

What Do Mortgage Brokers Do, and Should I Use a Mortgage Broker?

What does a mortgage broker do?

A mortgage broker connects lenders and potential borrowers. Brokers are independent agents that market mortgage loans, typically from a number of different lenders.

What are the broker's responsibilities to a borrower?

Many people believe mortgage brokers have a fiduciary responsibility to the borrower. But a broker does NOT have any legal responsibility to a borrower, and a broker is NOT required by law or regulation to make an effort to find a borrower the best loan she or he is eligible for. This is important to remember if you choose to work with a broker.

Who regulates brokers?

Brokers are regulated at the state level. States establish the requirements necessary for brokers to receive a license to operate. But most states do not provide oversight or regulation beyond the licensure requirements. Banks, on the other hand, are heavily regulated.

New federal regulations that come into effect on January 1st, 2010 will require brokers as well as lenders to provide consumers with more information about the products they sell. You can find out more on the FMC fact sheet on “New Federal Mortgage Lending Regulations.”

How are brokers compensated?

Brokers typically receive two forms of compensation. They typically receive an origination fee — a percentage of the loan amount that is supposed to compensate them for their efforts.

Brokers may also receive a “yield spread premium” — a payment that reflects the difference between the rate that the borrower pays and the lender’s rate for that particular loan product. Yield spread premiums have been extremely controversial, because they give brokers a powerful incentive to market loans with high interest rates. Some lenders will not pay the broker a yield spread premium unless the loan contains a “pre-payment penalty,” which makes it expensive or difficult for the borrower into the (high-cost) loan.

What are the advantages of working with a broker?

Brokers typically offer a range of loan products from by different lenders, and have access to many different products that a product that may match your needs closely.

Brokers can also provide customers with a very personalized service.

What are the drawbacks of working with a broker?

Brokers do not control the lending process to the same extent the bank does because the broker does not actually make the loan. As a result, it is sometimes possible that the bank will raise new questions about a loan package a broker has submitted.

Advocacy organizations have argued that during the past ten years a large number of brokers steered consumers to high-cost, high-risk mortgages so that the brokers could earn higher fees. One study in particular found that consumers with subprime mortgage loans they received through brokers paid thousands of dollars more than similar borrowers who received their loans directly from banks. A link to this study, and other research on brokers, can be found on the Fair Mortgage Collaborative website.

What is the bottom line?

A mortgage broker can help you find a mortgage loan that meets your needs. But you should remember that brokers are not obligated to find you the best product, and that many borrowers have encountered serious problems working with brokers in the recent past.

If you decide to work with a broker, consider an “ethical” broker certified by a third party. And use the materials provided on the “About Predatory Lending” section of this site to watch carefully to make sure that you are not being offered products with any high-risk or predatory features.