

# the Mortgage Bulletin

Week of June 30th, 2008

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Paul Newman  
Actor

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## A "commercial" for mortgage brokers

Mortgage brokers typically originate more than 60% of all the mortgages made each year across the country.

Yet some of the media don't know the difference between a mortgage broker and a loan officer who works for a bank or other direct lender. For example:

In a recent news story on Public Radio, the reporter discussed in detail the unconscionable treatment a borrower had received from the nation's biggest mortgage lender. The borrower ended up in foreclosure because of misrepresentation by the loan officer (employee of the lender). The reporter concluded by saying: "It's misrepresentation like this from mortgage brokers that many people blame for the sub-prime crisis."

The reporter was half right. Bad advice was given. But it was given by an employee of the lender – not by a mortgage broker.

There you have it. There was no mortgage broker in the transaction, but most listeners didn't catch that. They heard "mortgage broker." And they thought "bad mortgage broker."

So mortgage brokers get a bad reputation even if undeserved. This has led legislators in California to introduce some 23 different bills aimed at mortgage brokers: many threaten their very existence. Legislation at the national level is equally threatening.

The purpose of this week's Mortgage Bulletin is not to defend mortgage brokers, nor is it to point a finger at others who are equally or more responsible for the mortgage crisis.

Rather it is to point out benefits to

consumers which will be limited or lost to the extent mortgage brokers are unduly restricted by new legislation or worse, put out of business entirely.

To illustrate, let's assume a mortgage world without mortgage brokers. (Talk about an unappealing thought!)

The first and most important loss to consumers is the benefit from competition. In the absence of mortgage brokers, borrowers have to search by themselves, from lender to lender, in an effort to find the most competitive rates and products. Mortgage brokers by their very existence and knowledge of the market keep lenders competitive.

The second loss to consumers in a brokerless environment is the benefit of having someone on their side, an advocate.

Mortgage brokers work for their clients; their clients being consumer/borrowers. Loan officers and loan agents; employees of a bank or other direct lender, work for their employer. This is rightfully so, but the difference in loyalty (broker vs employee) is important to borrowers.

The third loss is the benefit of a completely independent and informed evaluation of different loan products and options. Brokers offer virtually every loan product out there. Without brokers, direct lenders can only offer their own products.

This is not to say that consumers would be mistreated by direct lenders if mortgage brokers disappear. But they won't be treated the same and a mortgage broker would say they won't be treated as well.

This is an unapologetic commercial for mortgage brokers, but some commercials are true. This is one of those.

"People are always blaming their circumstances for what they are. I don't believe in circumstances. The people who get on in this world are the people who get up and look for the circumstances they want, and if they can't find them, make them."  
- George Bernard Shaw



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