

## **Should I do business with a broker or a lender?**

### **Watch for booby traps in the mortgage-shopping minefield**

If borrowers could shop for home loans as easily as they can shop for the houses that secure the loans, it wouldn't matter whether you dealt with a broker or a lender. You would shop the market for the best price, and whether the loan provider offering it was a broker or a lender wouldn't matter. Because the home loan market is so difficult to shop, however, the type of loan provider can matter to some borrowers.

The key difference between brokers and lenders is that brokers offer loan programs from many different lenders. This means that brokers are more likely to find a loan that will meet the specialized needs of borrowers than a single lender.

For example, many lenders won't offer loans to borrowers with poor credit, borrowers who can't document their income or assets, borrowers who want a mortgage on which the payment starts low and rises over time, borrowers who can't make any down payment, borrowers who want to purchase a condominium as an investment, borrowers with very high existing debts, borrowers who need to close within 72 hours, or borrowers who reside abroad. The list goes on and on.

But there are lenders in every one of these niches, and brokers can usually find them when needed. The implication is that borrowers with special needs such as these can save much time and effort by patronizing a broker.

Borrowers who fall into generic market niches that are serviced by all lenders can go either way. Their decision should be based on whether they want to shop the market on their own, or whether they prefer to retain a broker to shop for them.

If you elect to shop on your own, you are exposed to all the booby traps that await the unwary in this market. Here are just a few:

- Loan prices are reset every day, so you can't compare A's price on Monday with B's on Tuesday.
- Loan prices depend on the type of loan, loan features, type of property, purpose of loan, and more. Unless you specify them all, A may give you the price of a sedan and B the price of an SUV.
- Loan prices have at least three price dimensions (interest rate, fees expressed as a percent of the loan, and fees expressed in dollars). If you don't take them all into account, you may not select the lowest overall price.
- Lenders and brokers do not guarantee prices until they are locked, and some give "low-ball" quotes to snare the business. If you don't know how to avoid phony price quotes, you may be snared.

Those who elect to shop for themselves should read "Steps in Shopping For a Mortgage," which is available on my Web site. It will guide you on how to deal with these and other impediments to

effective shopping.

If you don't feel up to the challenge and would prefer to delegate responsibility to someone else, go with a mortgage broker. Brokers are experts at shopping the market. They are far better positioned than consumers to select the best deal available from competing lenders on the day the terms of the loan are locked.

The problem in dealing with a broker is that most brokers view themselves as independent contractors, and as such their interests are not fully aligned with those of borrowers. The broker's income on a transaction is the mark-up of the wholesale price quoted by the lender. The higher the price the broker can induce the borrower to pay, the larger the markup.