



WORKING WITH BROKERS: AVOIDING THE QUAGMIRE

This is the second article designed to assist you in avoiding broker abuses and to guide you in evaluating and dealing with brokers.

Our first installment stressed the critical need to perform due diligence before entering into a broker relationship, especially since there are no federal regulations for commercial mortgage brokers. Stepping into a quagmire of issues while you're working to build your portfolio is the last thing you need. What you need: Confidence that you're dealing with a reliable broker you can trust over time. That trust only comes by completing the necessary verification of a broker's licensing, background and reputation and defining the terms of the broker relationship in writing. Once your relationship is on solid ground, you can trust the broker and the potential business they refer to your financial institution. Here are some additional points to remember in vetting and dealing with brokers:

Yet there are no regulations under way for commercial mortgage brokers. This puts broker evaluation squarely in the lender's camp. To avoid any issues, performing due diligence before entering into any broker relationship is a critical necessity. Here are some of elements of due diligence:

Putting the Relationship in Writing

Financial institution determines all terms of the broker relationship including:

- how the relationship begins and terminates
- reasonable referral payment terms
- broker contract terms and conditions

Working the Loan

Financial institution maintains control of the loan process including:

- determining if the broker meets the financial institution's due diligence requirements before accepting a loan for review
- conducting application interviews with potential borrowers even if forms are presented by the broker
- having direct access to borrowers to verify all aspects of the applications
- determining the proper documents needed for a loan application
- obtaining proper borrower identification
- investigating borrower viability with diligence

- underwriting and processing staff having direct contact with the potential borrower, not the broker
- dictating the loan *Letter of Interest* or *Conditional Approval*, presenting it in writing, and verbally explaining it to the potential borrower
- performing the closing

As an option, your financial institution's marketing plan can provide for mortgage broker assistance in finding potential borrowers. The mortgage broker can also assist the financial institution with communication and document collection.

Wading through the quagmire can be overwhelming and time consuming. Our JRB Team encounters a wide variety of broker situations in financial institutions of all sizes every day. We have the expertise to help your financial institution's establish policies, broker agreements and procedures -- so you can get down to business. You might also consider outsourcing your underwriting, loan packaging, processing and other services. Let us put our expertise to work for you!

So we can better assist you, I'd be interested in your financial institution's experiences with brokers. Hit "Reply" to this email, call me at 626.963.1267 or visit www.jrbrunoassoc.com. I'd like to hear from you.

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