Globe and Mail • *May 19, 2005*

Mortgage brokers can make good financial sense

By Rob Carrick

The honeymoon period is coming to an end for mortgage brokers and the people who use them to borrow at the lowest interest rates.

Mortgage brokers have doubled their market share in the past five years and there's every reason to believe they will continue to handle more new mortgages and renewals for individual borrowers. After all, a broker can often get you a better deal on a mortgage than you could find for yourself without spending a lot of research and legwork.

But the mortgage brokerage business is developing in a way that calls for more vigilance on the part of customers. Inexperienced people are flocking to the profession, even while its members are trying to be less a procurer of low mortgage rates than a trusted source of financial advice. The way in which brokers are paid is also evolving in a way that customers need to understand.

Mortgage brokers aren't anywhere near as popular as in the United States, where their market share of roughly 70 per cent compares with about 30 per cent here. But Canadian brokers have come a long way in recent years by offering a simple, low-stress alternative to borrowing from a bank. Whereas banks used to grudgingly dole out a discounted mortgage, a broker could get you one as a matter of course, and probably with a better rate than the bank would give.

Banks and other lenders are much more competitive today, and that's another honeymoon-ending test for mortgage brokers. But a more serious one may be the influx of new people into the business.

A new report on the mortgage brokerage business by Taddingstone Consulting Group shows that even brokers themselves are concerned about all the newcomers in their line of business. "Despite facing an uncertain interest rate environment and housing market, the threat posed by the flood of inexperienced mortgage brokers is viewed as one of the biggest challenges facing the mortgage brokerage industry," the report says.

There are now about 10,000 mortgage brokers and agents (employees of brokerage firms), up from several hundred or so in the early 1990s. Brokers must be licensed provincially, but agents may or may not require a licence of their own.

Obviously, one of the first questions you should pose when speaking to a mortgage broker is to ask about their experience and accreditation. The professional group for mortgage brokers, the Canadian Institute of Mortgage Brokers and Lenders, offers a designation called the AMP, for accredited mortgage professional, which can only be earned by people who have successfully completed a recognized proficiency course or passed a CIMBL exam, and who have passed a CIMBL ethics course. There are about 3,200 AMP-accredited brokers and you can find them on the CIMBL website at cimbl.ca.

While it's absorbing flocks of newcomers, the mortgage brokerage business is also trying to develop an advice-based relationship with its clientele as opposed to a focus strictly on providing low-rate mortgages. Taddingstone interviewed more than 500 mortgage brokers and found that 20 per cent said their role was to provide the lowest mortgage rate to clients and 25 per cent said their job was to help people with poor credit get a mortgage. The remaining 55 per cent said their role is to partner with clients to get them the appropriate products and services.

This is smart business, given that the big banks, credit unions and alternative financial institutions routinely offer competitive mortgage rates. But as investment advisers have shown, there will always be those who want to build a business strictly on selling products to generate commissions.

Customers can nudge mortgage brokers in the right direction by asking about the best interest rates they offer, and then about what advice they can provide on the best terms and other features. If it's all about the rate, then look elsewhere.

Other than in cases where they work with credit-challenged clients, mortgage brokers provide a free service. They make their money from commissions paid by the lender ranging, according to Taddingstone, from 0.6 to 1.5 per cent of the amount borrowed. One lender, Cervus Financial, pays an ongoing trailing commission, just like mutual fund companies do for investment advisers.

Invisible compensation for mortgage brokers works well in that the customer pays nothing while also getting a low interest rate. Still, it's legitimate to ask what commission your broker is making from a mortgage lender and how it compares with the compensation offered by comparable financial institutions.

The Taddingstone report says that many mortgage brokers find it hard to make borrowers aware that they offer a credible alternative to the banks. Mortgage brokers actually do about two-thirds of their business with major banks, but never mind. The real question is whether dealing with a broker is a better financial move for you than sticking with a bank.

The answer to this question could well be yes, but it's up to mortgage brokers to prove it.

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