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Rollercoaster Ride Ahead?

Advanced decision-making when choosing a new loan origination solution can mean a smoother ride

Is the housing and loan origination market headed for a rollercoaster ride through 2006? If so, what's around that next curve in the tracks—a straightaway, a steady climb, or a sure-to-take-your-breath-away plunge?

Regardless of which direction the coaster car is headed, you need to be prepared. One of the best ways is to make sure your loan origination system is the right fit for your organization, providing the efficiency and

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flexibility to help ensure profitability in good times and bad.

If you're like most originators, you make a change on average every five years, so next time what can you do to make sure your loan origination solution serves you through all of the steep climbs, straightaways and drop-offs ahead? You need to change the way you make decisions about choosing a new LOS system; you need "advanced decision-making" to ensure rock-solid results.

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Is It Conversion Time?

It seems that just as the average homeowner unpacks the last few boxes that have been stacked in the basement corner since moving in five years ago, it's time to start repacking for the next move. As a broker, you can relate because it's likely that you make a pretty big move every five years yourself. That's right—remember the last time you converted to a new LOS?

According to recent industry statistics, lenders change loan origination systems as often as the average American homeowner sells a home and buys a new one—about every five years. This simple statistic is representative of a very complex, two-fold problem in the industry: Not only are companies spending small fortunes and large amounts of time purchasing and deploying new origination systems, but also they keep using the same selection process.

From the beginning, the industry has lacked a formal process for capturing and communicating their unique requirements to vendors. The result? Originators end up listening to "canned" presentations from vendors that are long on promises and short on specifics. What the broker community really needs is a system, an objective selection process that can enable them to avoid the LOS merry-go-round.

If you have a stake in this process at your company, think about what it would mean to your organization if you could make an informed decision when choosing a new LOS—a decision based on real metrics that corresponds to your company's unique environment and delivers rock-solid results. A dream? No longer.

There is help for brokers as they face this often daunting process, a solution enabling them to identify and chart their company's metrics for the loan origination process. The result is a fact-based selection and decision-making process that requires LOS vendors to show how they will meet lenders' exact specifications.

What is at stake? Plenty. The fact is no technology is used more by brokers than their origination software... except maybe their interface to their AUS engines of choice. Yet, to this point, there hasn't been an organized, efficient and effective process—one that is defined by purchasers instead of vendors—for selecting a new LOS.

Instead, brokers have conformed to processes set forth by vendors, and have based their decision-making on a long list of software features and benefits that may or may not meet the originators' requirements.

This issue has been further complicated by the fact that, in many cases, there is no objective reason for switching vendors. The same study, referenced earlier, reported that the primary motive stated for bringing up a new LOS wasn't to address a specific deficit in their current system, or to meet a specific competitive threat, but rather because everyone else seemed to be doing it.

The study also cautioned wariness of the power of persuasive salespeople hyping the benefits of their system over the competition, and even suggested that senior executives have been know to switch out a system simply as a demonstration of their political power.

Of course, there are sound reasons for changing vendors and adopting a new system, such as dissatisfaction with customer service and technical support, or market intelligence that identifies specific competitive challenges threatening market position.

Regardless of the rationale for changing systems, the LOS is absolutely central to each broker's future success, and it's essential that the process for selecting a new LOS is fact-based rather than a Ouija-board exercise.

Okay, so now we know where we are; the question is how do we get to where we want to be? The first step is to drill down and understand the core reasons why the loan origination selection process has turned into a predictable, vicious five-year cycle.

Doing The Right Things, But In The Wrong Order

The good news is that it's not quite as bad as it seems. In fact, companies have actually been doing the right things, just in the wrong order. See if this sounds familiar. You missed a meeting and learned from a colleague that you have been appointed project manager to lead your company's initiative to select a new LOS.

What's your first step? Well, you know you need to survey your colleagues and spend time building a list of their needs. Next, you and your team contact LOS vendors and request information about their products and services. Then, you put together a request for proposal listing the technical features you

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believe your company's LOS must have, based in part on what your colleagues told you and what you read in the sales literature supplied by vendors.

When the LOS vendors receive your company's RFP, their responses are uniformly, "Sure, our LOS does everything you are asking for!" As project manager, you carry this information back to your team for the task of narrowing the field to two or three possible vendors. So, how do you actually accomplish this next step? How will you objectively create your "short list" of vendors? Did your company's RFP present true performance specifications, or was it really a wish list?

When it comes down to it, without a set of performance specifications to build the RFP and guide the selection process, you've played right into the hands of the vendors.

At this point, the remainder of the selection process usually boils down to a bidding war between vendors with the lowest bidder as the winner. And, as if the process wasn't challenging enough it's worth keeping in mind that every LOS vendor tends to offer what every other vendor does, so how do you go about choosing the right solution?

Let's hit the rewind button and see how the process can be fixed. (No, you still missed the meeting and you're still project manager, but this time the outcome is going to be different.)

You have opened your first meeting as project manager and your team members are awaiting your direction. This time, you present the team with the framework for establishing a formal set of performance specs for your new LOS. You and your team are going to work through a systematic decision-making process to define your business requirements for your loan origination system workflow by workflow, and then require vendors to show how they can match your defined specifications before they pitch their LOS offerings.

Analyzing Internal Processes To Understand ROI

Before going any further, let's determine what's at the core of this type of decision-making process. It's really about defining ROI for this new, important, and very expensive piece of technology your company is planning to acquire.

Although a simple concept, the same study referred to earlier reported that almost a third of the respondents said they were willing to replace a key piece of technology without verifying in advance that the new installation would have a measurable impact on efficiency, revenue or profitability.

Estimating ROI can be challenging and requires a disciplined approach. It requires a detailed analysis of your internal processes and business rules that will guide the selection of new technology—in this case, your LOS. You can measure ROI several ways.

For example, calculate the tangible savings in labor costs that would result from rework—you know, the clumsy patches and quick-fixes that have evolved over time just to get the job done.

Consider also what it would mean to improve communications with your customers through point-of-sale Web sites and third-party lead generation Web services. And, what about keeping pace with competitors in adding new products and features? How much labor goes into this effort? Finally, think about the overall functionality of your LOS—like interfaces. How much manual intervention is required, how much time is spent reconciling?

Don't forget about other interfaces, end-user testing, training required, and any new hardware, software and network capability required for everything to work in harmony. You may also find you need to hire for new support skills, or (unfortunately) let people go whose skills are no longer required for the new technology.

So, to accurately calculate the ROI you will need to know the costs associated with how much time and labor goes into the current processes, and how much you can save with the solutions the various vendors are proposing.

Steps To Success

This requires a time investment now, but better now on the front end of the process than after you have implemented a system that won't meet your company's needs. Here are four steps that will enable you to tackle all of the right tasks in their proper order:

1. Complete the due diligence before writing the RFP. This is your company's playbook. By charting every step of the loan origination process workflow by workflow before you write the RFP, you will prevent costly errors later and reduce the overall cost of ownership of your new LOS. For example, one flowchart might show how you use third-party AUS engines.

2. Determine the overall capabilities your LOS currently provides, and where you believe you need to be based on specific market challenges. Estimate the ROI as discussed in the paragraphs above, and you will be able to compare this figure to the cost of the solutions proposed by the vendors.

3. Develop a detailed, structured RFP. You need to control every part of the process, and this one is particularly critical. By structuring the RFP, vendors will conform to your requirements, rather than force you to evaluate them based on a canned presentation.

4. Force vendors to demonstrate the ROI from their solutions by giving you time standards and performance expectations for each of the workflows you charted in step No. 1 above.

Sound challenging? Sure, but think of it this way. If you were to the point when you were deploying a new LOS, you would have to think through all of the workflows and interfaces at that point, so why not do it now before you sign the purchase order? These four steps can mean the difference between a true breakthrough in the way you do business, or a return to the "same-old, same-old."

The fact is a deliberate, systematic process for choosing a new LOS is the only way to go. Using advanced decision making throughout the LOS selection process means that your results will be rock-solid. A fact-based approach that your company—rather than vendors—controls will help ensure that your organization can take the exhilarating climbs, twists, turns, and plunges of the market's rollercoaster ride with absolute confidence. •

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