Banking On A Mortgage Broker

'Lenders of last resort' now enjoy 30% share of market

By Derek Sankey, For Canwest News Service. April 13, 2009

More than a decade ago, Bob Alexander was working as a professional accountant when he walked into a bank to get a mortgage. When he got turned down, he was completely baffled.

"My friend told me I should go see a broker," says Alexander. It was a perception that was prevalent at the time: Mortgage brokers were seen as the place you went when the banks turned you down.

Alexander went to see a broker, secured a mortgage and bought a home. He was so intrigued by this often misunderstood field that he decided to switch careers and become a broker himself.

"Ten or 15 years ago, mortgage brokers used to be the lenders of last resort," says Jim Murphy, president and chief executive of the Canadian Association of Accredited Mortgage Professionals, the organization that certifies the AMP designation.

"The mortgage broker channel has grown enormously," says Murphy. "I think the consumer sees it in a much more positive light." In fact, about 30 per cent of all mortgages in Canada today are secured through mortgage brokers, according to a study from CAAMP. There are 3,800 certified professionals with the AMP designation working across Canada.

When CAAMP introduced the certification four years ago, Alexander -- who's been a broker for eight years now -- decided to earn his designation.

Banks used to compete directly with brokers, using their own sales forces to go out and develop new leads. The brokers, meanwhile, would charge their own clients a fee to find them a mortgage.

Now, most banks have chopped those sales forces and instead enjoy a more mutually beneficial deal with brokers, who no longer charge the client a fee. Alexander, like other AMP brokers, provides his services free to the client. The lending institution pays him a finder's fee based on the size and type of the mortgage he secures for his clients.

The AMP designation requires two years of industry experience, an entry-level certification course plus 10 hours of continuing education every 12-month cycle to remain current.

"It's really important because a mortgage is the biggest financial investment most people will make in their lives, so they want to make sure the [broker] is knowledgeable, trained, knows the issues and the market and is able to give the consumer good advice," says Murphy.

Since brokers like Alexander have access to 40 lenders offering upward of 400 different products, the field has evolved in recent years to become a viable option for anybody seeking a competitive mortgage.

While he works with the big five banks in Canada, he also taps into other lending institutions such as First National Financial LP and Australian-based lending giant Macquarie Financial (Canada) Ltd.

When anybody walks into Alexander's office, his job is to match your credit level -- A, B, C or D -- with an appropriate lender that caters to the same type or types of customers.

What has changed in recent months, due to the economic recession, is there are fewer D-level lenders around, especially the American banks that ventured north prior to the subprime market collapse last year.

"We've seen a general tightening [of credit] right across the board," he says.

Murphy says it's important that in any kind of economy for potential homebuyers to realize -- and utilize -- the new brand of mortgage professional.

Alexander agrees, but cautions people to do a little research, make sure they're comfortable with the person across the table and ask questions.

"The first thing you should do is look for someone with that AMP designation," says Alexander.

Mortgage Brokers Can Save a Buyer Money

The Toronto Star- April 30, 2007
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For many home buyers, novices and veterans alike, arranging a mortgage can be as daunting a task as understanding neurosurgery. There is not only a lexicon of terms to master “ amortization tables, variable rates, sub-prime, prime, prime plus basis points, mortgagor and mortgagee “ but there is also a banquet of products to choose from.

Mortgage brokers estimate there may be as many as 400 to 600 different mortgage products on the market today, each slightly different in rates, terms and amortization length.

Where can a homebuyer go to get the best advice? The Web? Friends and family? The bank or credit union?

None of the above, say many lenders, even those owned by banks. What they suggest is making a call to a mortgage broker, especially one with the letters AMP after his or her name. That stands for Accredited Mortgage Professional and means the person awarded the acronym has met certain ethical, educational and professional standards and is committed to at least 10 hours a year of ongoing professional education.

"We have about 150,000 customers and all their loans were placed by mortgage brokers," says Ron Swift, president of MCAP Service Corp., a residential mortgage lender owned jointly by the Bank of Montreal, SunLife and MCAP Finance Corp. "In the past, the first line of advice used to be family and friends and then maybe a bank or credit union.

"Then the Web came along. The trouble with all of those sources, however, is that they do not give you access to all the information about all the products. Friends can only talk about their own experience. Banks only want to sell what they offer. You have to be an expert to use the Web.

"Only mortgage brokers, especially accredited ones, have access to all lenders and all products."

In fact, shopping through a broker can often mean getting an interest rate 1.3 per cent to 1.4 per cent lower than advertised rates, says Paul Grewal, president of FirstLine Mortgages.

He wears two hats on this issue.

As president of FirstLine he heads a mortgage offshoot of the Canadian Imperial Bank of Commerce, which he says is the largest mortgage placement company in the country.

Despite running a bank's lending unit, he's a firm believer in seeking the advice of accredited brokers.

"They are the only ones who know every product from every lender that is out there and they are professionals when it comes to negotiating not just the best rates, but the best terms for the borrower," he says.

Grewal is an AMP himself and chair of the 10,000-member Canadian Association of Accredited Mortgage Professionals, the national organization for both brokers and lenders. CAAMP is the body that grants the AMP designation.

The idea of mortgage brokers being the first and best resource for advice on residential mortgages is a fairly recent one, admits CAAMP president Jim Murphy.

Until the late 1990s, brokers were regarded as being of value only to those who wouldn't find financing anywhere else. They charged hefty fees to arrange loans, and those loans usually bore high interest rates.

The most recent housing boom and the explosion in mortgage lending have changed all that, however.

"Banks are now competing head-to-head for mortgage business," he says. "What they are increasingly doing is going through brokers to reach a wider audience than through branches. At stake is $200 billion a year in new mortgages, with a market growing by 10 per cent a year."

Banks are especially keen competitors because experience has shown that if they get the mortgage business, they're also likely to be able to sell a client RRSPs, insurance, credit cards or other products.

"The understood rule of thumb in banking is that if you can get a customer to take three products, chances are you will pick up all their business," Grewal says.

Today, mortgage brokers place about 30 per cent of all residential mortgages, up from 8 per cent in 1998, according to CAAMP.

Nor do they charge borrowers fees on most mortgage transactions. Lenders take care of that.

Lenders pay a commission of three-quarters of a percentage point on the face value of a five-year-term mortgage, Swift says.

"The higher the fixed term the higher that percentage fee," he says. "They can also offer special incentives designed to move certain products."

He also offers a word of warning: "Like anything else in life, it is up to the consumer to make sure they are completely satisfied with the deal they sign. Don't go for a mortgage if you think the broker is pushing you into it."

Brokers can prove invaluable in three different situations, suggests Andrew Moor, president of The Equitable Trust, another major residential lender: when buying a home, when refinancing an existing mortgage and when a mortgage comes up for renewal.

"You can't get the best deal, the one that is right for you, unless you know everything that is out there," he says. "Brokers are the only way to do that."

Great mortgages should be like tailor-made clothing, he says. They have to take into account individual needs, have a useful lifespan and be comfortable to wear. That means fitting the terms of the mortgage to perfectly suit the individual's needs and lifestyle.

Bank approvals and website advice run on matrices serving specific large groups of borrowers.

The most overlooked opportunity to save considerable money on interest rates is usually renewal time, he says.

"The lender has to notify you 30 days before renewal and most people just sign on the dotted line when the form arrives. That, however, is the best time to shop around and see what else is out there," Moor advises.

Paula Roberts, a broker in the Unionville office of Mortgage Intelligence Inc., says she has seen clients shave up to 2 percentage points off renewal rates by negotiating or shopping around.

"When the renewal form arrives, if you make a single call to the bank asking for a better deal, usually they will immediately drop the rate," she says. "Most people think they are getting a great deal and leave it there.

"If you hire a broker and shop around, however, most often you can reduce that bank rate even further. Something between 1 percentage and 2 percentage points can be possible."