Homebuyer Liquidity

and Mortgage Resilience

United States

Draft Regulatory Framework
and Empirical Analysis

19 September 2026

Contents

Purpose and scope

This publication sets out a draft regulatory framework for comparing a larger mortgage down payment with retaining accessible funds after a home purchase. It concerns owner-occupied home purchase in the United States, using conventional mortgage arrangements as the principal reference. It includes the proposed framework, empirical findings and conditional financial comparisons.

The central question is whether the same household resources provide better protection when used to reduce mortgage debt or to cover a temporary shortfall. The comparison includes the household's ordinary payment capacity, access to essential expenditure, the lender's credit losses and the cost of any external funding. A reserve financed by a larger loan and a reserve funded by a grant are distinct arrangements.

The provisions below consolidate the previously developed regulatory proposal. They are a research draft. The native normative calculation reported here compares a measured source-study outcome; the complete regulatory package has not been selected by that calculation. This document does not present an enacted entitlement or an implemented lending programme.

Draft regulatory framework

1. Comparison at mortgage origination

(1) The proposed assessment would compare eligible mortgage offers with a larger down payment against eligible offers retaining part of the household's purchase resources as accessible funds.

(2) Each comparison would state the full cost of the mortgage, the amount remaining accessible after completion, and the resulting capacity to meet housing payments and other essential expenditure.

(3) The assessment would distinguish retained personal funds from a grant, an insurance benefit and additional borrowing. An increase in debt would not be recorded as household income or public assistance.

2. Reserve adequacy

(1) Reserve adequacy would be determined by actual payment obligations, existing accessible funds and the uncovered household cash-flow shortfall.

(2) A uniform percentage of the property price would not be treated as a uniform period of protection. Principal, interest, property taxes, relevant insurance, association charges and applicable fees would be identified separately.

(3) The comparison would include the additional cost of a larger mortgage before a financial interruption begins, as well as the cost during the interruption. For variable cash flows, it would examine the lowest cumulative available balance over the relevant period.

3. Affordability and lending terms

(1) A smaller down payment would be accompanied by an assessment of the household's ability to service the resulting loan on its actual terms.

(2) The comparison would account for changes in the interest rate, mortgage insurance, upfront charges and servicing or account costs. Pricing on the whole loan would be distinguished from interest on the additional amount borrowed.

(3) Existing legal and product eligibility requirements would continue to apply. The proposed framework does not itself amend a loan-to-value limit or establish an exemption from ability-to-repay requirements.

4. Ownership and access to funds

(1) Unrestricted savings, a voluntary earmarked account with revocable payment instructions, and funds subject to withdrawal restrictions would be specified as separate alternatives.

(2) The terms of each alternative would identify ownership, permitted uses, withdrawal conditions, account costs and continuity when a mortgage servicer or account provider changes.

(3) Personal contributions and sponsor contributions would be identified separately where their access conditions differ. The existence of one restricted contribution would not be treated as evidence that all household savings are inaccessible.

5. Operation during financial difficulty

(1) A restricted-account proposal would specify whether funds can be used before arrears arise, the evidence needed to obtain them, the decision process and the treatment of essential non-mortgage expenditure.

(2) It would also specify what happens when the reserve is exhausted and how the arrangement interacts with available mortgage assistance or loss mitigation.

(3) These provisions do not select a mandatory withdrawal restriction, an administrative deadline or a hardship threshold. Each such condition forms part of the alternative whose consequences must be compared.

6. External funding and insurance

(1) Where external funding is proposed, its committed amount, source, access conditions and consequences for other recipients of the funding would be included in the comparison.

(2) An insurance alternative would be assessed on its actual premium, covered events, exclusions, payment limits and eligibility requirements. Its coverage would not be assumed to include every cause of household financial difficulty.

(3) Forecast reductions in default or public expenditure would be stated separately from funds actually committed to the programme.

7. Outcomes and coordinated assessment

(1) The comparison would retain mortgage arrears, loss of housing, household expenditure, access to essential needs, and the net position of the lender, insurer and funding source as distinct consequences.

(2) A reduction in one measured outcome would not by itself establish that every component of a regulatory package is preferable.

(3) Source-study effects, conditional financial calculations and target-population forecasts would retain their respective populations, time horizons and assumptions. The framework does not specify a national appropriation, mandatory reserve amount or commencement date.

Evidence informing the proposal

Anderson and Dokko study 480,738 subprime purchase mortgages originated in 2000-2007. Their quasi-experimental comparison uses the timing of the first property-tax payment after origination, with controls for borrower, loan and market characteristics. A first tax due date in months 10-12, rather than months 1-3, is associated with an adjusted reduction of 0.59 percentage points in first-year 60-day delinquency. The reported standard error is 0.21 percentage points. The resulting approximate individual 95% interval is -1.002 to -0.178 percentage points. [1]

The existing JudgeAI tensor calibration, consequence propagation and normative comparator were used for that source-context contrast. The later-tax-payment alternative was preferred on the measured serious-arrears coordinate. Other endpoints from the same cohort were retained separately, without treating them as independent studies. The coefficient was not assigned to a new reserve-account product.

Moulton and colleagues evaluate temporary mortgage assistance using cross-state metropolitan comparisons and a lender-participation instrumental-variable design. Their published 2022 result reports an approximately 40% relative reduction in default and foreclosure through four years after assistance. This supports investigating lasting effects of temporary support; it is not a forecast of the effect of the present draft. [2]

Gupta and Hansman distinguish borrower selection from the causal effect of leverage using variation in option adjustable-rate mortgages. Their evidence indicates that leverage effects vary with the borrower's equity position, with particular relevance around the negative-equity boundary. This motivates separate house-price and outstanding-debt scenarios alongside household cash flows. [3]

Cash-flow comparison

The following amounts are normalized per $100,000 of property value. They are not observations of a representative household. The calculation uses a 30-year mortgage and a common 6.95% rate to isolate the effect of loan size. Actual offers must replace the common-rate assumption.

Item	5% down payment	3% down payment
Mortgage principal	$95,000	$97,000
Additional funds retained	-	$2,000
Monthly principal and interest	$628.85	$642.09
Additional monthly principal and interest	-	$13.24

The reserve covers about 3.11 full principal-and-interest payments. Its ability to cover a partial shortfall is different. The next table calculates the maximum monthly shortfall in the original household budget that the reserve can meet, including the additional mortgage payment.

Duration of shortfall	Begins immediately	Begins after 36 months
6 months	$320.09 per month	$240.66 per month
12 months	$153.43 per month	$113.71 per month
24 months	$70.09 per month	$50.24 per month

These boundaries assume no initial accessible reserve, no subsequent net savings under the original loan, no deposit return, and no change in insurance, fees or the quoted interest rate. In the later-onset column, the larger mortgage has already consumed additional cash for 36 months. Taxes and other necessary expenses belong in the actual household budget used to determine the shortfall.

A reserve that covers only a few full payments can therefore cover a much longer partial interruption. At the same time, a finite reserve cannot solve an indefinitely unaffordable ordinary payment. The timing of the shortfall and the path of prior savings are material inputs.

Lender-loss comparison

Urban Institute reports historical default rates of 2.6% and 3.2%, and loss severities before mortgage-insurance recoveries of 14.6% and 16.6%, for two standard-loan categories. Reserve status is proxied by product category; this is not a randomized comparison of identical borrowers. [4]

Applying those severity anchors to explicitly assumed loans of $95,000 and $97,000 against the same property gives:

Calculated item	Larger down payment	Larger loan with retained reserve
Loss conditional on default	$13,870	$16,102
Reference default probability	2.60%	To be established
Reference expected credit loss	$360.62	Must be lower than $360.62
Break-even default probability	-	2.2396%

The required net reduction is more than 0.3604 percentage points, or 13.86% relative to the reference risk, before incremental programme costs. This is a required-effect threshold. It does not establish that the proposed reserve product achieves it. Insurance recoveries, actual programme costs and changes in contractual margin must be compared on the same basis and horizon.

Further alternatives and conditions of preference

JPMorgan Chase Institute examines liquidity and leverage jointly, including comparisons within loan-to-value ranges. These data help identify which differences a causal evaluation must explain. Their observed liquidity gaps are not automatically treatment effects. [5]

Self-Help's SAFE Home Savings provides a concrete account alternative: accessible personal contributions and sponsor contributions with their own conditions. The product supplies an operational example of separating the two sources of money, rather than assuming that a reserve must either be wholly unrestricted or wholly locked. It is not used as evidence of a measured default reduction. [6]

Established circumstances	Consequence for the comparison
Ordinary payment is sustainable; cash is scarce; the interruption fits within the accessible reserve	Retaining liquidity can cover a shortfall that the larger-down-payment option cannot cover; credit losses require the separate threshold comparison
A sponsor funds the reserve without increasing mortgage debt	The additional loan-service burden is avoided; sponsor cost and conditions remain relevant
A large predictable payment depletes cash soon after purchase	Payment timing or distribution must be compared with borrowing more
The ordinary household budget has a permanent deficit	Compare sustainable payment changes; a finite reserve only delays exhaustion
Existing accessible savings already cover the same interruption	Further financed reserves add no survival benefit for that covered event
Housing value is close to outstanding debt	Compare leverage and house-price scenarios explicitly
A medical, repair or work-related expense causes the shortfall	Access for that expense must be considered alongside mortgage payments

These are conditional comparisons of specified consequences. The draft preserves those distinctions when formulating the regulatory alternatives.

Sources

1. Anderson, N. B., and Dokko, J. K. Liquidity Problems and Early Payment Default Among Subprime Mortgages. Federal Reserve, FEDS 2011-09, Tables 5-6. Paper.

2. Moulton, S., and colleagues. Does Temporary Mortgage Assistance for Unemployed Homeowners Reduce Longer-Term Mortgage Default? Journal of Policy Analysis and Management 41(2), 515-551, 2022. Publication.

3. Gupta, A., and Hansman, C. Selection, Leverage, and Default in the Mortgage Market. Review of Financial Studies 35(2), 2022. Author manuscript.

4. Urban Institute. Using Mortgage Reserves to Advance Black Homeownership, 2023, Tables 2-4. Report.

5. JPMorgan Chase Institute. Trading Equity for Liquidity: Bank Data on the Relationship between Liquidity and Mortgage Default, 2019. Report page.

6. Self-Help. SAFE Home Savings. Product terms.

7. Freddie Mac. Primary Mortgage Market Survey. The numerical comparison retains the 17 September 2026 benchmark used in the underlying case analysis. PMMS.

8. Fannie Mae. Minimum Reserve Requirements and maximum loan-to-value eligibility. Reserve requirements; 97% loan-to-value options.

9. Consumer Financial Protection Bureau. Regulation Z, section 1026.43, minimum standards for transactions secured by a dwelling. Rule.