

Why Select an Upfront Mortgage Broker?

By Jack Guttentag
The Mortgage Professor

July 13, 2000

One of the reasons that conventional mortgage brokers conceal their fee as long as possible is a concern that consumers don't fully appreciate the value the brokers provide. Because consumers dealing with UMBs agree on a fee in advance, it is important that consumers also understand exactly what they are getting for their money, and what it might be worth.

In summary:

- *Consumers are assured of fair treatment because of pricing transparency, and the absence of conflict between broker and customer.**
- *Consumers get access to wholesale interest rates posted by lenders, which are about 3/8% below retail rates.**
- *Consumers receive the benefit of the broker's expertise and contacts in shopping multiple lenders for the best deal.**
- *Consumers receive the benefit of the broker's counsel on the least-costly loan programs that meet the customer's needs.**
- *Consumers receive the benefit of the broker's counsel on methods of overcoming barriers to loan qualification.**

***Passthrough of Wholesale Prices:* The UMB provides access to wholesale prices posted by lenders, as opposed to the retail prices consumers would be obliged to pay if they shopped lenders.**

Lenders offer lower prices to brokers because brokers perform costly services for them that they would otherwise be forced to provide for themselves. The most important of these services is finding and servicing customer needs. Absent mortgage brokers, lenders must maintain a costly sales and loan-processing force plus the infrastructure required to support it.

Lenders who operate through both wholesale and retail distribution channels quote wholesale rates on fixed-rate mortgages from .25% to .50% lower than retail rates. It tends to be a little higher on 15-year than on 30-year mortgages, and it varies from lender to lender. The average might be about .375%.

To determine what this is worth in upfront fees, the rate difference must be converted into points. This is an imperfect exercise because lenders vary widely in how they trade off rate against points. But as a rough rule of thumb, a .375% difference in rate is worth about 1.5 points. On an average loan of \$130,000, this amounts to \$1950.

***Assurance of Fair Treatment:* Customers of UMBs are not vulnerable to the various “tricks” of the mortgage broker trade. For example, customers who allow the rate and points to “float” with the market until near the closing date often are not given the best deal available because their bargaining power is gone. This does not happen with a UMB.**

***Shopping Lenders for the Best Price and Service:* 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 the transaction that affect the price and underwriting requirements. They have relationships with multiple lenders, and are therefore well positioned to find and shop among the lenders offering particular features. And they know the lenders who take 10 days to underwrite a loan and those who take one day.**

In addition, price differences between lenders are smaller in the wholesale market than in the retail market. This is because lenders know that brokers are careful and knowledgeable shoppers while most consumers are not.

The potential saving to a consumer from having the UMB do their shopping is very large, especially if they have weak credit. This is illustrated in the table below which shows the high and low rates quoted by retail lenders on a zero-point 30-year FRM in California, for borrowers with different credit ratings. On the day these data were compiled, the potential savings were as large as .625% for A-rate borrowers, and as large as 4.75%. for D-rated borrowers.

Borrower Rating	Lowest Rate	Highest Rate	Spread
A	7.875%	8.50%	0.625%
B	8.99	11.62	1.63
C	9.50	12.00	2.50
D	10.25	15.00	4.75

The actual saving depends on how effectively you would have shopped on your own behalf, if you had elected to do that rather than using an UMB. Only thorough and meticulous shoppers who place no value on their shopping time should disregard this source of value.

Counseling to Determine the Least-Costly Loan Program: Brokers also provide counsel on the loan program that best meets the customer's needs. Usually the customer doesn't realize the full benefit of careful program selection until later, perhaps years later, but sometimes the benefits are reaped upfront. Here is an example provided by a broker.

"This clients had excellent credit but little cash. They were prepared to take a first mortgage for 80% of property value at 8.75% plus a second mortgage for 10% of value at 11%. The weighted average interest rate would have been 9%. But because the client's wife is a doctor, they qualified for a niche loan offered only to doctors. The loan is for 100% of property value, at 8.5% and no points. This saved them .5% in rate."

It is difficult for borrowers to attach value to this, because they typically won't know about it when the UMB's fee is established.

Counseling on Difficult Qualification Cases: Many loan applicants have credit or other problems that pose difficulties in qualifying for a loan. The value added by a broker who finds a way to overcome such problems can be extremely high, though difficult to quantify.

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