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Julie Tripp

Banking on the right broker

08/24/03

JULIE TRIPP



When the manager of the defunct Lake Oswego branch of Capitol Commerce Mortgage Co. messaged the news of closure last Monday to the dozens of mortgage brokers her company had just stiffed, she did it on company letterhead.

"Commitments made and met," the slogan on the stationery said.

But the motto contradicted the wide swath of broken promises left when Capitol Commerce ran out of money and couldn't honor the low interest rates borrowers thought they had locked in before rates began a swift rise in late June.

Home buyers and refiners caught in the Capitol Commerce debacle are scrambling to repair the damage and get their loans back on track. Borrowers working with other companies are questioning whether their locks are solid or subject to last-minute finagling.

Meanwhile, interest rates continue to rise, causing the rate of new mortgage applications to plummet and raising the question of whether the good times are over for low mortgage rates and no-brainer refis. The Mortgage Bankers Association reported Wednesday that the average rate for a 30-year mortgage increased to 6.22 percent from 6 percent

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the week before, almost 1.25 percentage points higher than its mid-June low.

How borrowers fare in these turbid market conditions may depend more on whom they choose for their mortgage brokers than on what they do or don't do now.

About half of borrowers use brokers, instead of banks, to find their loans because brokers can shop among many lenders.

Broker comes through The integrity and business practices of the brokers who match borrowers with loans from wholesale lenders such as Capitol Commerce make a huge difference. In the case of one Portland home buyer, it's a \$16,000 difference.

The buyer, a doctor from South Carolina, is purchasing a home through Windermere sales agent Julie Headley. Last week, his 5 percent, 30-year loan through Capitol Commerce came unglued.

With rates now at 6.25 percent, it would cost more than \$16,000 up front to restore the 5 percent rate, a process known as buying down the rate.

Headley talked to the mortgage broker, Tom Hendrickson of Associated Mortgage Group, who had committed with Capitol and Headley's customer for the loan.

When it ceased business Friday, Capitol Commerce was no longer good for the loan at that rate. But Hendrickson was, Headley said.

"He didn't even offer to split it," Headley said of the \$16,000 Hendrickson spent to buy down the loan to the rate he'd promised the doctor. "He just did it. I was impressed."

Hendrickson did the same thing on another loan he had arranged through Capitol Commerce that was locked at 5.75 percent. The buy-down on that one was \$3,400.

"I met my commitments," Hendrickson said. "And I'll be able to look at myself while I'm shaving."

Not all brokers can say that, as some Capitol Commerce borrowers are finding out.

To find one who can, you need to choose well. Even though the two-year mortgage-rate boom is fading, you still might need a broker if you buy a home or second home, want to take equity out of your house or still could benefit from refinancing. The current rates, although slightly higher than the lows of June, are low historically.

Company's age is vital

A short tenure in business is a red flag that should warn you away from a mortgage broker. Mortgage brokerages ebb and flow with interest-rate tides. Currently, there are 1,225 companies in more than 2,000 locations in Oregon, but next year at this time, the number could be half that, depending on the extent of the decline in mortgage refinancings.

You want to do business with someone who was here yesterday and will be here tomorrow -- preferably someone who has conducted business

through high and low interest rates. Find a company that steadies its business with lending on real estate purchases and is not totally dependent on the boom-and-bust market that refinancing can be.

Get names of brokers who've helped your friends and relatives. Ask whether the brokers honored commitments, explained locks and other procedures, and didn't hit the borrower with surprise fees at closing. Talk to the broker and get references from recent customers who'll tell you about their experience with him or her.

Ask your prospective broker to explain how he is compensated. Brokers earn money from fees, such as loan-origination and processing fees, and from yield-spread premiums -- payments made to the broker from the lender if the borrower takes a loan with a higher rate than market.

Sometimes, borrowers take higher-rate loans than what they can qualify for in order to cover closing costs that are folded into the loan, for example. But brokers must disclose any premium they earn on the yield spread, and borrowers should be alert to whether the premium pays for something or just boosts a broker's compensation.

Finally, ask a broker about policies and prices on locking rates and lock extensions. If you lock your loan rate, make sure you extend it two weeks past your anticipated closing date -- more for new construction -- to protect yourself from delays.

Get the lock agreement in writing and specify the rate, when it was locked and when the lock expires. You may not need it with a good broker, but it'll surely help prove your case if you get a bad one.

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