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Defining A Mortgage Occupancy Fraud

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Trump officials are accusing another one of the president's political targets of mortgage fraud, highlighting a long-running issue in the housing industry.

President Trump on Wednesday publicly called for Federal Reserve governor Lisa Cook to resign following a claim on social media by one of his housing officials that she committed fraud by designating two properties as her primary residences.

Cook said in a statement to The Wall Street Journal that she has no intention to step down and that she was gathering information to provide the facts and respond to questions.

The Justice Department is probing similar claims against two of the president's most vocal Democratic critics, New York Attorney General Letitia James and Sen. Adam Schiff of California.

The allegations center on what is known as mortgage occupancy fraud, or when a borrower says he or she plans to use a property as a primary residence, even though it is a second home or an investment.

A spokesman for the Fed's board of governors had no immediate comment. A lawyer for Schiff has called the allegations "transparently false," while a spokesman for James has called them a "weaponization of the justice system."

Why would borrowers lie about the purpose of a home?

Lenders typically offer better terms on mortgages for a primary residence, and let people borrow more than they would for a second home or an investment property they may rent out.

For a primary residence, for instance, the down payment can be as low as 3% to 5%. For a second home, it's typically 10% to 20%. For an investment property, it's usually at least 20%.

Mortgage rates for a second home are also typically higher than the rate for a primary residence, said Garth Graham, senior partner at Stratnour Group, a mortgage advisory firm.

How common is mortgage occupancy fraud?

It's hard to pin down. In the past, lenders could check the distance between a new property and a person's workplace to see whether that individual was likely to live there. But the growth of remote work has made that vetting method less effective, Graham said.

The share of borrowers misrepresenting their occupancy status peaked at 6.8% during the housing bubble in 2006, then fell to between 2% to 3% in the post-bubble period, according to a Federal Reserve Bank of Philadelphia paper published in 2023.

Not everyone who has multiple mortgages for primary homes intended to cheat the system. Some people might initially plan to live in a home, but end up renting out the property because of a change in their life circumstances, like getting a new job.

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