

WSJ Print Edition

The companies he regulates apparently can't track fraud.

Bill Pulte and His Book of Liar Loans

REVIEW & OUTLOOK

President Trump is weaponizing his federal housing regulator against political opponents, but does he think only Democrats fudge on mortgage applications? Now come reports that Texas Attorney General Ken Paxton may have done so too. If mortgage misrepresentations are this common, it's an indictment of Fannie Mae and Freddie Mac.

Federal Housing Finance Agency (FHFA) director Bill Pulte appears to be digging through the mortgage records of Mr. Trump's enemies. Mr. Pulte has access to these files because he oversees Fannie and Freddie, which combined guarantee about half of single-family mortgages. If Mr. Pulte can flyspeck mortgage inaccuracies, why didn't lenders or the two government-sponsored enterprises (GSEs) he regulates?

After the 2008 housing crash, Fannie and Freddie purportedly toughened underwriting standards. Lenders are supposed to scrutinize borrower credit reports, income statements and other documents for defects. No more "liar loans." But Mr. Pulte's charges raise questions about whether lenders and Fannie and Freddie are performing due diligence. ← Note

Take his allegation that New York Attorney General Letitia James took out a mortgage in 2001 on a Brooklyn five-unit dwelling that violated GSE rules. These rules stipulate that only properties with fewer than five units qualify as single-family residences. Larger properties are treated as multifamily properties, which require larger down payments and come with higher interest rates and guarantee fees.

Mr. Pulte says a certificate of occupancy for the property shows it has five units. These are public records, so why didn't the lender or GSE catch this apparent discrepancy on Ms. James's application?

The FHFA director also claims that his Democratic targets misrepresented second homes or investment properties as primary residences on mortgage applications to get more favorable loan terms. Mr. Paxton and his estranged wife claimed three Texas homes as "primary residences" in mortgage documents, according to press reports. Mr. Paxton's office didn't respond to a request for comment.

Interest rates are typically between 0.25% and 0.50% higher for mortgages on second homes, and 0.5% to 1.0% higher for investment properties, than for primary residences because they are riskier. FHFA also requires Fannie and Freddie to charge higher guarantee fees for such mortgages, which are passed on to borrowers. Lisa Cook, the Federal Reserve Governor Mr. Trump fired this week, allegedly took out two mortgages with two different lenders within a few weeks that were both claimed as "principal residences." Why didn't the GSEs catch this?

A 2023 Philadelphia Reserve Bank analysis of credit bureau files suggests broader GSE lapses. The researchers found that about one-third of investors misrepresent themselves as occupants. The study also found these borrowers "perform substantially worse than similar declared investors, defaulting at a 75 percent higher rate." ← Note

Fannie and Freddie say they use software to ensure loans meet underwriting and eligibility rules. Fannie says it randomly samples "performing loans for quality control review shortly after delivery." If a GSE finds that a mortgage doesn't meet its loan rules, the lender can be required to repurchase it, meaning it loses its taxpayer guarantee.

This means lenders have little incentive to enforce mortgage-agreement terms even when they become aware of defects. In any case, Fannie and Freddie rarely require lenders to buy back their loans. Only about one in 400 single-family mortgages is ever repurchased. Note

If Mr. Pulte is serious about tackling mortgage fraud, he'll focus on cleaning up Fannie and Freddie and expose loan liars regardless of party. Even better, he'd order Fan and Fred to stop guaranteeing second homes and investment properties so borrowers could only take out one taxpayer-backed mortgage.

Congress created Fannie and Freddie to spread home ownership, but these days they service the affluent. Second homes and investment properties that are stated as such on applications make up 8% to 9% of the GSE portfolios. Fannie and Freddie also guarantee singlefamily mortgages as large as \$1.2 million.

Messrs. Trump and Pulte want to release the housing GSEs from federal conservatorship, but the companies are a long way from ready for that. The fraud victims then could be taxpayers. Mr. Pulte should look first to the mortgage scandals on his own books.

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