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Vetting the Lender

By VICKIE ELMER

BEFORE buying a house, borrowers will undoubtedly do a thorough check of the property, examining its structural soundness and the surrounding neighborhood, among other things; they will research the best type of loan, comparing interest rates, terms and fees. But not all borrowers do due diligence on their lenders.

Ferretting out good information is not that easy. For one thing, different kinds of lenders are held to different rules, licenses and disclosure requirements. Some states, like New York and New Jersey, require mortgage brokers to complete criminal background checks through the state police.

Jack Guttentag, who runs an advice site called the Mortgage Professor and has retired as a business professor at the University of Pennsylvania Wharton School, likens choosing a lender to picking wild mushrooms. “You don’t go out by learning to identify all the bad ones,” he said. “You identify some good ones, and you go and pick those.” But, he added, “some lenders are not so great, and they have some really good loan officers.”

Which may be why he and other industry experts suggest that borrowers focus more on the individual who would be their mortgage broker, loan officer or loan originator. Among the questions borrowers should be asking them: How long have they been in the field? How well or promptly do they answer questions? Do they want to know the borrower’s financial goals? A look at their work experience and background on their LinkedIn profile may also be helpful. Good mortgage brokers are forthcoming about their backgrounds, Mr. Guttentag wrote in a blog post; they are good listeners, and helpful with personal-finance questions.

As you search, decide what traits are important to you about a lender; size might be one factor. Think, too, about whether a blemish on a firm’s record, say a large number of foreclosures or a class-action lawsuit settled three years ago, will dissuade you from cultivating a helpful relationship. Those may have made headlines, or they may require digging into the footnotes of the company’s annual report or searching the state banking department Web site. If a lender is publicly traded, you can read about its finances on the Securities and Exchange Commission’s Web site. (Look for the 10-K form.)

Other governmental and quasi-governmental sites may be helpful. The National Mortgage Licensing System has a consumer access site that allows visitors to check the backgrounds of mortgage professionals. The Federal Deposit Insurance Corporation site has a worksheet to help consumers compare lender policies.

But Mr. Guttentag says you can't always rely on recommendations on review sites or mortgage listings sites. These can be paid for or written by friends of the mortgage lender, he said, adding that the same holds true for complaint sites, which are often created with a particular business as a target.

Another problem with the complaint sites, he said, is that larger companies often draw more complaints simply because of the large volume of business they do. "In many cases they're not justified," he said.

On independent consumer sites like [Upfront Mortgage Brokers Association](#), which Mr. Guttentag helped create, the lenders have been vetted or have agreed to some standards and fair dealings. These can be helpful. So can your local Better Business Bureau site, which requires that its accredited businesses agree to "eight standards for trust."

You should also try to learn how your broker or banker is paid. Are fees collected from you and the bank making the loan?

Claire Rosenzweig, the president of the Better Business Bureau of Metropolitan New York, Hudson Valley and Long Island, says that if you want to be sure a broker is working entirely in your interest, sign a contract that names that person as your agent. Such an agreement isn't the norm, but if you obtain one, she said, it requires the broker to put your interests first.