

IT'S YOUR MONEY

Mortgage broker not necessarily your friend

No strong regulations protect clients from dodgy practices

By Gary Norris
Canadian Press

TORONTO — Until recently, a Canadian tiptoed into a bank and meekly accepted whatever mortgage terms were presented, grateful to be allowed to go into debt and reassured by the knowl-

ly to provoke high-fives among the loan officers.

In fact, posted rates now are primarily a legal construct. If you read deeply into a typical mortgage agreement, you will find that the posted rate is used as a benchmark to compute such eventualities as the penalty if you pay the mortgage off in advance.

The banks are increasing-

ly upfront about this, typically displaying posted rates but also advertising "best rate" or "best offer" mortgages. Meanwhile, other lenders, including credit unions and foreign banks such as Dutch-based ING, are aggressively advancing their mortgage efforts.

Enter the mortgage broker, promising to cut through confusion and pro-

vide the best possible rate.

A decade ago, brokers worked mainly at finding money for borrowers with dodgy credit histories or other problems. Now they arrange a share of Canada's mortgage market estimated at up to 30 per cent.

"The general ability of the banks to deal with brokers and third-party channels has brought price discretion to a new level," says Calum Ross, a Toronto mortgage broker. "You've got things like the Internet and constant communications now, which make the average person, who may not have been aware of relationship pricing before, much more aware of that."

Brokers typically undertake to find financing — generally from the banks — at between one and 1½ percentage points below posted rates.

Why do the big financial institutions deal through them?

"The real plus for the banks is that they can get away from the expensive infrastructure

costs associated with originating financial products," Ross says.

"When a bank originates a mortgage through a broker, they're effectively getting someone else to completely do the work for them, and not pay them unless the deal funds."

And if the slice of the transaction that goes to the broker provokes any clients to think they are leaving something on the table, Ross cautions: "While mortgages are not rocket science, integrating some of the financial-planning concepts, as well as taking care of ordering the appraisal, co-ordinating the appropriate income documents, co-ordinating appropriate down-payment documents — these elements used in facilitating the deal are worth a lot of value."

He says that while bank employees are motivated to lend at higher rates with fewer borrower privileges, a broker's payment is based on the size of the mortgage

and the length of the term selected — "the broker is not getting compensated more when the client pays a higher rate."

However, the broker is not necessarily your friend either, cautions Scott Brown, vice-president of mortgages at Royal Bank, Canada's largest, which does not buy business from brokers.

"There are no best practices, no really strong regulations. It's quite easy to become a broker," Brown says. The other banks "are trying to buy market share" and may provide incentives to brokers, he added.

"It's like an airline points system . . . so a client may not get the best rate because they're trying to get their points up.

"That's something that's not disclosed in the market, that is happening."

As for the Royal, "in our website and in our branches and our advertising, we don't use the posted rate — we give you our lowest rate."

A recent "best offer" five-year rate on the Royal website (www.royalbank.com) was 1.06 percentage points below the Royal's posted rate and just 0.24 of a point above what was advertised on Ross's site (www.whyuseabank.com).

A difference of this magnitude may not be significant if the other mortgage terms are comparable, says David Chalmers, vice-president at Rogers Group Financial Advisors in Vancouver.

A quarter of a percentage point on a \$100,000 mortgage is only \$250, "so it may not be worthwhile to change your relationship for \$250," Chalmers observes.

"People will sometimes go to a lot of trouble and lot of work for a saving which, when you work out the math, isn't that great."

It's all part of what the Royal's Brown calls "continued pressure on margins" amid intense competition.

"There's a growth in the ability to get a mortgage for good clients," he adds.

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