Nine Rules for Selecting a "Future-Proof" Loan Origination System

The biggest cost of implementing a loan origination system (LOS) is usually not the software or hardware. It is the cost of the overall effort required to customize the LOS to your exact business needs, and to update it as changes are needed. You shouldn't let any vendor downplay the magnitude of this effort. Therefore, the customization effort isn't something you want to repeat. That's why you need an LOS that is poised to endure, and perhaps even invite, constant change.

In order to get the longest life out of your LOS, you need to select an LOS that is "Future-Proof". Adhering to the following nine rules should put you on the right track to finding one.

1. Make sure that the LOS you select is written in a programming language that is in wide use and, most importantly, has a promising future. There are many LOSs still being sold today that are written in languages that are, for all intents and purposes, obsolete. Some are written in languages that no longer enjoy the full support of their developer. And just because a programming language offers some "modern" capabilities (e.g. .NET support, SOA) doesn't mean it is poised to survive in the long-term. These antiquated programming languages may support at least some modern standards, but nobody develops new applications with them anymore and good programmers are becoming scarce. Ask questions, do research, or run the risk of replacing your next LOS much sooner than you anticipated. A good place to start your research might be http://www.tiobe.com/index.htm?tiobe_index but understand there are many fading programming languages still in wide use (e.g. Visual Basic 6).

2. Many popular programming languages lock your LOS into highly proprietary system components. Conversely, languages that are "platform neutral" permit your LOS to run on a wide variety of operating systems such as Windows, Linux, Mac OS, etc. Such languages, such as Java, are preferable because they offer you the freedom to choose and change the operating system and other critical system components. They also prevent you from being 'locked' to a single vendor who might take advantage of your inability to easily change course. Java is by far the most popular platform-neutral programming language. A system that fulfills your business requirements and is written in Java is far preferred to a similar system that is written in a language that ties you to proprietary system components.

3. Select an LOS that permits modifications to business processes by way of easy-to-understand "business rules". LOS functionality requirements change constantly, due primarily to competitive and regulatory imperatives. If low-level programming or other complex procedures are required to customize your LOS, it will eventually become a "custom program" whose ongoing maintenance will likely become cost-prohibitive. Business rules can also greatly reduce the time needed to modify your LOS, for example, to offer and process new loan products. The best way to know if the LOS you are considering is rules-based is to ask the vendor to make a variety of changes to the system, including the addition of a new loan product. If any low-level programming is required, look elsewhere for your LOS.

4. An LOS relies on many software components provided by third parties – operating systems, databases, content repositories, etc. These components should conform to industry "standards" which are supported by a significant number of IT hardware/software providers. To the extent that your LOS incorporates industry standards, costs associated with switching components are low. Standards prevent vendor lock-in while forcing vendors to compete on a level playing field. Some internationally recognized computing standards organizations include the W3C, OASIS, and the IETF. MISMO sets mortgage industry standards that your LOS should adopt where possible.

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5. Don't overlook open-source software, which is enjoying increasing adoption in financial institutions, because more and more open-source products offer functionality that is equivalent or better than traditional software. Open source software also tends to be standards-based, again reducing lock-in, and often has a lower total cost of ownership (TCO) than its commercial counterparts. There are high-quality open source operating systems, databases and content repositories that forward-thinking LOS vendors can make available with their lending systems.

6. An LOS that can process the widest variety of loan plans (e.g. mortgage, home equity, consumer, etc.) is preferable to a “mortgage-only” LOS. You never know where you may need to take your lending business in the future. The ability of an LOS to process a wide variety of loan plans is also indicative of its flexibility to easily change as processing requirements change.

7. Make sure that your LOS provides a best-of-breed communications infrastructure that lets you exchange electronic information with all of your business partners. Your loan processing system is the mission-critical hub of your lending enterprise, and is also your system of record. Because of that, your LOS must have connections with mortgage insurers, title insurers, flood insurers, valuation systems, closing agents, document preparation systems, your secondary and servicing systems, point-of-sale systems and any other business-to-business system you may need. Because those systems always change, and because new B2B technologies frequently evolve, the foundation of your LOS must include modern communication protocols, including provisions for SOAP, XMPP, WSS, WS-I and other communications technologies.

8. Avoid Web browser dependencies. Many LOSs rely on expensive terminal services to reach users' desktops. You should prefer an LOS that is able to work directly on inexpensive desktop PCs and updates itself automatically. To avoid using terminal services, some lenders fall into the browser trap. That is, they are so determined to use browser-based software to reach their desktops that they ignore browser usability problems. Web browsers are a great way to reach out to borrowers, but they pose problems for your back-office applications. Browser-based software usability suffers in comparison to rich desktop applications. There is too much mouse interaction, too little drag-and-drop, and no power-user speedups at all. And due to the differences among popular browsers, useful browser interfaces are difficult to program, test, and support. Avoid the browser trap, but get the same benefits by choosing a rich desktop application that updates itself automatically.

9. Make sure you have reasonably unrestricted, perpetual access to the software you use. Annual contracts, paid either “by the loan” or with a single annual fee, can put you in a very awkward position at each annual renewal, particularly because origination and processing is such a core function, and to the extent that extensive modifications drive your system. Make sure that you have some kind of contractual “cap” on annual increases. Vendors are reluctant to permit caps based on a measure of CPI, but you should be able to negotiate a “most favored customer” clause for any payment that is re-negotiated annually. Finally, make sure you have a source code escrow agreement with your vendor.

If your LOS conforms to these nine rules, you can expect a much longer useful lifetime, making front-end loan automation far more cost effective. We believe that a truly Future-Proof LOS will give you upwards of 20 years of service. Obviously, the longer you can enjoy the use of your LOS, the lower its ongoing TCO.

You are invited to call us for further information about the steps you can take to select a Future-Proof LOS. Call us at 800-628-4687 or e-mail sales@asconline.com and we will be happy to help.