

## MORTGAGES

# Mortgage brokers: What they are and how they can help



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7 MIN READ

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## **B** The Bankrate promise



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From finding the best interest rate and lowest fees to completing the application and closing the loan on time, mortgage brokers are well-versed in the experience of getting a mortgage. Working with a mortgage broker to navigate today's market can be a wise move, especially for a first-time homebuyer.

## What is a mortgage broker?

A mortgage broker is a go-between who matches borrowers and mortgage lenders. If you're buying a home or [refinancing](#), a broker can help you [find the best mortgage](#) for your particular needs and situation.

“A mortgage broker not only helps you get the most competitive rates and pricing, they also help make sure your loan is a good match with the particular lender,” explains Andrew Weinberg, principal at Silver Fin Capital Group in Great Neck, New York. “They can quickly determine the best lender for each individual borrower.”

If you're seeking an [FHA loan](#) or a [VA loan](#), for example, a mortgage broker who has experience working with those loans can simplify the process for you.

Part of a mortgage broker's job is to "do the math" and tell a borrower what size mortgage they could qualify for, says Rick Masnyk, a branch manager at Network Funding in North Smithfield, Rhode Island.

A mortgage broker is not a lender of mortgage funds, however. Brokers [originate mortgage loans](#) and place them with lenders, who then disburse the funds at closing.

A mortgage broker has access to more lenders and mortgage products than a bank [loan officer](#), who is limited to the mortgages provided by the bank.

## **Mortgage broker vs. lender vs. loan officer**

The difference between a mortgage broker and a lender is that a broker doesn't lend the funds for mortgages. Rather, brokers originate and close mortgage loans between lenders and borrowers. Brokers partner with a variety of lenders, including commercial banks, credit unions, mortgage companies and other financial institutions, and can work independently or with a brokerage firm.

In contrast, a loan officer is employed by a bank, credit union or other lender and is limited to providing the loan products their employer offers. Generally, loan officers assess borrowers and either authorize or recommend approval for loans.

A loan officer might not be as knowledgeable as a broker. Mortgages are a broker's daily bread, but a loan officer could be handling other types of loans, too, and may not be as familiar with mortgage loans as a mortgage broker is.

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In addition, a borrower who gets a mortgage straight from a commercial bank could end up paying more because of the bank's overhead. Instead, a broker might be able to get you a loan with a better rate from the bank's wholesale division.

Still, banks often contend that they're a better go-to for a mortgage, especially for borrowers who have been with the same bank for a long time, and that they're more secure because they have heftier portfolios.

## What does a mortgage broker do?

A mortgage broker works with everyone involved in the lending process — from the real estate agent to the underwriter and closing agent — to make sure a borrower gets the best loan and the loan closes on time.

A broker can work independently or with a brokerage firm. Mortgage brokers research loan options and negotiate with lenders on behalf of their clients. A broker can also pull the buyer's credit reports, verify their income and expenses and coordinate all of the loan paperwork.

Many brokers have access to a powerful loan-pricing system, as well, which prices a mortgage loan across many lenders at one time, thereby speeding up and streamlining the process.

## Pros of working with a mortgage broker

- ~~A mortgage Broker can help you save on fees:~~ When you obtain a mortgage, you're likely to be charged an [origination fee](#), application fee, [appraisal fee](#) and more. A mortgage broker may be able to get the lender to waive some or all of those fees.
- ~~A mortgage Broker can save you money on the loan itself:~~ Brokers have access to a broader assortment of loans and lenders and may be able to find a better deal than you could get for yourself.
- ~~A mortgage Broker can save you time:~~ Brokers can do all the research on rates and fees; they negotiate for you and keep the mortgage process on track.
- ~~A mortgage Broker can save you from making a big mistake:~~ Brokers can help you avoid pitfalls because they know the mortgage industry, the differences among lenders and the twists and turns in the mortgage process.
- ~~A mortgage broker can find the right lender for tricky situations:~~ If your credit history isn't great or the property you're buying is unusual, a broker can find a lender who has more flexibility with credit scores and down payment amounts or who specializes in certain types of properties.

## Cons of working with a mortgage broker

- ~~Not all lenders work with mortgage Brokers:~~ Brokers may not have access to all loan programs at certain financial institutions.
- ~~You might have to pay the broker:~~ Before hiring a mortgage broker, ask how they get paid. Usually, the lender pays the broker fee, but sometimes the borrower pays.
- ~~There is potential for conflict of interest:~~ If a lender pays a mortgage broker a commission, the broker could favor that lender and you might not get the best deal available.

- A broker's [estimate](#) may not represent the final terms of the deal: Based on the information in your application, the lender may charge a higher rate or fees, and the cost of your loan may be higher than what you expected.

## How does a mortgage broker get paid?

The mortgage lender usually pays the mortgage broker a fee or commission after the loan has closed. Some brokers charge the borrower directly, instead of the lender; in these cases, it's typically a flat fee that can be financed with the mortgage or paid at closing.

## How much does a mortgage broker cost?

The broker's commission (which is usually paid by the lender) varies, but it typically ranges from 0.50 percent to 2.75 percent of the loan principal. Federal law caps broker fees at 3 percent and requires that they not be linked to the interest rate on a loan.

"Most brokers do not charge the borrower anything at all in most scenarios," says Weinberg. "The compensation paid to the broker by the lender does not add a penny to the borrower's closing costs, just like the compensation paid by the big banks to their... loan originators doesn't add to your closing costs."

"Prior to the (2008) economic downturn, consumers didn't see how much a broker got paid, but in today's mortgage climate, the cost of the loan is charged to the borrower and the lender purchasing the loan provides a credit equal to that cost, resulting in no cost to the borrower," adds Masnyk.

In the few instances a broker does charge the borrower for their services, borrowers can expect to pay a fee between 1 percent to 2 percent of the loan principal. Before you

commit to working with a broker, ask about fee structure and what you might be responsible for paying, if anything (more on that below).

## Questions to ask a mortgage broker

Before you get too far into the process with a mortgage broker, ask these [key questions](#):

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How much do you charge and who pays your fee?



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Which lenders do you work with?



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How much experience do you have?



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Are you licensed to do business in my state?



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Do you have references?



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How do you handle rate locks?



## How to choose a mortgage broker

Finding a mortgage broker requires a bit of homework. You can start by asking your real estate agent, friends and family for referrals. Read [online reviews](#) and check with the Better Business Bureau for complaints, as well.

As you explore your options, look beyond the basic services the broker offers. Consider their communication style, level of expertise and how they manage their clients' needs.

Interview a few brokers, and don't be afraid to ask plenty of questions before moving forward. If you aren't comfortable with the way someone does business, you can always work with someone else.

Ultimately, the burden is on you to find the best mortgage provider, whether through a broker or loan officer, and to shop around for the best rate and lowest costs.

## **Should I use a mortgage broker?**

A mortgage broker helps all kinds of borrowers get the best deal, and this commitment can be especially useful for borrowers with unique circumstances, such as bad credit or a desire to purchase a certain type of property. In addition, a mortgage broker can help you find the best rate in a rising rate environment.

There's no reason not to work with a mortgage broker, Masnyk says. Borrowers who use a mortgage broker get the benefit of a more personal experience and having a licensed professional do the legwork for them.

"Working with someone you can see face to face and/or someone your Realtor has used in the past and trusts is always a great source," Masnyk says.



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