Times Have Changed:

By Binh Dang

In a changing mortgage market here is what to look for when evaluating a new LOS platform.

The mortgage marketplace is obviously vastly different than we once knew it to be. There are a myriad of challenges that lenders now face and must effectively manage in order to flourish in a new world order that has numerous constantly changing compliance regulations, increased costs to originate loans, quality control concerns, resource constraints, and the ability to turn on a dime in a highly fluid market, among other things.

Before the mortgage meltdown, lenders did not have to contend with many of these issues. Loans were originated and quickly sold on the secondary market. Concerns about buybacks, compliance and investor overlays were minimal. The role of technology has always been an important piece of the lending process and the loan origination system (LOS) was the straw that stirred the drink. But, the way LOSes were used in the past was largely to get loans done as quickly as possible for gain on profit. Paying hundreds of thousands or even millions of dollars for an LOS platform was all but an afterthought to the lucrative lending business. The biggest problem lenders had back then were prolonged implementations, which could become highly disruptive to operations, thus hampering the ability to originate and sell loans. These systems were not only hard to implement but also expensive to maintain; however, lenders were swimming in money and willing to dedicate the financial and staffing resources to implement and maintain that type of LOS platform.

After the crash, however, lenders shelved these expensive, high maintenance platforms and began to implement low-cost, best-of-breed applications that were lightly integrated with one another as a means to use just enough technology to "get by." Buying decisions were often made quickly and without long-term planning. At a time when lenders simply didn't know if they could attain warehouse lines or secure investors to sell loans to, who could blame them for thinking in the short term? But today the mortgage marketplace has more stability than in prior years. There is now a much greater degree of confidence that lenders have in their ability to sustain their businesses and remain competitive. Lenders have gotten past the fears of closing their doors and are no longer investing in technology based on short-term motivations. They are instead making buying decisions based on where to take the business in the long-term. They have clear ideas and objectives to sustain and grow their business and LOS technology is the vehicle to help get them there.

Now, we've seen a rather swift shift from the days when the low-cost best-of breed approach was deemed to be a better alternative to that of the high-cost end-to-end model. The industry has since gravitated back to using an all-in-one platform from a single vendor. There are several reasons for this shift in technology demand. First, constantly changing compliance rules have lenders shying away from working with multiple best-of-breed vendors with multiple databases or carriers of sensitive information.

If you're out of compliance, lenders could face steep fines and if there's a CFPB audit, the burden of proof is on the lender, in which case reporting becomes a critical issue and vendor finger pointing will often arise. Lenders can't afford the serious risks associated with working with multiple vendors to stay in compliance. Too many hands in the cookie jar is outright dangerous. Second, most best-of-breed integrations aren't tight enough to create a truly seamless workflow. Lenders require seamless workflows in order to be efficient in today's market. You need loans to flow effortlessly through the lifecycle without manual intervention, the re-keying of data, or being forced to jump to disparate applications and learn different interfaces with multiple login credentials. Third, your typical best-of-breed vendor has to create and maintain integrations with other vendors in an effort to form an end-to-end solution. That's hard to keep up with, especially when integration partners make updates to their software that can cause other pieces of the flow to break. Some vendors form many of these partnerships because they have to in order to compete and stay afloat. Staying on top of all of these integrations has proven to be problematic and at times impossible. When an integration breaks or the partnership changes, the lender is left holding the bag.

In addition, there are some LOS vendors that simply acquire other best-of-breed vendors to assemble an end-to-end platform. With this approach you still have roughly the same issues as you do with best-of-breed integrations—you're using disparate applications that are not native to the core system. So, you have different databases and types of technology. Piecing these together to create a seamless workflow is not an easy undertaking and can take years, if ever to complete effectively

Given all the aforementioned, what are some of the key things to consider when looking for a new LOS in today's mortgage market?

SEAMLESS...SEAMLESS... SEAMLESS...

Of course we've heard the term "Location…Location…Location" as it pertains to retail marketing. I cannot stress enough how business-critical it is to operate with a truly seamless workflow. We all know that the word "seamless" is an over-used term in mortgage technology, and it can be a rather nebulous reference that pertains to many parts of different types of mortgage technologies. As it relates to an LOS, the workflow should be so tight that intervention by employees is few and far between. The loan should flow effortlessly from the point-of-sale to processing, underwriting, closing, funding and secondary marketing. Clunky, best-of-breed integrations cannot achieve a seamless workflow nor can a vendor that buys other technologies to fill gaps that they have in their solution. A truly seamless workflow will reduce cost per loan and increase operational productivity.

SINGLE-SOURCE SOLUTION — BUILT BY A SINGLE VENDOR

An end-to-end platform that is engineered by one vendor will have a single database to house, draw upon, and change information. Multiple databases that arise from using multiple applications are a recipe for data disaster. A single-source LOS solution will eliminate manual touch points and reduce the redundancy of re-keying data. This reduces errors, costs, and delivers operational visibility.

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JETTISON UNNECESSARY APPLICATIONS

The implementation of an all-in-one LOS platform also enables lenders to significantly reduce their total cost of ownership (TCO). Why pay for additional solutions such as a point-of-sale application for LOs to take a simple 1003 and manage their pipelines, decisioning capabilities such as a product and pricing engine (PPE), eDocs, secondary marketing, etc. There are many applications that can instantly be eliminated by implementing an end-to-end LOS.

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CONFIGURABILITY & RESPONSIBILITY

The LOS should not be customizable in terms of one-off development efforts, which will cost you handsomely in professional services work. This really adds up in the long run. Instead, it should be customizable by way of configuration. The vendor should configure for you; they should handle the bulk of the implementation. If the vendor places the onus of configuration and implementation on you, that's a major red flag to steer clear of. It shouldn't be your job.

SYSTEM MAINTENANCE

Who maintains the system? You, or the vendor? Getting back to the topic of TCO, if the system has to be installed on a lender's servers, then you'll need the appropriate resources to manage it. Resources cost money, thus of course increasing your TCO. The platform should by and large be managed by the vendor. The data should reside in the cloud in a secure SAS 70 II data center, not within your own four walls. Lenders should focus on lending, not software maintenance.

COMPLIANCE

As we know, compliance is atop every lender's list. The potential for a CFPB audit, the violation of state and federal-based rules, and the prospect of steep fines can turn an organization upside down. There isn't an LOS vendor out there that specializes in compliance and has an extensive team of legal resources to stay on top of complex, ever-changing regulations. As a result, LOS vendors must partner with leading compliance vendors and integrate with them. Make sure the integrations are tight, tested, tried and true. Talk to the LOS vendor's partners. Is the integration real and working or planned an in the process? By doing this, you will be able to break them down and flush out untruths.

FEATURE WARS

Avoid getting caught up in vendor "feature wars." In the last few years, mortgage technology vendors became ultra-competitive operating in a highly profit-pinched marketplace. In fact, desperation drove some of them to do or say virtually anything to close a deal and remain competitive. They began to add features that many lenders got caught up in, and as a result, made buying decisions based off nice-to-have features. Unfortunately, many of those features at first glance resulted in a buying decision, only to find out later that they weren't necessary and different functional areas of the lending factory could care less about them. Avoid being enamored with features designed to disguise cold product. Don't make buying decisions based on features; buy the steak, not the sizzle.

CUSTOMER SUPPORT

It should be an immediate deal breaker if the vendor is lacking in support. Every LOS vendor purports to shine in the area of customer support. Don't take them at their word but ask for references to see how responsive they really are. The best references are not those provided by the vendors but those you've sourced yourself.

LONG-TERM PARTNERSHIP

Look for a vendor who has a long-term vision with regards to where they want to take their platform. While it's great to work with a supportive vendor, it's even better to work with one who is constantly innovating and bringing new ideas to the market to help lenders be more compliant and efficient.

Times have changed in the mortgage landscape. Lenders now have a serious need and a timely opportunity to think long-term. While LOS technology is now more important than in previous years, lenders need to remember that, at their core, they are a lending organization and not a technology organization. They need to find technology partners who are superior at what they do, and that requires proper due diligence. ❖

About The Author

Binh Dang is currently the President and Founder of LendingQB, which provides a browser-based end-to-end LOS platform. The solution was officially launched in 2011 and has gained rapid adoption among lenders of all types. Prior to LendingQB, he founded PriceMyLoan, a widely used best-of-breed pricing engine and AUS.