

Study: Mortgage brokers offer lower subprime fees

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April 17, 2005

WASHINGTON -- Though they originate well over half of new home loans, mortgage brokers for years have been targets for criticism.

Federal agencies have accused them of failing to properly disclose their fees to home buyers. Consumer groups have charged them with steering minority and elderly borrowers into needlessly high-cost mortgages.

But now a new, independent academic study has concluded the opposite. According to a team of researchers headed by Georgetown University's Gregory Elliehausen, home mortgage applicants with less-than-perfect credit pay lower financing costs when they obtain their mortgages through brokers than from loan officers directly employed by lenders. The same pattern holds true for African-American, Hispanic and low-income borrowers.

Elliehausen presented his findings to a Federal Reserve Board conference earlier this month. His team examined computer case files on more than 500,000 "subprime" first mortgages and more than 590,000 second mortgages from 10 of the largest lenders. For the period covered by the study, Elliehausen said, the 1 million-plus loans in the analysis accounted for more than 40 percent of the subprime market.

The results of the statistical analysis: On average, total costs on broker-originated first mortgages were 1.13 percentage points lower than loans originated by employees of the lenders themselves, and 1.98 percentage points lower on second mortgages.

Elliehausen, a senior scholar at Georgetown's Credit Research Center, acknowledged that the size of the gaps in costs might raise eyebrows, and he emphasized that the findings were limited to the subprime sector. However, subprime lenders frequently offer wide variations of rates and fees to applicants with similar credit and debt-ratio profiles. Brokers, who typically have loan origination agreements with dozens of lenders, "may be able to shop from a larger set of loans than a single [lender], and find a better match between borrower risk and annual percentage rate," Elliehausen said. "Brokers also may be better able than consumers shopping on their own to match borrower risk and annual percentage rate."

In separate analyses for loans in predominantly African-American areas, brokers' costs to applicants were about 1 point below lender-employed loan officers on first mortgages, and 1.9 points lower on seconds. In Latino areas, the savings through brokers were 2 points on first mortgages and 2.4 points on seconds.

Mortgage bankers, who often buy loans closed by brokers and originate them on a retail basis themselves through commissioned employees, reacted cautiously to the new research. Steven Skolnik, executive vice president for First Franklin Financial Corp., a major "nonprime" mortgage company based in San Jose, Calif., said he had not yet seen the Elliehausen study and could not comment on it specifically.

However, Skolnik said, First Franklin loan customers generally pay "about the same" in annual percentage rates whether their loans are broker-originated or made through the company's consumer-direct channel. At least in First Franklin's case, the one-point-plus cost savings Elliehausen's research attributed to brokers does not appear to be accurate.

Skolnik added, though, that the data overall could reflect the fact that "brokers in general operate in a much lower-cost structure" than banks and retail mortgage companies, which carry heavy overhead and employee costs. Moreover, he said, "brokers are far more agile and nimble than retail [lenders]" when pushed to compete on pricing and terms.

Donald Henig, president of wholesale and direct-to-consumer operations for a unit of American Home Mortgage Corp., a large real estate investment trust (REIT) that funds home loans, said he "would not be surprised" if brokers frequently deliver lower costs to consumers.

Henig, a former president of the National Association of Mortgage Brokers, said "the [home loan] market is a very competitive place, and today's consumers are very well informed," thanks to widely available information available free on the Internet, and heavy TV, radio and direct-mail advertising by lenders.

"If a broker is going to survive," said Henig, "[he or she] has got to be competitive on pricing with retail lenders and has to provide superior service to Realtors and consumers." Brokers may not always deliver the very best price that an aggressive shopper could find on any given day, he added, "but most brokers will offer a very competitive" total financing package.

What's the message here for applicants? Shop exhaustively on the Web, by phone and by recommendations. Don't assume a broker will get you the best rate or lowest points. But don't fail to include them on your shopping list.

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