

## How Do I Find an Ethical Mortgage Broker?

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The Mortgage Professor

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*"In one of your columns you said that you were working on a self-enforcing code of ethical conduct for mortgage brokers that would allow borrowers to distinguish between them and the rogues. Have you made any progress?"*

**Yes, but I could not have done it without the help of several ethical brokers, who wanted to conduct their business in an upfront and fully transparent way. They are Catherine Coy out of the Los Angeles area, Jeff Jaye from the San Francisco Bay area, and Kevin Iverson from Denver. I call these brokers Upfront Mortgage Brokers<sup>™</sup> – UMBs for short.**

**Here's how they work. At a customer's request, UMBs disclose their fees to customers in writing and in advance. At the customer's request, UMBs also disclose the wholesale prices (rates and points) they receive from lenders. Customers of UMBs pay the broker's fee plus wholesale loan prices.**

**Lenders offer wholesale prices to brokers because brokers perform costly services that lenders would otherwise be forced to provide themselves. The most important is finding, counseling and qualifying borrowers.**

**While UMB customers pay a disclosed broker's fee and the disclosed wholesale loan price, conventional mortgage brokers (MBs) add a markup to the wholesale prices, and quote only the resulting "retail prices" to customers. Their fee is the markup, plus any payments that they receive from lenders. Most MBs don't reveal their fees until required by law -- after an application has been submitted.**

**Because of the way they price their services, the UMBs interests are fully aligned with those of customers. In contrast, MBs are often in a conflict situation with customers.**

**Since the UMB's fee is stipulated in advance, customers are automatically credited with any rebates received from lenders that would increase the UMB's fee beyond what was agreed upon. MBs may or may not credit customers for such rebates.**

**When directed by the customer, UMBs will lock the terms (rate and points) of the loan, and will provide a copy of the written confirmation of the rate lock as soon as it has been received from the lender.**

**In contrast, some MBs will inform the customer that a loan has been locked, but not lock with the lender. This is often a source of extra profit to the broker but it exposes the customer to the risk of being left without a loan if interest rates explode during the lock period.**

**If a customer elects not to lock until shortly before closing, the UMB commits to provide the best wholesale price available on the day the loan is locked. MBs often increase their markup on such customers, who lose their bargaining power as they near closing.**

**By far the most important benefit consumers receive from dealing with a UMB is confidence that the broker is shopping the market in the consumer's behalf rather than in the broker's behalf.**

**Mortgage brokers can shop lenders much more effectively than consumers. Brokers are in the market every day, where consumers are in the market a few times during their lives. Brokers receive price information from lenders daily as a matter of course. They know the features of transactions that affect price. They have relationships with multiple lenders, and are therefore well positioned to find and shop among the lenders offering particular features.**

**UMBs also counsel borrowers on the loan programs that best meet their needs, and on methods of overcoming potential barriers to loan qualification.**

**UMBs will set themselves apart by maintaining web sites on which their commitment to customers is prominently displayed. For the current list, click [here](#).**

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