MORTGAGE 101:

What's the Difference Between a Mortgage Broker and a Mortgage Banker?

AIME
ASSOCIATION OF INDEPENDENT MORTGAGE EXPERTS

When it comes to getting a mortgage, there are two main ways to go. You can work with a mortgage broker, or you can apply for a loan from a bank. There are major differences in the ways brokers and banks operate. For one, they each follow specific rules and regulations when it comes to education, operation, and business practices.

Typically, brokers provide:

- Specialized advice and expertise
- Greater ease of communication
- A more nuanced understanding of the mortgage industry
- The ability to simplify and expedite the process for their clients
- Answer any questions and address any concerns the client may have
- More options to the consumer, by enabling them to shop the market for the best price
- Accountability and competition among their providers

While there are many differences between bankers and brokers, the main differences are outlined below.

COMPENSATION TRANSPARENCY AND DISCLOSURE

To provide buyers with full transparency, brokers are required to reveal their compensation in a process called a "Closing Disclosure." This helps keep the process clear and clean and ensures all parties are equally aware. Bankers, on the other hand, are not required to reveal compensation. **This means consumers are often in the dark about what percentage of their money is going to the house, and what percentage of their money is going into the banker's pockets.**

Compensation Adjustments

In order to change revenue on a loan, a broker must go from Lender Paid to Borrower Paid, a process with its own steps, checks, and balances. Brokers are compensated either by the borrower or the lender they send the loan through. Either way, they are consistent in charging all borrowers the same percentage. When the broker is compensated by the lender, and the rate chosen has a rebate attached, the broker is required to pass that savings on to the borrower by applying it to the closing costs. A banker simply keeps that potential savings as extra revenue.

Compensation Caps

QM rules prohibit brokers from making more than 3% on a loan. There are no such rules for bankers, who often make substantially more than 3% on loans. **Higher compensations for bankers means higher rates for consumers.**

Compensation Issues with QM Rule

On Lender Paid compensation transactions for brokers, the Lender Paid Compensation is included in the 3% QM Points/Fee rule from the CFPB. **This means it is already accounted for, and the buyer is not responsible for additional fees.**

APR & Broker Compensation

Sometimes, broker compensation - even if there is a lender credit offsetting other costs - will be included in the APR. Lender compensation is NEVER included in the APR, unless it's generated with fees. **This creates scenarios where the consumer's bottom-line is better with a broker, even if APR calculation the broker shows a higher APR when compared to a mortgage banker.**

STATE LICENSING

Bank employees are able to register to do business in all 50 states. In order to operate in similar fashion, a broker would need to undergo rigorous education for each state. Bankers are not required to achieve the same level of education. **This means brokers are typically able to provide more complete support and quicker turnaround times than bankers can.**

SAFE TEST REQUIREMENTS

Brokers are required to take the SAFE test - a federally mandated exam. Bankers are not required to take the SAFE testing, creating a higher barrier to entry to work at a mortgage brokerage than a bank. **This means that on average, brokers possess greater expertise and problem solving capability than bankers do.**

OVERLAYS

Each bank tends to have a different set of guidelines or "overlays" that they are required to adhere to. Brokers, however, can find lenders who do not have these overlays. For example, most banks require a 640 credit score for VA or FHA. Many wholesale lenders available to brokers have no overlays and instead just underwrite to the findings - **this means that borrowers who are still building or repairing their credit can get a loan.**

INFRASTRUCTURE

Banks have layers and layers of redundant management, which results in a higher cost to the consumer. Independent brokers are largely self-sufficient, which means the consumer pays only for what they need. **This saves both broker and consumer significant money.**

AVAILABILITY AND ACCESSIBILITY

Brokers have only one concern; the customer. They are usually available to be contacted 7 days a week, right on their personal cell phones. Banks operate exclusively within restrictive banking hours, and bankers will rarely, if ever, give out their personal phone numbers. **Brokers are there for you whenever you need them - banks are not.**

While brokers and bankers ostensibly serve the same role, the truth isn't so simple. Our nation's independent mortgage brokers are highly trained and accredited experts dedicated to serving the needs of their clients, not the profit margins of a corporation. Next time you need a mortgage or home loan, reach out to your local mortgage broker, and you'll discover why **BROKERS ARE BETTER.**