Who Should Be Responsible For Installing LOS Technology?

Vendors with a “You Configure” approach are not doing any favors for lenders.

By Linn Cook

There is nothing scarier than making the decision to move to a new loan origination system (LOS). It is laborious, expensive and just a major headache to deal with. But a recent study by Genpact showed that up to 90% of lenders are considering making this move. The mortgage industry is clearly in transition, and lenders are looking for technology that will allow them to adapt to a new business environment.

What is so scary about changing a LOS? Although there are no definitive statistics for the mortgage lending industry specifically, it is widely known that 65% of complex software implementations result in delays and cost overruns, and as much as 35% end up in failure. Ask mortgage lenders and they can all recount stories of nightmare implementations that left deep scars on their organizations.

Why do these delays and failures happen? There are two possible answers: Lenders either choose a system that does not work, or they have the right system but cannot get it set up properly.

Lenders spend a lot of time and effort making sure they know what a LOS can do. They ask vendors to complete exhaustive requests for proposals that cover a broad range of functionality topics in order to narrow down the most suitable choices. Qualifying vendors are then invited to demonstrate their wares and explain why theirs delivers the best value for the organization.

The problem with this type of evaluation process is that lenders tend to concentrate on system features and not enough on nontechnical issues, such as customer service quality or implementation support. It is almost as if lenders are looking beyond the implementation process and assuming that the LOS will behave as it was sold.

But this is precisely where lenders should be asking the most questions. Once lenders decide that a LOS can satisfy their technical demands, they need to know exactly how they can get the system to operate as expected.

Lenders should also ask for a blow-by-blow explanation of what will happen once the contract is signed. Who is responsible for the system setup, business rules configuration, project milestones and training? How long will this take? How many people are needed for the project? The answers to these questions will tell them a lot about their vendor and the likelihood of implementation success.

The funny thing is that most lenders already know who is responsible for implementation: themselves. Many lenders operate under an assumption that they would shoulder the majority of the implementation tasks. In fact, the larger the lender, the more they are willing to take on.

An ideal scenario

In a traditional software world, this makes total sense. The vendor would mail a box of disks and a user’s guide, and the rest was up to the lender. It was understood that LOS vendors are responsible for developing the software, but lenders are responsible for setting it up, including getting the hardware, network infrastructure, security and redundancy put in place. But with the “You Configure” approach, technical demands are so large and complex that lenders needed a team of IT experts just to get it installed.

And that is exactly what lenders did. They hired entire IT staffs dedicated to not only installing the LOS, but to keeping the system running on a day-to-day basis. Some lenders even customized their LOS to the extent that they needed experienced programmers on their staff. It is almost a badge of honor to have a small software team because it demonstrates a higher level of technical sophistica-
tion. This leads one to ask: Are you a mortgage lender with a software division, or a software company with a mortgage-lending division?

Given the size and scope of implementation responsibility that the lender has, it is not surprising that implementation projects get delayed or fail. There are so many moving parts that can break at any given time. Servers can crash, databases can get corrupted or hundreds of terminal clients may need to be updated. User accounts need to be set up, security protocols need to be defined, business rules need to be developed, templates need to be created - the list goes on, and it falls on the IT staff to get it all set up.

However, the IT staff are primarily technical people with little understanding of the complexities of the mortgage-lending process. This is not to say that IT staff are not capable of implementing LOS systems. On the contrary, these are talented individuals that bear an enormous responsibility for the organization. But while lenders are spending millions of dollars on this “You Configure” business model, other industries have evolved and embraced a newer, more cost-effective and efficient way of utilizing technology.

**Sassy SaaS**

Software delivered through a Web browser, also known as Software-as-a-Service (SaaS), has grown from an experimental novelty to a full-fledged, $12-billion-a-year industry. No longer considered early adopter technology, Web-based applications now rival installed software both in terms of performance and functionality, with the added benefit of streamlining IT costs that save companies billions of dollars every year. Global corporations from Oracle to IBM to Google have embraced SaaS technology and are using it to streamline their operations.

It is estimated that businesses that switch from client-installed software to hosted, browser-based software end up saving at least 40% in IT costs. Any portion of these cost savings can be reallocated into IT initiatives that enable lenders to generate revenue, such as online marketing or data analytics. In this way, lenders can move IT from a cost center to a revenue center, a concept that is rapidly spreading across other industries.

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However, aside from just the cost savings that the SaaS model has to offer, there is an opportunity to redefine the relationship between a lender and their LOS vendor in a way that is truly revolutionary.

A hosted, SaaS-based LOS gives vendors direct access to the data and software code for all of their clients. There are no restrictions on when or how often SaaS vendors can update their software, be it for one client or all of them. Instead of accumulating enhancements and bug fixes over a period of three, six or 12 months like traditional software vendors, SaaS vendors can trickle out updates every couple of weeks or perform instant hot fixes.

This type of vendor responsiveness can even extend into LOS implementation and maintenance. With SaaS, IT staff are largely relieved from the burden of maintaining servers and complicated network infrastructure. But SaaS vendors can shoulder more of the responsibility of actually setting up and configuring the LOS platform in coordination with lenders’ operations staff.

In fact, vendors are perfectly situated to help lenders implement the LOS faster and with greater effectiveness because they already know how to manipulate the system - they built it, after all - and they can leverage prior implementations with other lenders by offering best practices.

Instead of the traditional “You Configure” approach, SaaS providers offer a “We Configure” approach, where lenders and vendors work together to ensure optimal utilization of the LOS.

And this type of support does not end when the LOS is launched. SaaS vendors remain actively engaged with their lender clients, constantly communicating with them to manage updates and general platform maintenance tasks.

The traditional “You Configure” LOS implementation can take between six and 18 months to complete, with the added costs of project managers, trainers and capital expenditures. The SaaS-based “We Configure” LOS implementations can be completed in as few as 30 to 90 days and reduce lender implementation costs by up to 75%.

There is a reason this model is called Software-as-a-Service. Service is fundamental to a SaaS provider’s business model. Being able to communicate directly with end-users allows SaaS providers to accelerate their development process and deliver technology that is more relevant, more effective and more successful for lenders.

It is the 21st century, but the majority of LOS vendors are still operating as if it is 1999. Why should lenders have to bear the burden of technology maintenance or customization? Why should lenders be solely responsible for the cost of delayed or failed implementations? They should not and neither should you. It is time for lenders to demand more out of their LOS vendors.

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