

## How Each Type of Lender Gets Paid

In case you're curious, we're going to take an inside look at how the various types of lenders get paid for putting together a loan for you.

**Mortgage Banker.** Banks and credit unions typically do not charge you a 1% "origination fee" like Mortgage Brokers and Correspondent Lenders typically do. They make their money from some setup fees which we'll talk about below and from the interest you pay over the life of the loan. Sounds like you'd get the best deal here because you're not paying that 1% fee, right? Well, not necessarily, read on...

**Mortgage Brokers** typically charge you 1% or one "point" to put together your loan. That doesn't necessarily mean you are paying more for the loan than if you went to a bank directly. The Broker will typically get a "wholesale" rate from the bank, so they can pass on that better rate to you and charge you the 1% for their work. For example, you could go to US Bank and apply for a mortgage with their Mortgage Banker and get, say 6% on a 30 year fixed rate. A Mortgage Broker may broker the same loan through US Bank and get you a rate of 5.875% but charge you a 1% origination fee.

**Correspondent Lenders** normally are paid an origination fee like a Broker or they may just charge a bit higher interest rate like a Banker.

Other compensation:

All three types of lenders will usually have various costs with names like:

Underwriting fee

Doc prep fee

Processing fee

Document review fee

Brokers and Correspondent Lenders can also receive (from the bank providing the loan) a "rebate" or "yield spread premium" for putting together the loan at a slightly higher interest rate. Typically this is their compensation instead of charging you an origination fee, but not always. You should ask your Mortgage Professional how they are paid.

Which route do we recommend you take? It matters much that your Mortgage Professional is knowledgeable and trustworthy than what type of lender they work for. Your Mortgage Professional also needs to clearly explain all the costs you'll incur to get the loan and why you're paying those costs. All types of lenders are going to get paid, its just a matter of which method they'll be using.