

Mortgage brokers handling growing number of deals

By James Pasternak, Financial Post, January 21, 2010

When Hamilton, Ont., residents and partners Kathy Funke and Dan Perryman wanted to purchase an investment residential property in 2000, they did what most Canadians do when it's time to borrow. They headed to the bank branches in their area.

They shopped around a bit, made lots of phone calls, compared mortgage conditions and rates and then signed.

"That was our first experience. We didn't really know where to start. And I didn't know anything about mortgage brokers at that time. The bank seemed like the obvious place to start," said Ms. Funke, 45.

But in retrospect, they found the whole experience exhausting.

"During our first experience we tried to shop around. The banks discouraged that. They gave us some story that because we had a mortgage being approved and when another bank does the same thing it shows that another mortgage is being approved," said Ms. Funke.

Three years later when they were shopping for another house, they had a different strategy.

"We didn't even go to the bank then...We were just so frustrated from the last experience that we didn't want to run around to the banks. We figured we couldn't do any worse so we just put ourselves in the broker's hands and let her do the shopping around for us. We use insurance brokers for insurance, why wouldn't we use a mortgage broker?" said Ms. Funke.

Dan and Kathy are part of a growing number of Canadians foregoing the traditional walk into the bank branch and instead sitting down with the local mortgage broker.

In their case they used Grimsby, Ont.-based Verico One Mortgage Corporation.

This growth is a core finding of Maritz Research Canada, which studied the broker industry on behalf of the Canadian Association of Accredited Mortgage Professionals (CAAMP)

"In the past, the first or only place a person would go when looking for a mortgage was to their local bank, however more and more Canadians are now seeking out the services of Mortgage Brokers to help them navigate the biggest purchase of their lives," concludes study author Rob Daniel, managing director, Maritz Research Canada.

The Maritz Research concluded that the mortgage brokerage channel handled 23% of all mortgage activity in 2008. The broker channel is particularly strong in Western Canada (34% of all activity in Alberta, 27% in British Columbia). In addition, women are more likely than men to deal with mortgage brokers. (26% vs. 20%).

Young Canadians are much more likely to consult with and deal with brokers than their older counterparts; Brokers represent 28% of mortgage activity among 18-34 year olds, 24% among 35-54 year olds, and just 17% among those 55 and older.

A mortgage broker works as a conduit between the buyer and the lender. In many cases, the mortgage broker is informally representing lending institutions. The banks have used brokers to outsource the job of finding and qualifying borrowers.

Dan and Kathy felt they got a better interest rate than the banks offered and there were no brokerage fees. And they wanted a mortgage that offered an annual paydown of 20% with no penalty on the balance outstanding.

Maritz Research Canada concluded that the average Canadian who renewed or renegotiated through a broker saw their interest rate reduced by an average of 125 points, compared with 114 among those who dealt directly with a bank or credit union.

For Toronto resident Leanne Bernardo, the mortgage broker not only represented a one-stop shop, it provided a number of "add ons." These included a line of credit, a life insurance option, annual and monthly lump sum payment options without penalty and weekly interest rate alerts. The variable interest rate selected was comparable to what the banks offered.

"We just wanted to have a number of different options presented to us and we felt that going through a broker would give us an unbiased opinion of different options. Otherwise we would have gone to three or four different banks to get our options. It was great for us in terms of time efficiency," says Ms. Bernardo.

And then there is the personal service. James Bell, of Toronto-based Ultimate Mortgage Corporation, has been arranging mortgages since 1989. He's been dealing with some of his customers for 15 years.

"People get very frustrated when they are dealing with banks because there's such a turnover of staff, it's very difficult to build a relationship with a mortgage officer. Even if they are successful in establishing a relationship now it's not likely that person will be in the same branch in the same position five years down the road," says Mr. Bell.

The broker is ideal for those who would have difficulty or would not normally qualify for a conventional bank mortgage.

When Karl Klos was co-purchasing a house with a friend in 2006, his friend was working but he wasn't. They were having trouble getting approved. They were offered \$250,000 in private financing at just under 6%. When that didn't work out they ended up being referred to Toronto-based The Mortgage Centre (www.clickjohn.com) which found them a mortgage at 4.35%

And then there are those who are seeking second mortgages to save their homes.

"The idea is to solve their problems and not to put them into more problems. And I would say we're very successful at that. There are always situations that go wrong. But by far the highest percentage of them work," says Jeff Atlin, a mortgage broker and president of the Independent Mortgage Brokers Association of Ontario.

But one thing consumers might end up doing is shopping for a mortgage broker. Unlike a bank, depending on the complexity of the deal and level of risk, mortgage brokers will charge fees. In one case, a low risk \$240,000 mortgage on a \$320,000 home in Toronto brought \$3,200 in fees.

"It really is on a per deal basis. I wouldn't say it's what the broker feels they can get away with. I would hope that people would have higher standards than that. There are some deals that are quite time-consuming and perhaps a higher fee would be reflective of the time that's necessary to put it together so the borrower ends up with a mortgage that they are really satisfied with," says James Bell.

[insert – Jim & Tony don't subscribe to the 'charge fee' philosophy. They earn a commission from the lender that earns your business. The only situation where fees may apply is where credit history is so poor that only a private lending solution applies – or for many types of commercial mortgage applications – as in neither case would Jim or Tony be compensated by the lender involved. No tricks – just common sense and a fair-minded, long term approach to business. They are building relationships first]

According to one banking insider, the banks are chilly about mortgage brokers because they make it a more competitive market in which interest rate competition takes away the ability of the local branch to hold firm on posted rates.

As for Dan Perryman and Kathy Funke, they're making it a habit. They currently have two rental properties and live in a third house. But it doesn't look like they are going to stop there. They have another home purchase going through in April. And they only plan one stop and that is to Verico One Mortgage Corporation.

"We wouldn't even consider anybody else. If it isn't broke you don't fix it," says Kathy Funke.