

Jack M. Guttentag The Mortgage Professor**What Makes a Good Mortgage Broker?****Part I**

Posted on Wednesday, April 2, 2008, 12:00AM

In the past 10 years, I have written almost 50 articles on different mortgage broker topics, but none of them addressed the most basic topic of all: What makes a good broker?

Perhaps it took 10 years before I was ready to confront this question, along with its obvious corollary: How do you know a good broker when you see one?

Loan officers who are employed by a single lender operate very much like brokers, except they provide the programs of only one lender. Most of what I say below applies as much to them as to brokers.

To help me on this, I enlisted support from five brokers across the country: Catherine Coy (California), Christopher Cruise (Maryland), Jeff Jaye (California), Kevin Iverson (Colorado) and Don Romano (New York). They agreed on most but not all issues, and they may not agree with all the views expressed below.

Good brokers are selected by borrowers, rather than the reverse

Poor brokers must constantly solicit, whereas good brokers enjoy referrals from previous customers, Realtors, and others. It is not the case that good brokers never solicit, but the odds are in the borrower's favor if the borrower does the selection.

One acid test of a good broker is whether the broker will tell a client that a contemplated refinance is not in his interest. The broker who has a constant source of referrals is much more likely to do this than one who purchased your name and address from a leads broker.

A good rule: Do not respond to solicitations.

Good brokers are financial planners

Mortgages should fit properly into a household's overall financial situation and goals, which often involves challenging questions. Here is an abbreviated list of some important ones:

- What is the best type of mortgage for this borrower?
- How much should the borrower put down?
- Should the borrower pay points or receive rebates?
- Should the borrower raising cash take a second mortgage, or do a "cash-out" refinance?
- Should the borrower putting less than 20 percent down buy mortgage insurance, take lender-pay insurance at a higher rate, or take a piggyback second mortgage?
- Will it pay the borrower to refinance?
- Should the borrower consolidate other debts in a refinance?
- Should the borrower use available cash to pay down debt, pay points, or make a larger down payment?

There is no single conclusive test of a broker's skills as a financial planner, but there are clues in how the broker responds to your questions regarding one or more of these or similar issues.

- **A good sign:** The broker indicates what the answer to your questions depends on, e.g., whether you should pay points depends heavily on how long you expect to have the mortgage.
- **An even better sign:** The broker indicates a specific analytical tool he will use to answer the question, such as a specific calculator or spreadsheet.
- **A bad sign:** The broker gives you an answer right off the bat.

Good brokers are good listeners

Every borrower brings a unique package of needs, capacities, and preferences to the table. Unless the broker extracts this information at an early interview, the risk is high that the broker's recommendations will not fit. The shrewd borrower can tell a lot about the broker from that interview.

- **A good sign:** Before offering any opinions, the broker quizzes you about your financial status and plans.
- **A bad sign:** The broker pretends to know what mortgage type you need, or the answer to any other issue that may be vexing you, without having first learned anything about you.

Good brokers will act in your interest in dealing with the lender and third parties

They will guarantee the lender fees first presented to you in the Good Faith Estimate, preventing any fee escalation. And they will seek out the best possible prices for third-party charges, such as title insurance. Some brokers have special arrangements to pass on discounts to their clients, while others select providers who give brokers the best Christmas presents.

- **Ask if the broker guarantees that lender fees won't be higher at closing.**
- **Ask if title charges are competitive, and how the broker knows this.**
- **Ask if the broker guarantees that third-party fees won't be higher at closing.**

A good broker operates transparently

The broker who keeps you in the dark is the one most likely to sacrifice your interests for his pay day.

- **Ask what the total fee will be, including any payments received by the lender, and if this will be put in writing.**
- **Ask if you can get a copy of the rate-lock statement as soon as it has been received from the lender.**

What Makes a Good Mortgage Broker?

Part II

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Last week I brought you some tips on how to know a good mortgage broker when you see one. Here are some more points to consider when you are in the market for a broker.

Good Brokers Will Not Quote Low-Ball Prices

Accurate pricing depends on a number of borrower, property, and transaction characteristics. If these are not known or used, the price cannot be accurate. Loan originators who quote the best prices possible -- and sometimes even better than the best possible -- with the intent of roping in the customer are low-balling.

Avoid any broker who quotes a price without first quizzing you about loan size, down payment, loan purpose, type of property, use of property, state, credit score, and documentation of income and assets.

Don't tempt a broker to low-ball by requesting a price on the telephone.

Good Brokers Try to Find the Best Price Available

You can't take this for granted because it can be tedious work. Brokers get their prices from wholesalers in the form of very complicated price sheets, all of which are formatted differently, making comparisons difficult. Further, while pricing the loan, the broker must also be mindful of getting the loan approved.

There isn't any very good way to monitor this, but you can ask the broker to show you rate sheets from the lenders he checked. This is not so that you can compare prices -- that would require a lot of instruction -- but simply to verify that the information is there.

Good Brokers Are Masters of Detail

Mortgages have many details that must be attended to before a loan can close. Overlooking even one can delay the closing, which could be costly to the borrower.

Good brokers avoid this danger using the same tool that is standard for airplane pilots about to take off, and increasingly in hospital intensive care units: a checklist. This is a low-tech device that has been shown to save lives, and it can also save a mortgage.

Ask the broker to show you her checklist, but don't expect to be able to keep it.

Good Brokers Keep Their Clients Informed

Failure to keep a borrower informed is one of the most frequent criticisms of brokers that I hear from borrowers, especially on purchase transactions where borrowers are faced with a firm closing date. Brokers often fail to let borrowers know that, while there is no news to report, matters are proceeding on schedule.

Negotiate an agreement with the broker on both the type and frequency of communications.

Good Brokers Attend Closings When Needed

Having a broker attend a closing may not always be feasible because the closing is too far away, and sometimes it isn't necessary because the borrower has been through the drill before. But if the borrower is a novice, having the broker available to help explain things is a major source of comfort.

If relevant to you, ask the broker if she will attend the closing.

Good Brokers Get Documents From Lender Prior to Closing

Obtaining all documents from the lender provides the borrower with an opportunity to read them at their leisure and clarify any issues. This may be more useful to the borrower than having the broker at the closing.

Ask the broker if you will have access to the final documents at least two days prior to closing.

Good Brokers Are Experienced

Mortgage transactions are complicated; there is much to learn, and brokers learn most of it by doing it. While more states are moving toward required examinations as a condition for licensing, the rules are spotty and not to be relied on. It is still possible for a borrower to be confronted with a broker who, a week earlier, was flipping burgers.

Ask the broker to summarize his work experience over the past 10 years.

Good Brokers Communicate Effectively With Borrowers

Poor brokers frequently slip into trade jargon, because they are accustomed to it, and insensitive to the client's lack of comprehension. I never fail to be amazed at mail I receive from borrowers asking me to explain something they were told by their broker. A broker who can't communicate well combined with a borrower afraid of looking stupid is a recipe for trouble.

Don't let a broker assume you understand something when you don't. Mortgages are complicated, but they are not beyond the comprehension of the average borrower, provided they are explained properly. If you don't understand what you are being told, it is because of the poor communication skills of the broker. Try another one.

Good Brokers Are Straight With Their Clients

Here are some broker statements that indicate your broker is not being straight. If you hear any of these, head for the door:

"I have a 1.5 percent mortgage for five years."

"Don't worry about the rate increasing in two years -- I will be there to refinance you into a lower rate before that happens."

"Don't worry about my fee. It's being paid by the lender."

Jack M. Guttentag, former Jacob Safra Professor of International Banking at the Wharton School of the University of Pennsylvania, has been a student of the home loan market for many years.

He has also served as a consultant to many government agencies and private financial institutions, including the Department of Housing and Urban Development, USAID, Freddie Mac, the World Bank, J.P. Morgan Securities, and many others. In addition, he was a director of the Federal Home Loan Bank of Pittsburgh and Guild Mortgage Investments as well as managing editor of both the Journal of Finance and the Housing Finance Review. Throughout his career, Professor Guttentag has been concerned with the difficulties faced by consumers in the home loan market. In 1985, he founded GHR Systems, Inc., which developed a nationwide electronic network that lenders use to deliver complex mortgage information quickly to loan-officer employees, mortgage brokers, and consumers on the Internet.

Professor Guttentag began to focus his efforts more fully toward helping consumers navigate the home loan market effectively in 1997. He began writing a weekly nationally syndicated column on mortgages and developed The Mortgage Professor [web site](#). Both are designed to help consumers make better home-buying decisions.

In 2000, in collaboration with several mortgage brokers, Professor Guttentag developed Upfront Mortgage Brokers (UMBs). Brokers who agree to do business in accordance with UMB principles, and who display these principles prominently on their web sites, are certified as UMBs.