

## Choosing a Broker vs. a Lender

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Homebuyers could be forgiven for not understanding the difference between mortgage brokers and mortgage bankers. They both sell loans. Why choose one over the other?

To an increasing degree, mortgage specialists say borrowers should not, in fact, necessarily choose one over the other – at least on the basis of the title alone.

“The lines between these functions have been blurring for years,” said

Keith Gumbinger, a vice president at HSH Associates, a financial publisher based in Pompton Plains, N.J. “We suggest people shouldn’t worry about the functionality, and instead treat all the potential mortgage outlets in the same way. No matter who you’re working with, you’re shopping for two things: price and customer service.”

Mr. Gumbinger and mortgage industry executives said the better that borrowers understand how mortgage lenders and brokers operate, and the better they understand their own credit characteristics, the more likely they will find a loan provider to satisfy both criteria.

Mortgage brokers play a pivotal, if often misunderstood, role in the borrowing process. Brokers track the continuously changing wholesale mortgage market, looking for loan terms that will benefit their clients, yes, but also loans that benefit their own businesses.

Brokers may, for instance, find a good loan for a borrower, but their primary objective is to make a profit off the transaction. If a borrower’s credit characteristics make him an ideal candidate for a loan that they can sell to the borrower at a profit, the brokers may work especially hard to earn the borrower’s business.

On the other hand, the borrower’s credit might qualify him for a subprime (or high-interest) loan that the broker has little experience with, and little interest in selling. Or, the borrower’s application might require extra paperwork to shore up a weak credit or employment history.

Brokers will generally have access to a wider array of loan products than mortgage bankers, and so they will often be better able to serve such applicants. But if the applicant does not fit the broker’s typical portfolio, he may compete less vigorously for the borrower’s business, pricing the loan higher than other lenders with the time or willingness to serve such applicants.

Of course, the same is true for mortgage bankers, who in years past sold only loans funded directly by their financial institutions. But over the past decade, Mr. Gumbinger said, mortgage banks and their loan officers have begun acting like brokers, selling loans on behalf of other institutions when their own products do not suit an applicant’s needs. Like brokers, lenders who do this will build profit into the price they quote borrowers, just as they would when selling their own institution’s loan directly.

For those hoping to get the best price and service, Mr. Gumbinger said, shopping around is a must, and an open mind helps. “You’ll probably find that the least expensive loan comes from places you’ve never heard of,” he said. “The lower the overhead costs for the broker, the more likely you’ll find lower prices.”

But lower-cost brokers frequently do not have money to advertise widely, Mr. Gumbinger added. “That’s why referrals become so important,” he said.

Even with a solid referral, though, borrowers should approach prospective lenders with a good sense of what they want. “Tell them you’re buying a home in this specific location, your credit score is 760, you’re looking for a 7/1 ARM with no points, and you don’t want to spend more than \$1,000 in broker fees. Then ask what kind of rates they can offer today.”

The more precisely borrowers know their circumstances and can define themselves for the broker or lender, the more efficient the process will be for everyone involved, Mr. Gumbinger said. “And it’ll also make it easier to spot a good deal.”

**Some mortgage brokers simplify the process further, by guaranteeing their fees at the start of the process, rather than exposing borrowers to surprise costs at the closing. These businesses are easily found through the Upfront Mortgage Brokers, a nonprofit group consisting of brokers who pledge, among other things, to guarantee their fees and disclose the wholesale cost of the loans they sell.**

**A state-by-state list of Upfront Mortgage Brokers and a more in-depth explanation of the organization can be found at [www.mtgprofessor.com](http://www.mtgprofessor.com).**

**A corresponding list and full description of Upfront Mortgage Lenders, who disclose and guarantee their fees early in the negotiation process, also appears on the site, although borrowers looking for just the list can save themselves a few clicks. The only lenders who currently participate in the program are [Eloan.com](http://Eloan.com) and [Amerisave](http://Amerisave).**