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Finding the Right Type of Lender: Part I

When you're ready to purchase a home, what type of lender should you choose? Today, there are probably many more choices available than you might think. Knowing a little about each lending source will help you make the best decision for your mortgage loan.

Mortgage Loan Bankers
These lenders can vary in the size of their organization but they generally have to contract with major financial institution to receive a large line of credit in order to raise funds for loans. Most of these bankers will have wholesale lending branches that originate their loans. They then bundle many loans together into pools for the major mortgage money financiers Fannie Mae, Freddie Mac, and Ginnie Mae. Mortgage bankers can offer great loan deals because they concentrate only mortgage business, but they may or may not service your loan personally.

Mortgage Loan Brokers
A broker will not actually fund your loan. They will originate the loan but then find another lender for you. Usually they deal will wholesale lenders who will underwrite the mortgage.

Wholesale Lenders
These lenders will typically outsource to brokers for loan origination, although some will actually do it themselves. They sell loans to brokers, at a lower cost than banks will offer to the public. Brokers than attach their cut onto the loan and sell it to the borrower.

Correspondents
After originating and closing individual loans, these lenders will sell the loans to a larger company known as their "sponsor." The sponsor will underwrite the loan and then package the loan with others in a pool and resell it Fannie Mae, Freddie Mac, or Ginnie Mae. Credit Unions generally fall under the category of Correspondents.

Portfolio Lenders
Unlike most other lenders, these lenders actually have their own money to lend and will originate their own loans. These commonly include the bigger banks as well as savings and loan institutions. They do not have to follow Freddie Mac and Fannie Mae guidelines because can insure their own loans. After their borrowers demonstrate at least a year of payments made on time, the portfolio lenders will package these now "safe" loans and sell them off in the stock market, netting additional profit for further loans. This means the individual loans will be sold to other investors, but borrowers usually continue making mortgage payments to the portfolio lender.

The second part in this article series will discuss which organizations make the best lenders and why!