

Retail Banks versus Mortgage Bankers - Product Selection

Some mortgage sources are direct lenders such as banks with retail offices. Usually banks will be competitive in one or several products, and will encourage their sales agents to sell these products to the consumer. Many times banks will not even necessarily try to be competitive in rate, but will instead try to fill a niche, such as quick approvals or flexible underwriting (easier approval) of loans. Going directly to the bank or source was probably the way that your parents obtained their home loan, but the trend is clearly away from such direct establishments towards the mortgage banker, who can offer many products as mortgage lending is their main business line. Mortgage Brokers can provide selection also, but are sometimes more limited in what they can offer due to mortgage broker restrictions.

Brokers represent a number of lenders and offer these lender's products through a wholesale arrangement. So the broker can offer wholesale rates, as opposed to retail rates. The lender will then compensate the broker when they deliver a loan to them and this compensation is invisible to the borrower. Many banks that offer retail or wholesale loans will allow the broker to charge up to 1% of the loan amount for their compensation.

Brokers versus Bankers - Service

Direct lenders are captive to their own products. That is, they will not provide unbiased advice nor selection, since by doing so they will possibly risk losing your loan to the company whose product truly provides you the most value.

Mortgage Bankers on the other hand can sell a variety of products, from multiple sources, and can be objective in their recommendations. The compensation they receive is regulated, therefore the outcome of the recommendation doesn't matter. What does matter is giving you the best loan and best service for your needs.

If you walk into your local bank they'll usually take your application there, perhaps underwrite your loan there, and lend their own money. If your loan is declined for whatever reason, you will need to begin the process again with another source. With a mortgage bank that sells to multiple sources and has a wider array of programs, you have another chance if one lender doesn't approve your loan.

Bankers make their salary whether you take the loan or not. Mortgage Bankers and some brokers only get paid when the loan closes. Who has the most motivation to get you a loan?