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YOUR MONEY

When to Use a Mortgage Broker

By RON LIEBER

It's a bad time to be an honest mortgage broker.

In recent months, some of the biggest companies in real estate have decided to stop working with brokers. Chase won't lend to brokers' clients anymore. The PMI Group, one of the biggest companies in the mortgage insurance business, flat out refuses to underwrite any policies on loans that started with a broker.

Meanwhile, a bill is moving through Congress that would ban a common practice from a few years ago, where brokers earned more money by putting clients in loans that were potentially damaging. The legislators' ire is tarring even those brokers who never engaged in such shenanigans.

All of this is happening just as borrowers need plenty of guidance. Mortgage rates are low, fueling demand for refinancing. But banks' loan rules seem to change by the day, and many banks don't have the staff to handle the volume.

So if you're hoping to refinance or looking to snap up a bargain home in the next year or so, you're faced with a tricky question. Given the number of institutions that want nothing to do with mortgage brokers, shouldn't you stay far away from them as well?

The alternative, alas, may not be so great either. "If you want to get ripped off, go to a broker, and if you want incompetency, go to a bank," said Mike Stoffer, a mortgage broker himself with Stoffer Mortgage in North Canton, Ohio, who admitted to occasional shame when he tells people what he does all day.

Mr. Stoffer tosses off that comment with a slight chuckle. But his brave and brutal honesty suggests the real possibility of getting a raw deal from brokers when you don't understand where their loyalties lie.

Mortgage brokers work for themselves, not for you. They do not provide a personal shopping service and may compare only a handful of lenders on your behalf. If you want to be sure you're getting the best rate and the lowest costs, the only way to come close to succeeding is to hunt extensively on your own.

We'll get to that below, but first a brief interlude to explain why there is so much hate (and self-hate) in the industry. Take Chase, for instance. The bank is ostracizing mortgage brokers because it wants the most suitable loan applicants. In the past, the bank argues, more loans from brokers ended up troubled than other mortgages.

Nonsense, say the brokers, who say they believe that banks simply want to cut costs and reduce competition. “Over the last 12 to 15 years, we’ve held the majority of the market share in residential mortgages,” said Marc Savitt, president of The Mortgage Center, a mortgage broker in Martinsburg, W.Va., and the president of the National Association of Mortgage Brokers. “That happens because we give our customers good service and good rates. Otherwise, consumers wouldn’t be using us.”

But it’s also possible that consumers simply don’t know they could do better. A study for the Department of Housing and Urban Development published last year examined 7,560 30-year, fixed-rate Federal Housing Administration loans that closed in the middle of 2001. It found that when mortgage brokers were involved, borrowers paid about $300 to $425 more in fees than when consumers worked directly with lenders, other loan characteristics being equal.

“A lot of people went to a mortgage broker because they think the mortgage broker is out looking for the best deal for them,” Mr. Stoffer added. “My job is to offer very competitive rates and offer financial planning and competency.”

That, at least, is a start, but you shouldn’t limit your mortgage shopping to a single broker, and brokers don’t expect you to. Nor should you stop at just a couple of brokers. Here are three of the most important steps on your journey to home financing.

THE COMPARISON Shopping will be simpler if you pick a specific kind of loan and look only for that, say a 30-year fixed-rate mortgage with no points. Because rates (and terms) can change daily, take an entire weekday and make all your calls. This sounds severe, but there’s no other decent way to compare apples to apples.

Start with a credit union or two. Hit a few community banks. Then try a few big national banks nearby. Give your investment firm a shout and the bank that has your checking account, since they may offer you a deal. And if you’re refinancing, don’t forget your current lender.

Next, call a few mortgage brokers recommended by people you trust. Talking to more than one isn’t a breach of etiquette. “You’re making the largest financial decision of your life,” said Mr. Savitt of the mortgage brokers’ association. “Why not check out what everybody has got?”

THE COMPENSATION If you find mortgage brokers who can match or beat the best rate and deals you found elsewhere, see if you can get a straight answer to the question of precisely how they are getting paid. In general, they either make money directly from you via a fee of some sort or they get money from the lender (or some combination of the two).

Brokers may tell you not to worry, that their fee comes from the bank. Or they may say they merely mark up a wholesale interest rate (that a bank offers to the broker) to retail (which the brokers then offer to you).

This is fine as far as it goes, as long as the rate and costs are better than what you could get yourself (go ahead and check with the bank). The problems in recent years, however, came when banks offered more money to brokers who pushed certain loans or terms, say loans with interest rates that rose quickly and imposed penalties if the borrower refinanced within a few years.

“The ways brokers were paid created a conflict of interest and really meant that the broker to a very large extent was financially rewarded by betraying the trust of the borrower,” said Representative Brad Miller, a Democrat from North Carolina who co-sponsored the legislation in the House of Representatives.

Though many of the worst loans don’t exist anymore, it’s still worth asking mortgage brokers point blank whether their yield-spread premium — the industry term for the money they earn from lenders — could be lower if you were in a different type of loan. And if you don’t understand the answer, run it by an accountant or a more sophisticated friend whose compensation does not depend on the answer.

Working with a member of the Upfront Mortgage Brokers Association may help, since they’ve agreed to outline the sources and size of their compensation at the beginning of the process.

THE GUARANTEES If you’re comfortable with the answers so far, you’ve probably found a good match. There are plenty of mortgage brokers out there who earn their keep, and the best of them know much more about home loans than a bank officer will ever forget. Still, I’d test them with two more questions.

First, ask if they’ll guarantee the rate and costs in the good faith estimate they give you when you apply with a lender. “Good faith estimates are nothing but a sham,” said Mr. Stoffer, who has tried to fix what he sees as an industrywide problem by sticking to his own projections on the costs of the loan. “If I’m wrong on my good faith estimate, then I pay you. We should all have something binding upfront so people can shop.”

Second, ask if they’ll sign a piece of paper agreeing to work solely in your best interest. The legal word for this is “fiduciary, and Senator Charles E. Schumer has been trying to force this standard upon mortgage brokers for a couple of years. Representative Miller agreed that this would be ideal but that it was probably not politically realistic.

Maybe it isn’t. But that shouldn’t stop you from trying to hold your own broker to a higher standard.