2.1T in September 2025). The 21st Century ROAD to Housing Act, in effect since July 11, 2026, bars investors that control 350 or more single-family homes from buying more of them. However, it does provide exceptions for build-to-rent, renovate-to-rent and lease-to-own programs and foreclosure exceptions for lenders or servicers acting for loss mitigation. This act prohibits the 2012 mechanism for the largest buyers and has restricted an institutional bid being placed on homes. It prevents institutions from becoming purchasers in a distressed housing market. Even if these large operators remain out of distress, they can no longer become purchasers to help clear a foreclosure-led pipeline.

The remaining private buyers are investors below the 350-home threshold and small landlords, but there is no evidence that their purchasing power could act as a floor and realistically clear a national foreclosure pipeline. They face similar pressures as homeowners and in a distressed situation are more likely to contribute to supply rather than demand. The marginal buyers are stretched with worsening affordability. As a result, the only possible purchasers of last resort remain municipal land banks, which take in tax-foreclosed properties but are not buyers at market scale, or the federal government, which could direct the GSEs to buy. For agency loans, HUD and the GSEs already take title through REO, but their disposition programs make them sellers into the market rather than holders. No other current buyer is positioned to absorb distressed supply at scale. In 2008 the chain was fast and ended with a buyer; in 2026 it is slower, and the buyer at its end is thinner.

**Conclusion:**

This essay does not argue that prices must fall or that a short position on the housing market would be profitable, but instead hopes to highlight that the market is much more fragile than its measurements at first suggest. Conventional measures seem to be increasing in opacity as accounting rules and policy regulations combine to create a distorted marketplace, driven by its political sensitivity and the multiplier effect housing has on the wider economy through sentiment. The size of these blind spots grows with the amount of distress in the market, so the market's measurements look healthiest precisely when distress is greatest.

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