A Mortgage Broker Revival Could Be in the Offing

Flexibility with products, pricing and options is key in challenging times

By Michael Read

The term "margin compression" seems to be ubiquitous in the mortgage business these days with the combination of rising rates, strong competition and constant change in the marketplace. That's why mortgage originators need to be as flexible as possible with products, pricing and options for their borrowers.

One way to achieve this flexibility is to become a mortgage broker. Although the number of mortgage brokers has dwindled since the financial crisis, this may be a time to reconsider it as a career choice.

Although the term mortgage originator applies to both a mortgage broker and a mortgage banker, the mortgage broker may work with a number of lenders, but does not lend money or service loans. A mortgage banker, by contrast, works for a lender that does lend money and/or service loans.

In short, a mortgage broker acts as an intermediary between the borrower and the lender through closing in the homebuying process. As such, mortgage brokers may sign with a variety of lenders, ranging from the larger institutions to smaller regional ones, that may not be as popular with the public but offer advantageous niche-lending products. Following are things to consider when heading down this avenue.

Michael Read is the principal and founder of Bridgeway Mortgage, located in Morristown, New Jersey. Started in 2012, Bridgeway Mortgage is licensed in New Jersey and Florida and concentrates on residential lending. Read has 19 years of mortgage experience as an originator and manager and also is a licensed Realtor. Reach Read at mread@bridgewaymortgage.com.

Creative freedom

Again, the chief advantage of being a mortgage broker is flexibility. Operating as a mortgage broker allows access to a multitude of products and lenders. One of the banks that the broker works with, for example, might have Federal Housing Administration FICO credit-score requirements set at 580 while another could be at 620.

Part of the challenge as a broker is learning the products that each lender offers. Some brokers are very niche-oriented, focusing on a narrow range of products that account for most of their business. Others use a wider net and offer a variety of programs that allow them to reach more potential borrowers.

A mortgage broker, unlike a mortgage banker, has the option to be paid by the borrower or the lender. Either option allows the broker to be paid up to 3 percent of the loan amount.

The lender-paid option allows a broker to set up at a different compensation level with each lender. This allows flexibility to set margins accordingly, depending on the strength of the products offered.

The lender-paid method also is a good option when the borrower would benefit from a lender credit. In that arrangement, any premium over the lender-paid compensation amount will be returned to the borrower in the form of a credit toward closing costs.

This creative freedom to control your products, marketing, office size and staffing can be rewarding and very stressful at the same time. How each mortgage broker staffs their office is completely up to the owner. So, a mortgage-brokerage business can vary from one person to larger organizations with loan officers, assistants and other types of support staff.

Difficult challenges

Opening a mortgage-brokerage business has many challenges, especially when it comes to the initial licensing. Each state has its own set of requirements that include net worth, audited financial statements, surety bonds, time in the business, references, office setup and more. A mortgage broker who would like to operate in different states must be approved by each state and adhere to their licensing process and requirements.

Once the license is obtained and the business is open, there are challenges such as state audits, possible lender buybacks, compliance regulations, vendor and lender setup, loan origination software, mortgage call reports and more. Navigating wholesale lenders and making sure they suit your client base also is a step that can be overwhelming. There are several ways to find these lenders such as trade shows, conventions, referrals, and word of mouth. The best resource is a licensed local broker, who can help you with lender contacts, the application process and tips for getting started.

The challenge that a broker can face, especially early on, is figuring out where each loan fits and understanding how to work with each lender. The best way a broker can get comfortable with a lender is through repetition. The broker cannot submit just one loan with a lender and assume the process will be the same on the next loan moving forward.

The broker needs to learn guidelines, not just with Fannie Mae and Freddie Mac, but also with their partner lenders. While government-sponsored enterprises have their own set of rules, the lenders also have their own that can vary by lender and with each product. Sometimes these are easy to understand and comply with. Sometimes they are not.

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Brokers should start by focusing and developing a level of comfort with a couple of lenders. The account executive who deals with the broker at each lender is almost as important as the bank itself. A good account executive will make themselves available to go over scenarios and possible hurdles. This allows the broker to provide a better customer experience for the borrower.

The account executive also will make the broker aware of any changes to guidelines, rate adjustments, special offers and more. Finding out information regarding the servicing of the loan after it closes is important as well. Knowing whether a bank holds or sells its loans and getting a handle on what type of reputation they have for servicing can be an important part of ensuring customer satisfaction.

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In the ever-changing mortgage world, flexibility and options are a good thing for loan originators. While operating a mortgage brokerage business is not the easiest path, it might be one worth exploring. ■