Ensuring LOS Survival

Partnerships can help ensure that technology remains cutting-edge on all levels, all the time.

By Aaron Cope

The reason there are dozens of loan origination systems is because many vendors think that's where the money is. There are around three dozen loan origination systems doing business, and almost all of them promise to eliminate paper, speed the lending process, archive borrower data in the cloud, and make the point-of-sale a simple matter of clicking a few buttons. And they promise to complete that work in seconds.

In general, their claims have been as similar as their lackluster results, causing disappointment and unhappiness among users that have found that integrating the systems is excruciatingly difficult and using the systems sometimes joyless. As many lenders know from bitter experience, most of the origination vendors failed to live up to their promises. Either the system can't do what they advertised or implementing the systems takes far longer than expected—and on a few occasions was never completed.

Too often vendors chose to develop their own document systems, compliance systems, point-of-sale solutions and others on their own, despite opportunities to integrate with existing systems. That's led to underwhelming results.

Integration among vendors, the so-called "Best-of-Breed" approach, would help address the complexities of the mortgage marketplace and the business workflow nuances found among financial institutions of different types and sizes. For instance, the technology requirements of a lender that completes billions in originations each quarter contrasts with the demands of a credit union that completes a few thousand loans over the same time period.

Years ago a vendor may have developed the technology to address the needs of the top 25 largest lenders in the mortgage industry. But today vendors are trying to lure business from much smaller lenders. Integrating with partners makes LOS vendors more nimble and able to offer more diverse offerings without the expense of development, but many do not find that option attractive.

Needless to say, vendors that seek to offer end-to-end solutions have been and continue to be at a high risk of disappointing their clients. The requirements are just too broad for most firms to satisfy on their own, especially because they need to support lenders of every size and type.

That simply is beyond the reach of most of these vendors.

The market for loan origination systems has changed as well. The number of lenders that can license the software has been reduced. There are far fewer mortgage brokers than in the past, several large lenders have gone out of business or merged, and sub-prime lenders are a memory. Also, loan origination volume across the mortgage industry has fallen, further reducing the appetite for new platforms.

At the same time that revenue is falling, the standards for loan origination systems have risen, and what was good enough a few years ago simply can't cut it today. That has placed more pressure on vendors to develop sound solutions, or they risk placing their own businesses in jeopardy. Some recognized they could not meet the new standards and were forced to merge or sell out.

On the plus side are community lenders and credit unions that have seen their mortgage volumes increase. Virtually all the LOS vendors recognize this opportunity, and they are pursuing it, though the winners will combine a cutting-edge core offering and savvy integration with partners. Successful integration requires the ability to customize a loan origination system to the needs of the lender for a modest cost, as well as the ability to cull through potential partners to find the ones that can meet the needs of clients on time and with cutting-edge technology.

A vendor that can execute that strategy will gain a strategic advantage, one that appeals to lenders of all sizes.

> "As many **lenders know** from bitter experience, most of the origination vendors failed to live up to their promise."

A platform that can be customized and integrated with a lender's existing workflow is critical in this economic environment because there are fewer dollars to devote to technology.

Lenders recognize that they need to upgrade systems, but they prefer to do it selectively and, most assuredly, in a cost effective manner. As a result, most will examine the offerings from new vendors that have developed improved systems, especially if they can be customized inexpensively to fit their needs. Almost by definition, new technology is more flexible than existing offerings that are built on dated platforms that have not been upgraded.

Or when these older platforms they have been upgraded, it's been with a one-size-fits-all approach that does not make integration easy and does not meet lenders' requirements in a post real estate bubble world. That approach will serve to frustrate lenders that are ready to integrate a cloud computing platform and hosted software, but whose vendor does not offer the technology.

Clearly, the right integration partner can help close that gap.

The bottom line is that lenders want software that is adaptable and that offers customized workflow that can be configured to meet their needs. Lenders want more control over their systems and workflow and not a run-of-the-mill, out-of-the-box solution. That may have been acceptable in the past years, but that is no longer satisfactory.

Here's the point: Lenders are in a position to demand more from their vendors, and they are not shy about doing so. For instance, lenders want to be assured that their technology can be adapted to comply with regulations from the CFPB, regardless of the form it takes.

But here's the problem: Many vendors simply cannot support cutting-edge technology, though they have spent large sums of money and devoted untold hours of development time to the effort. While the market's verdict on many of these technologies is that they fall short, they continue to be offered, sometimes with elaborate, expensive advertising campaigns.

Lenders are faced, therefore, with determining which technology offerings will meet their needs and those that won't. It is not an enviable task. This is not to suggest, however, that some origination providers cannot provide sophisticated, elegant customization. But the cost is prohibitive, especially for the growth segments of the market: community banks and credit unions.

Moreover, the traditional pricing schedule—a fat up-front fee to implement the system and annual maintenance fees for support and software updates—is unsustainable. That's why most providers, if they want a legitimate chance to do business in this niche, are offering transaction-based pricing. That's particularly true of smaller lenders, but it applies to most large lenders as well.

Under this model, lenders pay the LOS provider for loans that close, but they do not pay the up-front fee that many of the largest lenders paid. This is critical to these institutions because it frees them from having to reduce staff levels in a slowdown or increase them when loan volume grows.

With much less expense, but with improved capability, vendors that work together can improve their technology offering, broaden their markets, and fatten their bottom lines.

Lenders desire an integrated platform that will ensure compliance and do so in an automated fashion. Lenders are open to LOS providers that integrate with other vendors to provide these services. Lenders are keen for an automated method that ensures compliance with RESPA and the Truth-in-Lending regulation under which disclosures are delivered to the borrower within 72 hours. Moreover, access to documents such as the HUD-1, the Good Faith Estimate, Truth in Lending and servicing documents, should be no more than a click away.

Most mortgage professionals doubt that LOS providers have gotten the message. In fact, here's a test that can prove that contention: Over the next few months, watch how many LOS vendors develop applications for the iPhone and iPad. It is likely that most of them will attempt to develop their own interfaces, rather than integrate the offering of a firm that specializes in point-of-sale applications.

That's a shame, but it is what happens when institutions fail to focus on core competencies and find integration partners with which to develop technology platforms. ❖

About The Author

Aaron Cope is the head of operations at SaM Solutions US and the developer of Engage, a loan origination system. He can be reached at HYPERLINK "mailto:A.Cope@sam-solutions.net" A.Cope@sam-solutions.net. SaM Solutions US, Ocala, Fla., is an experienced builder of loan origination systems and business intelligence tools designed for retail lenders, correspondent lenders and wholesale mortgage channels.