

MURDER ON THE INTEREST RATE EXPRESS

By Patrick Niland

Early in 1993, as the Interest Rate Express was pulling into the station, there were many people waiting to board the train. Some were just waiting for the right chance to climb aboard. Others were too afraid to hop on until the train came to a full stop. Few realized that this was a very special train. It had not made this run in almost 30 years and would make no more than a whistle-stop before resuming its journey. Those who were smart or lucky enough to board this train will have a most enjoyable ride. Those who didn't had three options: (a) they could have canceled their trip and gone back home, or (b) they foolishly could have waited for this special train to back up, or (c) they could have looked around for another train to take them where they wanted to go. Anyone who decided to wait for the train to back up must be getting pretty tired by now. But anyone who hopped a later train, while not ecstatic, is probably still pretty happy.

The moral of our little story is that it always pays to talk to the station master to find out what's going on. The master in today's commercial mortgage "station" is the commercial mortgage broker. He may not know the exact arrival and departure time for every train, but he will know what platform to be on and what train to board.

In just one year, rates on commercial mortgages have risen by more than 200 basis points! Nonetheless, from an historical viewpoint, today's rates are still quite low. So, anyone who still is blinded by wistful memories of last October is missing the opportunities of today. A good mortgage broker can help you get back on track.

There are three good reasons to use a mortgage broker:

1. A good mortgage broker will save you money. Lots of it. The most obvious way is by delivering a lower interest rate or fewer points than the borrower could have negotiated on his own. Another is by arranging a more favorable amortization schedule to reduce the monthly payment. A third might be more lenient prepayment terms or the elimination of hold-backs or reserves. There are many more ways. So, always hire a good mortgage broker; a good one will save you more than his fee.
2. A good mortgage broker will save you time. Most people know what their accountant does – but who has the time to do it themselves? Likewise, several of my clients could negotiate a decent loan for themselves – if they had the time. But they're too busy planning and running their properties. They are quite happy to have a professional like me do all of the leg work, develop several alternatives from which to choose, advise them on their selection, and then get the deal done fast.
3. A good mortgage broker provides access to more lenders. Some lenders are easy to find, others are almost impossible. If you're shopping the market for the first time in several years, do you think you'll find them all? A good mortgage broker is in the market every day and knows just who's doing what.

A mortgage broker can do all of these things for the same reason that a “regular” can always get a table at a busy restaurant. Borrowers come along once every five or 10 years. A good mortgage broker provides each loan officer with a steady stream of new business. In fact, most lenders get 70%, 80%, or even 90% of their loans through brokers. The strength of these relationships allows a good mortgage broker to negotiate better terms for his clients. Loan officers are willing to grant such concessions because they count on the brokers to generate business and to save them a lot of work by prescreening most of the deals which come across their desks. If a loan officer offends one borrower, he might lose a single deal. If he turns off a good broker, he might lose a big chunk of his annual volume.

A good broker also knows each loan officer very well, how he thinks, his likes and dislikes. Hence, the brokerage community performs a valuable sorting function that helps lenders to operate more efficiently. This greater efficiency results in faster processing and more favorable terms. That, in turn, increases the flow of funds to the market. All of this boosts lenders’ profits and decreases the total cost of funds for borrowers. Whenever a loan officer has a pile of messages on his desk, whose do you suppose get answered first?

So, how do you find a good mortgage broker? The same way you’d find a good accountant or attorney. Interview several to make a preliminary judgment; then call several references for each to help make your final choice. Most people wouldn’t conclude any important transaction without consulting their attorney. Nor would they show up for an audit without their accountant. Each of these situations can benefit greatly from professional help. A mortgage refinancing can be one of the most important transactions you will do in years. Doesn’t that call for the best advice? Remember, if you don’t talk to the station master, you might miss your train. “All Aboard!”