The Truth about Mortgage Brokers

If you have looked through my client list, you will notice that there is only one or two Mortgage companies and no Mortgage brokers as clients. We like it that way. We deal with Arvest Mortgage Co. as one of the few Mortgage companies that we consider to be honest. Arvest mortgage originators are paid salary, not paid on commission. By contrast, the mortgage broker, those Internet mortgage lenders, and hole in a wall office mortgage companies deal strictly on a commission basis. If the deal does not fly, they make zero dollars.

Many borrowers are suckered into dealing with Mortgage brokers who, unlike bankers, are paid a commission to generate a loan. That loan is sold into the secondary market. An appraisal supports that loan value. Many Mortgage Brokers are not dealing honestly with either appraisers or their customers despite state laws that license and govern them. Many people are dealing with out of state brokers without knowing they are not properly licensed to even work in Arkansas.

Often the lead-in of lower interest rates is offset by higher closing costs, sometimes double the “Good Faith Estimate” the Broker provided. I recently heard of a loan that was terminated when the borrower discovered the closing costs were $12,000, several times that a bank would charge.

Bait and switch is alive and well. Borrowers with less than perfect credit are often told low rates apply but just before closing, the borrower is informed their credit has a problem and they must pay higher interest rates than first quoted.

Fees often include a fee for the appraiser. Many brokers charge $400 to $800 or more for an appraisal, but the appraiser is charging only $250± for a drive-by appraisal, and rarely as much as $400. This cost is simple pass through for most banks and they do not make money off the appraisal. Mortgage brokers may bury an appraisal fee in the application fee then still tell the appraiser to collect COD at the door.

Brokers also request “Comp Checks”, a patently illegal act if an appraiser complies. The broker asks the appraiser to pre-appraise the property and verify that it “will appraise out.” Though illegal, cash-strapped and entry-level appraisers often comply. They risk both losing a license and going to jail for up to two years. The brokers, ironically, can ask with impunity, and often “shop” appraisers who inflate values.

Such appraisers have given the profession a bad name. Pliant appraisers are called “skippies” by their legitimate cohorts. In the TV show The Sopranos, an appraiser assist the family in illegal “flips”. Rivals flog Vic the appraiser with his own measuring wheel when he refuses to do the same for them. It is sad commentary on the state of the profession today. Hardly a day goes by without reading about a new indictment of a mortgage broker and appraiser colluding in fraud.

It has always been my recommendation for the homebuyer or homeowner to deal with the bank you do business with. If you cannot get a loan there that is at a competitive rate, perhaps you should consider changing banks. The internet and high-pressure Mortgage brokers found in the Sunday papers are a pretty poor way to obtain a loan without getting mislead or worse.