The Role of Mortgage Brokers in the Subprime Crisis

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WORKING PAPER 16175

DOI 10.3386/w16175

ISSUE DATE July 2010

Prior to the subprime crisis, mortgage brokers originated about 65% of all subprime mortgages. Yet little is known about their behavior during the runup to the crisis. Using data from New Century Financial Corporation, we find that brokers earned an average revenue of $5,300 per funded loan. We decompose the broker revenues into a cost and a profit component and find evidence consistent with brokers having market power. The profits earned are different for different types of loans and vary with borrower, broker, regulation and neighborhood characteristics. We relate the broker profits to the subsequent performance of the loans and show that brokers earned high profits on loans that turned out to be riskier ex post.

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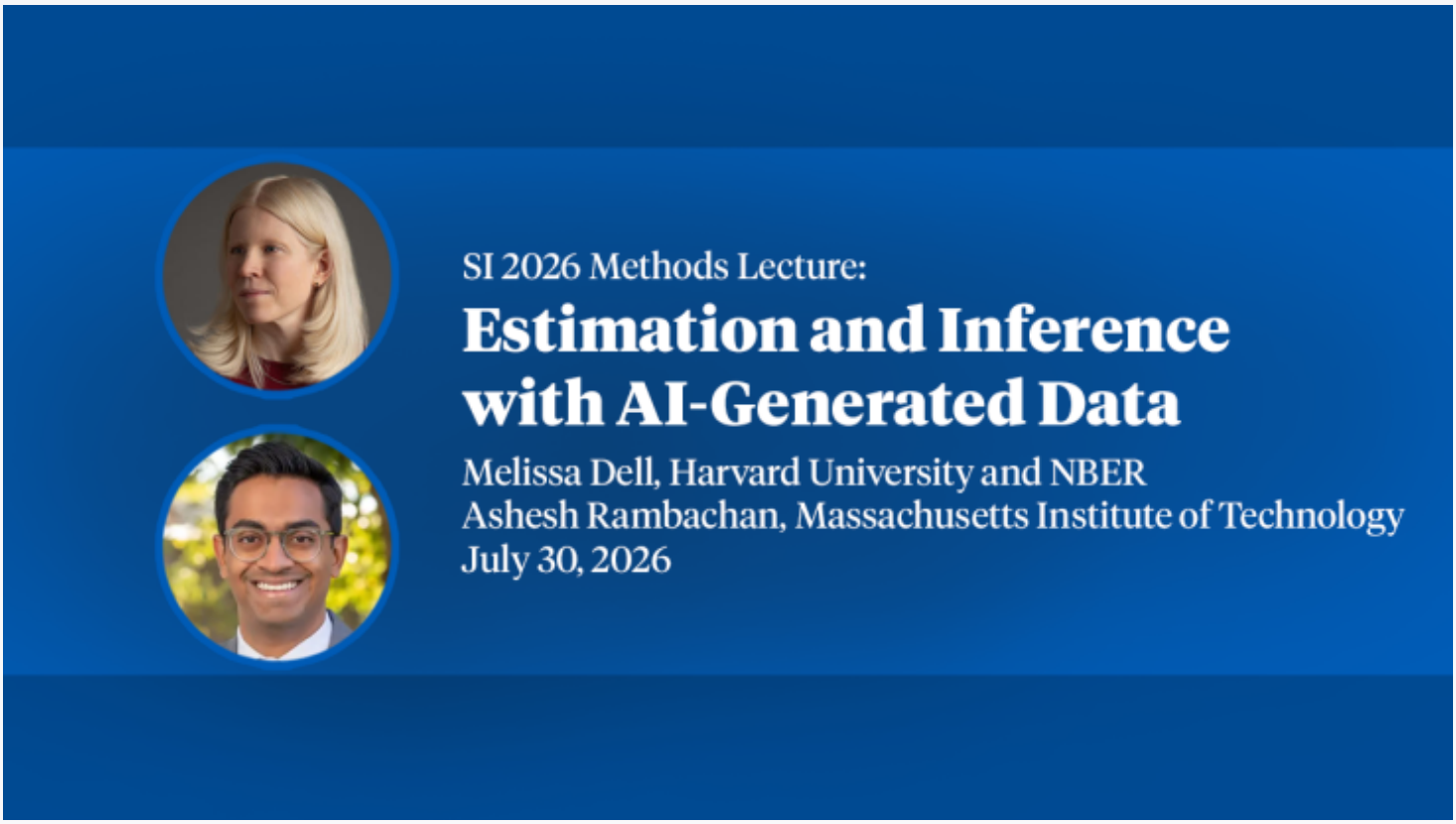


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