



LOS TECHNOLOGY: TODAY & TOMORROW

It's do or die. Choosing the right technology is essential in determining if a lender lives to fight another day.

Do or die. This most basic and brutal choice offered to combatants in ancient arenas holds true for today's lenders. The choice may seem a little harsh at first glance, but the truth is no less stark. Lenders are engaged in the fight of their lives every day to find and retain borrowers. Technology is the tool they rely on most to gain competitive advantages over their rivals. Choosing the right technology is essential in determining if a lender lives to fight another day.

By Daniel Liggett

The loan origination system (LOS) is one of the most important pieces of technology in a lender's arsenal. A well-designed and implemented

LOS provides a number of advantages to lenders by allowing them to maximize resources, increase efficiencies, react more quickly to market changes and maintain regulatory compliance. The resulting benefits of the right LOS are directly channeled into attracting and retaining customers through lower costs and improved service.

Today's LOS market is a crowded one filled with systems claiming to meet the needs of today's lenders. However, at closer look, nearly all of them fall short. So what should today's LOS and the one of the future look like?

There are many facets to a lending operation and each is important to the overall success and profitability of an operation. There are certainly priorities, however today's lenders must understand that the value realized in each phase adds value to the overall operation. Therefore lenders must demand value and performance in each sector of their operation

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in order to keep costs low and provide high-quality service in order to obtain and retain customers.

Aside from the standard questions that lenders should ask when choosing technology (how much does it cost, how quickly can it be installed and configured, what types of loans can I process, is it secure), there are certain areas where an LOS can add value to today's lender.

One key area is versatility. Today's modern LOS must provide added value by processing all types of loans including standard conventional loans, FHA and VA loans as well as small-business, manufactured housing and USDA loans. The LOS of today, and in the future, should also be able to process consumer loans including vehicle loans, unsecured personal loans and home equity lines of credit.

However, true value lies in the ability to process a full spectrum of loans using

the same system and database because there is only one system to license, learn and maintain. This capability can greatly increase a lender's ability to expand their product offering while reducing the expense associated with the re-keying of data. Add in the ability to quickly cross-market loans to existing mortgage customers and you have a tangible competitive advantage.

As lenders are pressed to do more with less, the ability to deploy technology via a SaaS model (Software as a Service) is essential when deciding upon an LOS because it allows lenders to maximize technology while reducing costs. An LOS deployed over the Internet typically has lower up-front costs when compared to traditionally deployed systems because the vendor hosts and administers it on behalf of the lender, managing, maintaining and performing upgrades on the software and hardware. Hosted deployment also fulfills redundancy, recovery

and other business continuity requirements. All backup processes, on-site and off-site, are managed by the vendor, who also attends to ongoing data security. Hosting also permits the lender's staff to use the LOS from any location authorized by the lender.

Another advantage is that regulatory compliance is guaranteed by quality SaaS vendors. For lenders it can be extremely difficult to even properly determine the cost of keeping up with ongoing regulations, clarifications and adjustments. This aspect alone can be the deciding factor when choosing a SaaS model.

SaaS deployment also provides economies of scale advantages in areas of upgrades, performance, backups, server security, disaster recovery, data theft prevention, etc. because expertise is provided at much lower costs than is economically feasible at the lender level.

Lastly SaaS is more cost effective than metered-models because LOS vendors charge a flat fee per month. The scalability advantages mean that seat increases, either large or small, are priced evenly. Lenders can plan for and react to changing market conditions quickly and more affordably than with traditionally deployed LOSs.

The LOS of the future must be based upon rules-based technology, because it offers lenders a competitive advantage over hard-coded systems by providing flexibility. Simply put, business rules allow a lender to make additions or refinements to their LOS without relying on the vendor or costly programmers. They allow for a quick addition of a loan product, for example and all of the required sentry screens and output forms. The lending landscape is ever changing and these tools allow lenders to not only react more quickly, but also to be proactive in the face of change. If a lender does not have the ability to make changes to their system, they will not be able to effectively compete against those that can.

The flexibility provided by a rules-based LOS allows lenders to refine their technology to mirror and enhance existing business practices, rather than have the technology dictate them. This factor is often undervalued, but in reality it is vital in promoting acceptance of new technology among stakeholders.

Additionally, business rules allow for the lender to make the additions or changes necessary to react to or stay ahead of market changes. This capability alone can be a game changer by reducing times from weeks to minutes in some cases, when a loan product offering or rate change demands quick action.

Business rules afford lenders with the ability to report on virtually any piece of data from within the LOS quickly and easily. This underlying feature is essential if your lending technology is expected to provide continued value over the expected lifetime of systems that are not business rules based.

Document Management is also an essential quality that must be properly evaluated when choosing a lending technology to meet the demands of today's lending. Lenders are faced with the challenges of changing regulations and the fees, penalties and the possibility of buy-backs associated with non-compliance. Lenders need more than traditional document preparation and forms libraries to assure compliance. It is critical for them to have an integrated solution composed of a combination of mortgage banking attorneys, advanced technology and tight integration with their LOS.

Since the LOS is typically the system of record, one that delivers dynamic business rules that allow for data edit checks and data validation is vital to achieving and maintaining document compliance. With an integrated solution, accuracy is increased by using automated import and export capabilities to facilitate the exchange of data between systems. This solution delivers a staff of mortgage banking attorneys to lenders and provides the support and regulatory monitoring necessary to ensure loans are meeting the latest regulations.

By providing lenders with access to this solution from within the LOS, they can stay ahead of industry changes with end-to-end compliance support that allows convenient access to guaranteed compliant mortgage documents customized to their specific lending programs.

Integration between an LOS and other systems is vital to its success as the integral part of a lender's operation. These integrations, called Web Services, make all the capabilities and information within the LOS available to the outside world and vice-versa.

Web Services are also secure, expandable and provide a great amount of value without requiring a lot of maintenance.

Performing a thorough evaluation of the vendor can be as important as the evaluation of the technology itself. A technology supplier has a tremendous influence on the success of an LOS and thus a lender's business and livelihood.

A quality vendor can provide advantages in numerous ways, while lesser ones can doom a lender's success. Never underestimate the importance of vendor quality.

Lenders ask many questions of potential vendors, ranging from the number of systems in use to the methods by which they escalate a support issue. While these are good and essential questions, lenders are advised to converse with the lenders who are customers and are using the technology.

Start by asking the lenders about their experiences during the start-up phase. It is essential that this discussion include the installation, configuration and training phases as a whole, because the answer to the often-asked question of "how long will it take to install?" can often result in truthful but misleading answers.

Lenders need to have a firm grasp of their own installation expectations and communicate them to the vendor. Many times, details are omitted so deadlines can be met or 'scope creep' occurs where items are added which significantly impact go-live dates.

Make sure that milestones are established and duties for both the lender and vendor are outlined clearly. It is advised that all parties within the lending organization be kept in the fold, because buy-in by all interested parties makes for a smoother and speedier implementation.

Another detail when assessing vendors is determining their business knowledge, primarily your business. Many lenders have products or procedures that are specific or their state or region. Vendors who are well-versed in business as well as technical knowledge make for better business partners.

This applies to client services and customer support as well. It is difficult to place a value upon customer service. Many lenders write it off as being mediocre at best. Ask a vendor what they think of the service they get from their LOS vendor and you will likely hear stories ranging from "They're OK I guess" to "What customer service?". It makes sense to ask your vendor about help desk experience, staffing levels, availability, location, in-house or contracted, call-back times as well as the availability of help files, documentation, on-line and emergency services.

Vendor experience can be a huge asset as well. Those vendors who have witnessed and succeeded during all of the highs and lows that the industry has experienced have the knowledge to help lenders in periods of growth and decline. The value of veteran leadership can be summed up as the difference between "we can help" and "we don't know".

A poor client services relationship can have a huge negative impact on even the best LOS. No matter how good the product appears to be, lenders must have quality customer service in order to succeed, plain and simple.

Lenders certainly have an advantage as buyers in today's LOS technology market. There are many suitors on bended knees promising a lifetime of happiness. However, lenders must arm themselves with the knowledge and the understanding to choose the one that helps them gain the advantages they need to compete in today's marketplace while allowing them to embrace the challenges they will encounter in the future. ❖

ABOUT THE AUTHOR

Daniel Liggett serves as Director of Client Services for Associated Software Consultants' PowerLender Loan Origination & Processing System. He has more than 20 years experience in mortgage lending and loan automation systems. Danny oversees the configuration, training, support and project management efforts for loan origination and secondary marketing at ASC and serves as a development and marketing advisor.

