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Choosing a Mortgage Lender – Mortgage Banker or Broker?

If you have been following the national mortgage news lately, you may have heard about the blame game begin played by mortgage bankers and mortgage brokers in regards to the current troubles in the subprime loan market.

Last Tuesday, John Robbins, chairman of the Mortgage Bankers Association (MBA,) blamed mortgage brokers for the lax lending standards that have led to the rise in foreclosures among poor credit borrowers. "Who made this mess?" he asked. "The short-term folks. (Brokers.) People who get a commission when the deal happens. For them, it's the number of loans that counts. Good loan? Bad loan? Who cares? For them it's all about their commission."

Harry Dinham, president of the National Association of Mortgage Brokers (NAMB,) hotly retorted that mortgage bankers shared equally in the blame. "It is truly unfortunate (Robbins) has attempted to shift blame away from ...federally chartered banks, state-chartered lenders and underwriters for the subprime situation we find ourselves in today," Dinham wrote. He also commented that "most residential mortgage loans are quickly sold into the secondary market — in fact most lenders (bankers) are really just brokering the transaction but afraid or ashamed to admit it."

Fortunately both camps have made serious stride in tightening their lending standards over the past few months. Still, with such accusations flying around, you may not know who you should turn to for your next mortgage loan. Learning more about the role of each may help dispel your fears about greedy brokers or indifferent bankers. And just as both organizations have plenty to say about each other, they also have plenty to say about why their group make the best mortgage lenders.

Mortgage Bankers

According to statements from Steve O'Connor, senior director of residential finance for the MBA, mortgage bankers are the ones who make the ultimate credit decision on your loan. They are the ones who fund the loan, so "Why not go directly to the source?" say O'Connor. "And it can be cheaper, and perhaps faster, if you go to the source of the goods," he said. Mortgage bankers will run a credit check, examine all of your income and assets documents and approve your loan based on their findings. The limitation of dealing with a banker is that he can only offer you loan programs supported at his company. If you decide to go with a banker, you should shop around among bankers to find the best deal and rates as well as check on his business practice history by going to your state's banking department website.

Mortgage Brokers

Brokers are middlemen. In essence, they do the mortgage shopping for you as they work with dozens of different mortgage bankers and have more flexibility in finding a program right for your needs.

"The whole thing about a broker is choice," said former NAMB vice president Neill Fendly. "The broker has access to the products of hundreds of lenders, not just one lender's programs."



Brokers will also do the preliminary work of checking your credit and compiling your documents and then they will submit your loan paperwork to a banker. Once your loan is accepted your broker will become a minor player in your mortgage, as your loan is turned over to the banker for servicing.

It is still important to shop around for a good broker, and you should check out her background by visiting the Better Business Bureau's website.