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Mortgage Brokers: Advantages and Disadvantages

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Mortgage Brokers: An Overview

A [mortgage broker](#) acts as an intermediary between someone who wants to buy real estate and those offering loans to do so. Mortgage brokers help would-be borrowers find a lender with the best terms and rates to meet their financial needs.

In the wake of the [real estate market crash](#) in 2008, the business practices of brokers came under scrutiny, and the question of whether they act in customers' best interests was raised.

Working with an experienced, competent mortgage broker can help you find the right mortgage. All the same, there are advantages and disadvantages to using a mortgage broker. You should weigh them carefully before committing to one.

KEY TAKEAWAYS

- Working with a mortgage broker can potentially save you time, effort, and money.
- A mortgage broker may have better and more access to lenders than you have.
- However, a broker's interests may not be aligned with your own.
- You may get a better deal on a loan by dealing directly with lenders.
- When you meet with possible mortgage brokers, ask them to detail how they'll help you, all their fees, the lenders they work with, and their experience in the

Mortgage Broker vs. Lender vs. Loan Officer

Mortgage Broker

A mortgage broker performs as go-between for a financial institution that offers loans that are secured with real estate and individuals who want to buy real estate and need a loan to do so.

The mortgage broker works with both borrower and lender to get the borrower approved for the loan. They also collect and verify all of the necessary paperwork that the lender needs from the borrower in order to complete the home purchase.

A mortgage broker typically works with many different lenders and can offer a variety of loan options to the borrower.

A borrower doesn't have to work with a mortgage broker. They can work directly with a lender if they so choose.

Lender

A lender is a financial institution (or individual) that can provide the funds for the real estate transaction. In return, the borrower pays back the funds plus an agreed upon amount of interest over a specific span of time.

A lender can be a bank, a credit union, or other financial enterprise. Potential home buyers can go directly to any lender for a loan.

While a mortgage broker isn't necessary to facilitate the transaction, some lenders may only work through mortgage brokers. So if the lender you prefer is among those, you'll need to use a mortgage broker.

Loan Officer

loans offered by the lender.

They'll answer all questions, help a borrower get pre-qualified for a loan, and assist with the application process. They can be your advocate as you work to close the loan.

Tip: Mortgage brokers don't provide the funds for loans or approve loan applications. They help people seeking home loans to find a lender that can fund their home purchase.

How to Choose a Mortgage Broker

- Start by making sure you understand what a mortgage broker does.
- Then, ask friends, relatives, and business acquaintances for referrals.
- Take a look at online reviews and check for complaints.
- When meeting prospective brokers, get a feel for how much interest they have in helping you get the loan you need.
- Ask about their experience, the precise help that they'll provide, the fees they charge, and how they're paid (by lender or borrower).
- Also ask whether they can help you in particular, given your specific financial circumstances.

Advantages

A Broker May Save You Legwork

Mortgage brokers have regular contact with a wide variety of lenders, some of whom you may not even know about. They also can steer you away from certain lenders with [onerous payment terms](#) buried in their mortgage contracts.

That said, it is beneficial to do some research of your own before meeting with a broker. An easy way to quickly get a sense of the average rates available for the type of mortgage you're applying for is to search rates online. Then use an online mortgage calculator to calculate loan details. Tools like this let you compare rates easily and provide you with extra knowledge when assessing a mortgage broker's credibility.

A Broker May Have Better Access

suitable clients. Brokers may also be able to get rates from lenders that might be lower than what you can get on your own due to the volume of business they generate for a lender.

A Broker May Be Able to Manage Your Fees

Several different types of fees can be involved in taking on a new mortgage or working with a new lender. These include [origination fees](#), application fees, and [appraisal](#) fees. In some cases, mortgage brokers may be able to get lenders to waive some or all of these fees, which can save you hundreds to thousands of dollars.

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Disadvantages

A Broker May Not Source the Best Deal for You

Many home buyers simply assume that a broker can deliver a better deal than they could get on their own, but this is not always the case. Some lenders may offer home buyers the very same terms and rates that they offer mortgage brokers (sometimes, even better).

It never hurts to shop around on your own to see if your broker is really offering you a great deal. As mentioned earlier, using a mortgage calculator is an easy way to fact check whether you can find better options.

You May Owe a Broker Fee

Mortgage brokers are paid either by the lender or by you. If the fee is covered by the lender, you need to be concerned about whether you'll be steered to a more expensive loan because the commission to the broker is more lucrative. If you pay the fee, figure it into the mortgage costs before deciding how good a deal you are getting. And be sure to settle all fee issues upfront before you start working with a broker or sign anything.

Important: Spend some time contacting lenders directly to obtain an understanding of which mortgages may be available to you.

Brokers Often Do Not Guarantee Estimates

When a mortgage broker first presents you with offers from lenders, they often use the term [good faith estimate](#). This means that the broker believes that the offer will embody the final terms of the deal. However, this isn't always the case. In some instances, the lender may change the terms based on your actual application, and you could end up paying a higher rate or additional fees.

mortgages were more likely to go into [default](#) than those sourced through direct lending. ^[1] By working through a broker, you may not have access to these lenders, [some of whom](#) may be able to offer you better mortgage terms than you can get through the broker.

What Does a Mortgage Broker Do?

A mortgage broker aims to complete real estate transactions as a third-party intermediary between a borrower and a lender. The broker will collect information from an individual and go to multiple lenders in order to find the best potential loan for their client. They will [check your credit](#) to see what type of loan arrangement they can originate on your behalf. Finally, the broker serves as the loan officer; they collect the necessary information and work with both parties to get the loan closed.

How Much Does a Mortgage Broker Cost?

A mortgage broker may be compensated through a combination of fees paid from borrowers and commissions that are paid out by the lending institutions who want them to [originate loans](#). The costs vary greatly but a mortgage broker generally earns between 1% and 3% of the total loan amount. The total amount paid by the borrower will vary based on the type of loan, what broker is used, and how much the broker is earning in commissions from the lending institution.

A mortgage broker's pay could show up on your [closing costs](#) sheet in a variety of ways. They may charge loan origination fees, upfront fees, loan administration fees, a [yield-spread premium](#), or just a broker commission. When working with a mortgage broker, you should clarify what their fee structure is early on in the process so there are no surprises on closing day. ^[2]

When Does a Mortgage Broker Get Paid?

A mortgage broker typically only gets paid when a loan closes and the funds are released. Some lenders pay mortgage brokers based on their own accounting schedules, which can be up to 30 days after the closing of the loan. The majority of brokers don't cost borrowers anything up front and they are generally risk-free.

You should use a mortgage broker if you want to find access to home loans that aren't readily advertised to you. If you don't have amazing credit, if you have a unique borrowing situation like owning your own business, or if you just aren't seeing mortgages that will work for you, then a broker might be able to get you access to loans that will be beneficial to you. Many individuals prefer to work with a broker regardless of their situation because it gets them access to lenders they wouldn't think to look for. Mortgage brokers may also be able to help loan seekers qualify for a lower interest rate than most of the commercial loans offer.

The Bottom Line

Do you need a mortgage broker? Well, working with one can save a borrower time and effort during the application process, and potentially a lot of money over the life of the loan.

In addition, some lenders work exclusively with mortgage brokers. That means that borrowers get access to loans that would otherwise not be available to them. What's more, brokers can get lenders to waive application, appraisal, origination, and other fees.

It's critical to examine all the fees, including those you might have to pay the broker, those you may owe the lender, and any fees the broker can help you avoid. Looking at all the pros and cons of using a mortgage broker can help you make your decision about whether you need one.

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1. Federal Housing Financing Agency. "Liar's Loan? Effects of Origination Channel and Information Falsification on Mortgage Delinquency," https://www.fhfa.gov/PolicyProgramsResearch/Research/PaperDocuments/Liars-Loan_N508.pdf." Page 30.

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