

Choosing a Lender

Bank or Mortgage Broker: Which is best for you?

First, I will define and describe the basic characteristics of banks and brokers, and then the advantages and disadvantages of each. In either case, **choosing a good, honest, loan officer is critical**. Unfortunately, there are dishonest salespeople in *both* banks and mortgage brokerages. In fact, let's be honest with ourselves. There are dishonest people in every industry. This book is designed to help you avoid them in the mortgage industry.

There are advantages and disadvantages to working with a bank or a broker depending on your circumstances. In my lending practice, I will tell a client when it is best for him to work directly with a bank, and when it is best to work with me. However, I am in the minority. Most loan officers don't do that. It is rare to find a bank loan officer who admits it would be better for the client to go to a broker, and it is rare for a broker to admit when a retail bank would be a better choice. To attempt to clear this up, I will describe the reasons that you may want to choose one over the other.

I would like to interject a disclaimer here: I am a Wholesale Mortgage Broker/Banker and would not be well suited to being a Retail Banker. I love to shop many lenders and find the best deals for my clients. I will always tell my clients when a competitor has a better deal than those my sources offer. If I worked at a bank, it is unlikely that my supervisor would take kindly to my recommending the competition. Even though my company is both a mortgage broker and mortgage banker, I have complete freedom to recommend others as I see fit. I have chosen "my side of the fence" intentionally, and am partial to it. On the other hand, my best friend is a banker, and I have many friends in the banking industry. There are times when going directly

to the bank for a home loan makes the most sense. I hope to guide you to the best choice for your circumstances in this chapter.

Characteristics of Banks and Mortgage Brokers

Banks (a.k.a. “Retail”): Banks offer a variety of financial services including checking, savings, loans (mortgage and business loans) and safe deposit boxes. However, when it comes to mortgages, they can only offer their own product line, so your choices are limited.

Mortgage Brokers (a.k.a. “Wholesale”): Mortgage Brokers specialize in home loans and do not offer any of the other services listed above. They have access to the product lines of many different lenders, so they can find the best real estate loan available for you from among all the lenders they work with.

Mortgage Bankers: For your purposes, there is not much difference between mortgage brokers and mortgage bankers. Many mortgage companies are both bank and broker. Mortgage bankers are able to fund loans themselves, and then sell them to investors; brokers cannot.

Banks

Advantages of Banks:

1. **If you have significant assets with a bank and a private banking relationship manager**, then the bank has a vested interest in keeping *all of your business* with them. Their concern is that if another retail bank gets your mortgage business, they may take your deposits, also. Private banking units are often willing to actually *lose* money on your mortgage in the short term, in order to maintain the full relationship with you. They will undercut any competition because they are making money on your account in other areas. The overall relationship makes sense to them, and they still make a profit on your business with them. If you have a strong private banking relationship, I can almost guarantee that nothing in the wholesale mortgage market will be able to compete with the loan your bank will offer you.
2. **Home Equity Lines of Credit** are often priced better at a retail bank than anything I am able to find on the wholesale level. The reason is simple: The retail bank will make money on you over time because they will collect the interest payments. So, sometimes

they can offer no cost lines of credit more easily than a wholesale lender can. If my client is well-qualified, I often suggest she call several retail banks and credit unions and get quotes. Then I shop the wholesale banks and compare them all. The retail lenders often win.

3. **If you have a first loan with a bank and want to add a second loan, it is often wise to try the same bank for the second loan that holds the first loan, if possible.** The reason that having both loans with the same lender may be a good idea concerns the bank's risk, and the foreclosure process. If the same bank holds both your first and second loans and you default on the second loan, it is easier for the bank to foreclose on you than if the first loan is held by someone else. If the first loan is paid to date and you are only in default on the second loan, the lender in second position has to either negotiate with the first lender or buy them out in order to foreclose. For this reason, lenders are often more comfortable holding both positions. It gives them added strength. That is why it may be easier for you to get the line of credit with your existing lender than it may be to get one from another lender.
4. **Lot and land loans** are often more easily obtained from local banks. Wholesale lending is rarely the best source for lot or land loans. So if you are buying a lot or some acreage, check the local banks that are committed to your community. They know the area and the possible risks, and may be more open to offering you a loan because they want to form a banking relationship with you. An exception to this may be if you will soon build on the land and want a construction loan. The construction lender may help you acquire the property as part of the loan. Construction loans can be obtained through brokers or directly from a bank. If you are seeking a construction loan, please make sure the loan officer is experienced. Construction loans are often complicated and you will want a good loan officer to guide you through the process.

Disadvantages of Banks:

1. The bank's loan officer's job is to collect the loan application from potential borrowers and hand it in for processing. **According to my colleagues who have worked in banks as loan officers and those who still work in banks, their job is not to advise the borrowers as to actions they may take that would help them gain approval.** This is a big deal! It is the reason the mortgage brokerage industry must remain: for the good of consumers! You would be amazed how often one simple piece of advice is the difference between getting a loan approval or being declined. Some opponents to mortgage brokers may argue that the advice given may be to do something illegal. That may happen occasionally, but in most cases it is something simple, and completely legal, like the following:
"Hey, instead of cashing your paycheck, please deposit it in your account so that we can see it"

“I found a collection on your credit from a cell phone company. Is that legitimate? If not, please dispute it before we submit your loan application”

You get the point. Without proper guidance, many, many well-qualified people will not get their loan approved.

2. **Banks only have their own product line to offer.** If the mortgage products and rates offered by the bank you choose happen to be the best for your situation and you qualify, that's great. But if another product would be better for you, the bank's loan officer may not even know about it. It is not his job to shop the lending market. His job is to provide service to the bank's customers. In addition, you may not qualify for any loans your chosen bank has to offer. The bank may decline your application and you may feel discouraged. However, a good mortgage broker would be able to tell you that although you don't qualify for banks A, B and C, bank D is perfect for you. He may also be able to tell you what you need to do so that you *can* qualify for banks A, B and C.
3. **Banks' rates change constantly.** The bank you walk into may have the best rate today, but it is difficult for you to be sure about that, and even more difficult for you to know that they will have the best rate by the time you are ready to submit your loan application. The rate a bank offers on any given day is a function of many factors (including, but not limited to, the volume in their pipeline and their investors' appetite for a particular loan product). Those factors change without notice, and the offered rate changes along with it. I am often amazed when shopping for loans for my clients how lenders come in and out of the rate market so quickly. *Chase* may offer the best rate today, *Citimortgage* tomorrow, *Flagstar* the next day. Rates often change in the middle of the day, as well. Staying on top of who has the best rates is challenging for a professional who has access to multiple rate sheets daily. It is nearly impossible for a borrower to know which lender is priced the best at any given moment.

Mortgage Brokers

Advantages of Mortgage Brokers:

1. **Brokers have the advantage of being able to shop many lenders for you with one credit report and one loan package.** If you are working with a broker and your loan is declined by one bank, you may not have to do much more than just wait a little longer. The broker may need to ask for additional documentation to improve your loan package for the next submission to another bank, but you will not need to start over from scratch, fill out another loan application, or have another lender run your credit.
2. **A good broker knows which banks are likely to approve your loan,** because she knows the underwriting guidelines and quirks of each bank she works with. She can guide you to the safest port.

3. **Your broker's support can go a long way toward helping you gain loan approval.**

Working with a good mortgage broker can be likened to working with a good attorney when you are accused of a crime. You may be perfectly innocent; but the jury may find you guilty if they are unable to discern your innocence from the evidence you provide them. If you go before a judge and jury with a qualified advocate, you stand an excellent chance of being judged fairly. If you go without support, you may not. You may think that analogy is a bit extreme; but it isn't. When you submit your loan application to an underwriter, you are being judged. A good mortgage broker helps ensure that you are judged fairly, and that the underwriter has sufficient information to make a sound judgment.

If your loan officer has earned a good, solid, reputation with her lending sources, she will be a powerful ally for you, as an excellent attorney is your ally in court. She will be able to tell you what to do to improve your chances of gaining loan approval before submits the loan. **That advice can be the difference between being approved or declined.** I have gotten loan approval for clients whose loan applications were declined elsewhere before the clients were referred to me. There is no substitute for good advice from an experienced professional who has developed strong relationships with his lending sources.

Disadvantages of Brokers:

1. Brokers are in business to earn a commission on each loan transaction they close for their clients. This is how they earn their livelihoods. **They do not have the bank's advantage of earning money over time through interest payments.** So, as mentioned earlier, brokers *may not* be the best choice for highly-prized, private banking clients who have significant assets under bank management.
2. **Mortgage brokers specialize in loans.** They cannot provide the other services that banks offer their customers.
3. As noted above, brokers are rarely the best choice for obtaining home equity lines of credit, lot loans and land loans.

Salesmen vs. Loan Officers

For most of us, our mortgage is the largest financial decision we will ever make. A wrong decision can cost thousands of dollars; or worse, it can cost you your home through a foreclosure. It is very important that you choose the right person to help you get the loan that best meets your short-term and long-term goals.

The two basic personality types of people who can assist you in obtaining your loan are the Loan Officers and the Salesmen. Both personality types can be found in either retail banks or mortgage brokering companies. It is wise to first determine which type is best for you, and then find the qualified person who can best guide you.

Salesmen:

Salesmen in the loan business will try to sell you the best loan they can offer. Watch out! That loan may be better for *them* than it is for you. The loan they offer you may be the loan that earns them the greatest commission. Their objective is to earn commissions for their services, and there is nothing inherently wrong with that. However, their goal is to sell you a loan *now*. They aren't likely to give you advice that benefits you if it means losing a commission. Loan Salesmen are also less likely to be well educated about loans. Their goal is simply to sell product, not to advise you as to which loans best meet your needs. They are not interested in forming a lasting relationship with you as your trusted advisor. They are committed to earning a living in whatever industry needs Salesmen at the time.

Salesmen love the challenge of the game. If you also love that challenge, the two of you may be a good match. If you love "wheeling and dealing," please arm yourself with the knowledge about loans provided in this book and play the game as a worthy opponent.

Loan Officers:

Loan Officers are usually in the mortgage business because they have a passion for the business and for helping people obtain loans, and because it plays to their personal strengths. When the going gets tough, they get tougher and hang in there. Loan Officers are more likely than salesmen to give you advice that benefits you in the long run, not just the advice that gives them a commission today. They are also more likely than Salesmen to help you determine which loan suits you best and to teach you how best to qualify for your chosen loan. This is why Loan Officers are your best bet if you want to form lasting relationships with trusted advisors who will work in your best interests for years to come. However, if you choose to work with a Loan Officer who has been in the mortgage industry less than two years, ask about his mentoring and support system. After all, becoming an excellent loan officer is no small task, and requires seasoning and training.

Which is Best for You?

Choosing the right person to help you obtain a home loan is primarily dependent upon your instincts, and those of the people who love you. **A Salesman may be the best for you** if you are a rate shopper and a "wheeler-dealer" type personality. Salesmen love to wheel and deal, so you may have fun and get a wonderful loan if you work with a salesman. If you choose to work with a Salesman, I highly recommend you have him sign the "Lender Loan and Fee Agreement" I have provided for you with this book. Ask him to complete and sign the form before you pay any money or agree to accept any loans. This form tends to discourage potential con men from making you their next victim.

If you do not enjoy wheeling and dealing, and just want the advice you need to make a wise decision about a loan, **you want a Loan Officer**. Loan Officers are more likely than Salesmen to advise you to wait until you are in a better position to get a loan, advise you about long-term

strategies, and help you find the loan that is best for your needs. Salesmen do not usually want to wait to close a sale. They want to close the loan *now* and move on to the next deal. You are just as likely to get a loan with a low interest rate and fair fees from a Loan Officer as you are from a Salesman (if not more so), but with a Loan Officer you shouldn't have to "watch your back". An honorable Loan Officer will watch it for you.

Differentiating Between Salesmen and Loan Officers:

How do you tell the difference between a Loan Officer and a Salesman? In general, we can all spot a Salesman. It is not rocket science. We can sense when we are being "sold." We can also sense when we are receiving advice that benefits us, whether or not that advice benefits the person giving it. We see the difference all the time in daily life. My purpose here is to point out that there *is* a difference, and that it is important to pay attention to it when choosing a mortgage lender. I want you to be aware of the two different personality types in my industry, so that you will look for the person that best matches your needs.

How to Find an Excellent Loan Officer

Most of the information necessary to steal your identity is normally included in a loan application. It is critical that you choose someone you can trust. You increase your chances of finding someone who will treat you fairly if his or her business is generated primarily from referrals. The reason for this is obvious: If a loan officer treats you badly, word will get around and he or she will lose his or her reputation, and therefore a lot of business.

A true story: I have a client who is a captain in the fire department. He referred a fireman from another station to me. This man told me that the firemen in his station used to have a loan officer who did all their loans. Then she got greedy and tried to overcharge one of them. Word literally spread "like wildfire" and she lost her entire referral base. Not a very wise business move!

When you are buying a home, it is *critical* that you choose an honest, well-trained Loan Officer. If you are expecting one loan and another loan shows up at closing, you could be stuck with the bad loan, anyway. Worst-case scenarios include losing your home or losing your deposit. Another possibility would be to extend the escrow and hire a new loan officer (extending usually comes with a price tag). When you are refinancing, the stakes are lower, because you

have 3 days to look over the documents and rescind your offer if you do not like the loan (this applies to owner-occupied residences, but not to investment properties).

Please do not make the mistake of thinking that a Loan Officer who works for a large, nationwide bank is necessarily safe and honest. In the mortgage industry, there is a well-known, nationwide bank that is known for its bait-and-switch sales practices. Bank Loan Officers are human and usually earn commissions as part of their compensation packages. They can easily succumb to the temptation to increase their profits at the customer's expense.

An important characteristic of quality Loan Officers is their level of training and licensing. As mentioned earlier in the book, there is a new law that requires Loan Officers to have 20 hours of training and pass a test. They must comply by the end of 2010. Even so, the best Loan Officers have a high degree of training and experience.

Consumers should do their own due diligence. When you are choosing among Loan Officers, one way to find Loan Officers who have invested in relevant education is to go to www.cmepsinstitute.org. This website offers a list of Loan Officers whom they have certified. Loan Officers who are Certified Mortgage Planning Specialists have taken advanced classes and passed the CMPS exams. Those who pass the exams are likely to be professionals who are committed to being the best Loan Officers they can be. "Fly-by-night" Loan Officers are not usually willing to spend the money and take the time to complete this training. In addition, the tests are rigorous. So even if a less-committed Loan Officer sits through the classes, there is no guarantee he or she will pass and earn the certification.

It is important that the Loan Officer you choose be committed to the lending industry **full time**. This is a very complicated industry and it changes constantly. I often feel like I am in a real-life *Mario Brothers* game, with things jumping out to get me all the time. Lender's guidelines and laws change often. Rates change at least once a day, and determining whether rates are likely to go up or down in the future requires focus and research. I can't imagine anyone who is not doing this full time having the knowledge necessary to serve his clients properly. It just takes too much time to keep up with the industry changes. I recommend that you only work with a Loan Officer who is full-time, even if he works for a bank. The person at the bank who takes your loan application may have other duties, as well. I believe it would be best to ask to speak to a full-time Loan Officer, if you choose to go to a bank. If you choose a broker, definitely make sure she is full-time.

Experience is an excellent teacher. Those of us who learn from our mistakes, and the mistakes of others, can help clients navigate the often-treacherous waters of the loan approval process. If the Loan Officer you choose to work with has been in the business less than two years, I recommend you inquire about his support system and training. I would like to say that you should work *only* with experienced Loan Officers. But, in reality, everyone has to start somewhere. All of us were new at one time. Instead, I will say that if you choose a Loan Officer who is new to the industry, he should either have a good, experienced mentor, or a great deal of training and a strong support system.

In addition to looking for someone with training and experience, I recommend you seek out a Loan Officer who has a vested interest in making you happy because his future business may depend on it. You may find such people in the following places:

- **Service organizations like Rotary, Kiwanis and Lions Clubs** – These organizations tend to be very stable communities. Members often have generous hearts and a sincere desire to help others.
- **Local Chambers of Commerce** – In my experience, people of all professions tend to come and go at Chamber of Commerce meetings. However, if they are longstanding members who have a commitment to the community, they may be a good choice. Be careful to ask how long they have been members and ask for references.
- **Referral from someone you know** – If someone you know and trust has had a good experience with a loan officer, there is a good chance you will also.
- **Networking groups** – People who join networking groups are generally trustworthy. Because they are required to pay membership fees and attend regular meetings, their goal is to build lasting relationships. They are not likely to take advantage of people referred to them, and thereby jeopardize their reputation, as well as their investments of time and money.

The *worst* places to find a loan officer

The following is, of course, only my humble opinion. You may know someone, or you may be someone, who has had a good experience with a lender you found through one of the following sources. However, I am aware of many people who were mistreated when they chose to trust people they found through these avenues.

- **Online sources** – The person who picks up the phone could be here today and gone tomorrow. You may get lucky and find someone good. Personally, I prefer to work with someone whom I can look in the eye. This is especially important when it comes to a significant financial transaction such as a home loan. I once decided to apply for a line of credit from an online lender, because the lender's rates were the lowest in the market. The person who answered my call had been employed in his job for only 8 months, and *really* did not know what he was doing. I actually walked him through the entire process, and he still messed up!

- **Telemarketing calls** – Please do not choose a loan officer who uses telemarketing to bring in his business. There are two reasons for this:
 - He is probably desperate for business. If he is desperate, there are most likely good reasons for the desperation.
 - Telemarketing is an irritating part of our culture. For the sake of all of us who cringe when we get unsolicited sales calls, please do not encourage them!

- **Direct mailings** – I could get in trouble here because there are many good Loan Officers (even some at my company) who send marketing mailers to mailing lists purchased or given to them. There is nothing inherently wrong with this practice and many good people use this method to develop business. However, **buyer beware!** You will need to be extra diligent if you find your Loan Officer through a direct mailing. Many fly-by-night and dishonest companies bring in business this way.

- **Radio ads** – I cringe when I hear radio ads for mortgages, because they are usually misleading, and because they are designed to push all your “greed buttons” in order to make the phone ring. One of my clients heard an ad on the radio and asked me to check it out. We conference-called the lender and I asked questions only a professional would know to ask. We got to the bottom of it quickly, and my client was satisfied that the loan they were *really* offering was nothing like it sounded on the radio. It was a classic case of “bait-and-switch.” If you know the right questions to ask, there is a good chance you will get the same findings.

If you do choose a loan officer from any of the above sources, please do extra due diligence to protect yourself:

- Ask if he belongs to any of the service or networking organizations in your area, and then call the organization to confirm his membership.
- Obtain and check references. (Ask if you can contact recent clients and ask how happy they are with his service).
- And, by all means, make sure he completes and signs the protection forms I provide for you with this book.

Chapter Summary:

Choosing an honest loan officer who has your best interests at heart (either from a bank or a brokerage) is your best defense against mistreatment when you apply for a home loan. If you know nothing about home loans, and do not want to learn enough to be able to protect yourself, **please do whatever is necessary to make sure you work with the right person.**