



EXECUTIVE BRIEFING SERIES

STRATEGIC INSIGHTS FROM PRYMAK

The Evolution of Your LOS Project

Loan origination systems can help your organization make better, more profitable and competitive decisions, but the underlying selection and deployment process has to be rock-solid to ensure you purchase and deploy the right solution for your organization.

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INTRODUCTION

According to a recent survey by *National Mortgage News*¹, lenders switch loan origination systems every five years – as often as the average American homeowner sells a home and buys a new one.

This simple statistic suggests a very complex, two-fold problem in the lending industry today: Not only do companies spend tens of thousands of dollars and untold amounts of time purchasing and deploying a new loan origination system every five years on average, but they also keep using the same *selection process*.

Add to this the fact that lenders have lacked a formal process for capturing their unique requirements, communicating them to vendors, and avoiding 'canned' presentations that are long on promises and short on specifics.

What would it mean to your company if you could avoid the "every-five-years-hassle" and choose a system that could meet your needs for 7, 8 even 10 years or longer?

It could mean the difference between a leadership position in the industry, or being relegated to the status of 'also ran.' And, it might just be a career maker (or breaker!).

After all, your loan origination system is one of your company's core systems. If it's not working—you're not working. And that means that lending organizations *can no longer afford* to continue approaching LOS system selection in the same old, inefficient way.

Prymak, a veteran services and technology consultancy in the lending industry, has developed three distinct solutions – Discovery-180, Deployment-270 and Innovation-360 – that specifically help organizations make better, more informed decisions regarding selecting and deploying not only a *new* loan origination system, but the *right* loan origination system for their unique environment.

With Discovery-180, Prymak provides customers with a simple but powerful tool to identify and chart their metrics for the loan origination process. This results in a fact-based selection and decision-making process requiring LOS vendors to show *how they will meet lenders' exact specifications*.

Once a loan origination solution is chosen, lenders need customized, end-to-end integration services. Deployment-270 provides lenders with a formal process for *avoiding the costly delays and disruptions* that are so often a part of rolling out a new LOS.

To make sure that the loan origination solution is not replaced every five years, Innovation-360 continues the process through technology and business process review, software maintenance and integration, custom programming and project management.

This Executive Briefing explores the current industry trends and challenges, and shows how Prymak's unique approach and solutions help lenders craft a logical, systematic and *proven* LOS search strategy.

¹*National Mortgage News* LOS Research Report: First Edition and *National Mortgage News* Research Update: Loan Origination Systems Full Report.

TRENDS AND STRATEGIES IN LOAN ORIGINATION

No technology is used more by lenders than loan origination software. Yet, lenders are not known for their rigor in investigating, understanding, or even knowing how to adopt new systems that are in line with how they need to run their business. Rather, they often base their decision-making process on a long list of software features dictated by an equally long list of LOS vendors.

National Mortgage News confirms this by stating that the motive for switching systems has more to do with 'keeping up with the Joneses' to meet non-specific competitive threats than with any informed assessment that a new system will deliver better operational results. The study also warns not to underestimate the power of convincing salespeople touting one LOS system over another – and even suggests that senior execs have been known to replace a company's LOS system just to demonstrate their political power.

Other studies such as a 1999 Griggs-Anderson brand awareness study say dissatisfaction with customer service and technical support are key motivators for lenders to fire one LOS provider and hire another. That study showed more than 80 percent of lenders of all sizes rating excellent customer service as extremely important, whereas technology leadership and market share rated far lower.

It's one thing to read about debates like those summarized above; but, it's quite another to pick an LOS system *based solely on a hunch* that one or another has a better grasp on how to help your company do business more successfully.

Since the main issue is whether to retain an existing system or replace it with a more robust one, lenders *must* change the way they make decisions about dropping one LOS system in favor of another. The first step in this process is to understand the core reasons the loan origination selection process has turned into such a repetitive and vicious five-year cycle.

The Industry Is Doing the Right Things, But In the Wrong Order

Consider this scenario that typically describes how most companies go about the loan origination system selection.

First, the project manager interviews colleagues regarding their needs, then contacts various LOS vendors and asks for information. Then, they put together a request for proposal (RFP) that includes a long list of technical features, to which all vendors say, "Yes, our system does all of those things!"

The project manager takes this information back to a steering committee and narrows the search down to two or three vendors – with the chosen system being the victor in a resultant bidding war.

Finally, after the lender purchases the system and goes into implementation, they find that the cost (in both staff time and dollars) is much higher than they ever anticipated – or were ever clearly told. In fact, when the LOS vendor was pitching their business, they said, "No problem." But now, the lending department is saying, "We've got a problem."

Fast-forward five years and the same process starts all over again.

Why? Because instead of taking the time to create rigorous performance specifications in advance, most lenders approach their decision-making in the wrong order – starting with listening to what the sea of LOS vendors provide – and then selecting a system they guess will come closest to meeting their expectations.

Think of it this way: If you're deploying a new loan origination system, then you must think through all the workflows and interfaces and customization anyway so your employees can use it. Why are you doing it after the purchase order is signed?

The simple truth is that very few lending organizations – be they mortgage, commercial or consumer – have discovered a formula to nail down how much LOS functionality they can expect for how much money. Typically, they don't task themselves to determine the performance specifications they will require *before* they publish a request for proposal. Nor do lenders serve notice that vendors will be expected to show they can match define specifications *before* pitching their LOS offerings.

Part of the problem is that lending organizations are struggling to integrate all the pieces that are required to break the dysfunctional LOS selection cycle and lead to improvements in internal and external process efficiency.

Calculating the Return on Investment

Perhaps the most telling result of the *National Mortgage News* study is the fact that almost a third of the participating lenders are willing to replace a key piece of technology without requiring verification in advance that the new installation will produce tangible improvements in efficiency, revenues or profits.

Estimating ROI accurately requires a lender to conduct a detailed analysis of the company's internal processes, lending rules and market strategy prior to conducting a search for a new LOS system – an investment in time and money that needs to be made before the search for a new LOS system even begins.

A good way to measure ROI is to calculate your tangible benefits, in employee labor costs, from:

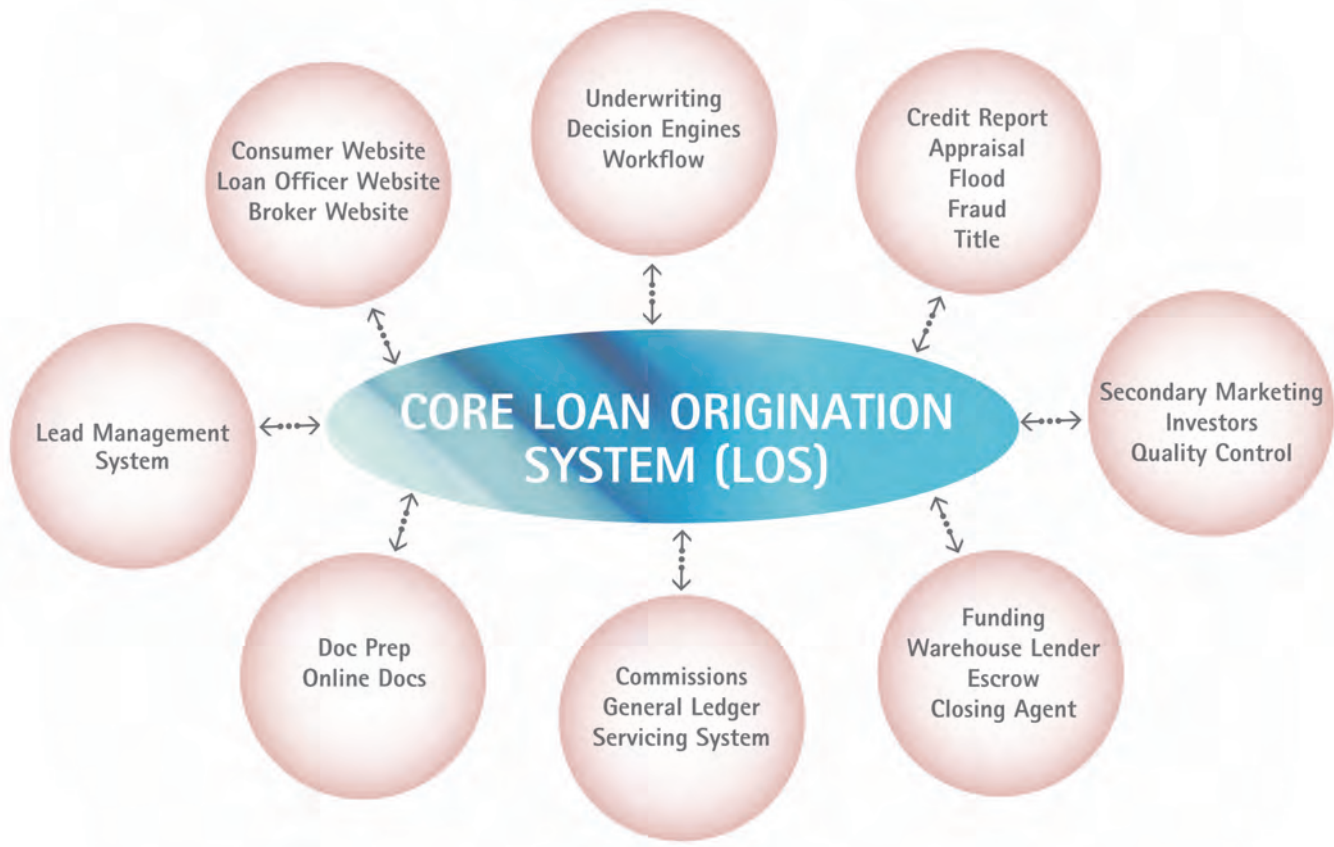
- *Stopping the workarounds and fixing your clunky processes* – these would include everything from manually editing forms because the LOS doesn't fill them in the way you want, to leaving the LOS to go to a vendor's Website, re-keying data, and then keying the results into the LOS.
- *Keeping up with new ways to communicate to your customers* – this includes using point of sale Websites, and third party lead generation web services.
- *Adding new products and features, as quickly as competitors do.* For example, how much manual labor goes into your interest only product?
- *Improving the functionality you want and need to keep* – with interfaces as an example. They may seem to work fine, but how much manual intervention is required? How much time do you spend reconciling, for example?

To accurately calculate the ROI from a new system, you're going to need two things: the costs, and a capacity model. You need to know how much time (and labor) goes into the current process – and how much you can expect to save with the vendors' solutions.

The Cost – and the Decision – are a Lot More Than the LOS License

One reason we switch LOS products so often is that, while the core product might work fine, the end-to-end system does not. And it's the end-to-end system that needs to be considered in selecting the core LOS software.

You need to factor into the investment all the interfaces, all the time for end-user testing of the interfaces, all the 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 technical support skills, or (unfortunately) let people go whose skills are no longer required for the new technology.



THE OLD PROCESS ISN'T WORKING FOR ANYONE OTHER THAN THE VENDORS

The core function of loan origination systems is actually quite simple – to coordinate the gathering and evaluation of documents and data that are needed to create a loan. As such, every LOS vendor tends to offer what every other vendor does. A basic sales strategy all vendors share is to assure prospective customers that their systems have all the features lenders expect to find.

So how does a lending organization choose the right solution?

One way is to do a Web search. But the problem is that this approach requires sifting through the sea of vendors and their respective – and often *confusing* – offerings.

A better, more logical way is to institute a systematic, decision-making process that enables you to pin down, as specifically as possible, what you expect a loan origination system to do for *you* and how you can make it conform to your unique processes – *before* you talk to even one LOS vendor.

The Need for Advanced Decision-Making: Introducing Discovery-180

Discovery-180 is a service that provides lenders with the ability to select the loan origination system that will enable you to automate as many loan-origination functions as possible, leverage Web services and get modular delivery of loan origination functionality – all to achieve maximum potential in closing loans faster and driving new revenue.

Discovery-180 enables you to accomplish the following:

- Complete all the due diligence and workflow processes upfront, preventing potential errors and reducing the eventual total cost of ownership in the selected loan origination system – before you sign a purchase order.
- Provide a precise, deliberate formula to nail down how much functionality you actually need, along with how much functionality you can expect for how much money.
- Determine the precise system (specifications) you will require *before* you publish an RFP.
- Serve notice through a highly structured RFP template that vendors will be expected to show they can match defined performance specifications *before* pitching their loan origination offerings.
- Force vendors to demonstrate the ROI from their proposed solutions by giving you time standards and performance expectations for each discrete process...which you can then overlay against your capacity model for the 'as is' processes and work flows.

Perhaps the biggest business advantage to engaging in a Discovery-180 assessment is that it enables you to decipher your business requirements – workflow by workflow.

Procedures and workflows in loan origination change constantly. Some of those changes are planned but some happen almost by accident. It's the accidental changes that drive up your cost to originate and drive down your team's productivity.

In three succinct phases, Discovery-180 eliminates all of the surprises in the loan origination process and provides realistic expectations about costs, customization, time-to-market, required staff and other key factors in selecting and implementing a loan origination system.

Phase 1: Create your own baseline system requirements and evaluation criteria.

A team of lending experts will assess your current and desired loan origination process. The Discovery-180 process begins with documenting – *flowchart by flowchart* – both the 'as is' processes and the 'desired' processes for as many as 60 critical processes within your operations.

Phase 2: Make sure technology is tied to increasing competitive advantage.

The Discovery-180 process then examines how you're using technology in your 'as is' processes, with recommendations on how you could be using it to achieve the 'desired' state. Better than that, Discovery-180 shows you key leverage points to get maximum value from your current investment and gives you solid technology requirement plans and budget templates for future technology investments.

Phase 3: Develop a selection and implementation strategy and harness vendor claims to your benefit.

Armed with detailed information on your operations, Prymak delivers, within 10 days following our evaluations, a comprehensive Discovery-180 assessment and action plan. This includes an RFP template that instructs vendors to respond specifically to your unique process flowcharts, budget template, project plan and timeline, along with all requirements for addressing 3rd party vendor interfaces and components.

Discovery-180 provides a comprehensive assessment of your organization's loan origination process, along with a detailed roadmap that solves the most vexing challenges, including the tools needed to manage and control the RFP process to ensure vendors respond to your company's precise requirements.

GOING LIVE DOESN'T MEAN YOU'RE DONE

Without exception, lenders find the implementation of technology systems one of the greatest challenges of doing business. In the intervals between switching loan origination systems, many lenders get surprised that however scrupulous and detailed the selection and purchase phase may be, the implementation can often be lengthier, and more expensive and complicated than anticipated.

As a lender, it's absolutely critical you control implementation and maintenance costs — *end to end*. You've either heard, or have already experienced for yourself, the unexpected, unpleasant surprises that inevitably occur when implementing a new loan origination system — surprises that drive up your costs and drive down your integration productivity.

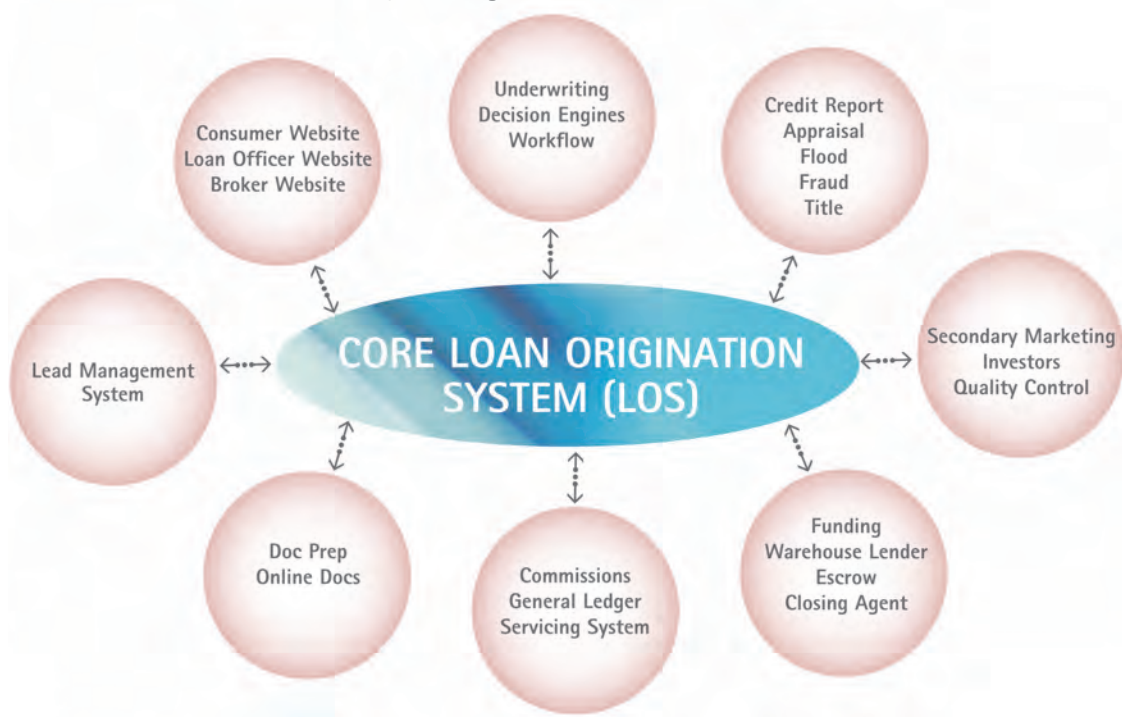
Given the complexity of loan origination system deployment, it is not a task that lenders — and even many loan origi-

nation system vendors themselves — can fully embrace. That's why it's imperative to partner with an expert deployment team, one that is committed to work with you and your system vendor to ensure your loan origination system will go to work for you as quickly and painlessly as possible.

The result is a more productive, less disruptive and generally smoother deployment.

If It Only Involved the LOS, You Probably Wouldn't Need Help

Your new loan origination system software is probably easy enough to install, set-up and put into production. And it's very likely your chosen vendor will provide all the help, support, and training you need. There's a chance they may even help you with disclosures and closing docs.



The problem is getting the new LOS to work with everything else...and that's where most lenders experience the most problems – and find that their LOS vendor sold them software and simply walked away.

First, you need to integrate the LOS with your lead management system and your Website. You'll need to make sure interfaces work seamlessly between your credit reporting agency, your flood and title vendors, the appraisers' Websites, and your preferred automated underwriting engines. You may also need interfaces to lock the loan.

And that's just to get the loan approved. Then you need a secure way to transmit closing docs to the closing agent, fund the loan through your warehouse lender, and board the loan on your servicing platform. Don't forget the interfaces to your G/L system and capturing the data you'll need down stream for HMDA reporting.

From pre-installation planning to post-implementation audit, you need to ensure your loan origination and operations solution is a powerful and productive investment for your business. Deployment-270 fosters an end-to-end collaboration to implement your loan origination system and tailor it to the way you want to work. The process applies expert technical skills and industry knowledge to identify areas where your loan origination system can be applied to maximize your loan production and decrease your risk.

Comprehensive and highly structured implementation project plans ensure that your experience meets your expectations. Deployment-270 identifies each necessary action, enabling you to chart progress every step of the way:

○ **Implementation plan and budget**

Deployment-270 starts with a project timeline, project implementation plan, and budget that provide all the upfront facts you need to get from your 'as is' state to your 'desired' deployed state.

○ **Project charter**

With a detailed work breakdown structure as our guide, Prymak ensures all aspects of production are handled start to finish. These initiatives include project management, policy decisions, security privileges and administration, documents, installation and testing, desktop procedure and workflow development, report development, performance standards development, user acceptance testing, training, implementation, and post-implementation review.

○ **Professional deployment staff**

Prymak also manages and provides the horsepower for deployment. Lending organizations are assigned a professional deployment team responsible for carrying out the integration and implementation tasks according to the implementation plan, timeline and budget. Prymak's business and technical consultants have years of industry expertise and can increase the efficiency and effectiveness of *any* loan origination system.

○ **Process workflows**

You will receive flowcharts that each represents a discrete part of your overall process. Every flowchart page will have the 'as is' process on the left side, and the 'new' process on the right. There could easily be 40-60 discrete processes as part of the workflow.

○ **End-user training**

Your staff, including end users and system administrators, receives comprehensive training on the loan origination system and will be certified at the end of the training process to ensure they have a thorough understanding and working knowledge of all system functionality.

○ Post-implementation audit

Finally, the comprehensive post-implementation audit carefully analyzes the efficiency of your installation, configuration, and usage of your loan origination system. Experienced consultants collaborate with you to maximize your lending production and efficiency and to sharpen your competitive edge by making full use of your loan origination system functionality.

Each of these phases contains its own steps, phases and challenges, every one of which can potentially interrupt the normal flow of business. Deployment-270 implementation prevents your organization from experiencing crippling disruptions, or short-cutting testing and other necessary steps in a successful deployment process.

The Annual 'Tune-Up'

Vendors are constantly coming up with new products and services; interfaces have to be maintained; new versions of documents need to be loaded; software updates and releases show up just as you finished dealing with the last one. And every time any of these things change, you need to update your desktop procedures, workflows, and training materials.

Annual assessments, a core part of the Deployment-270 service, are critical in keeping your entire loan origination process working at peak performance after implementing your loan origination system.

The annual assessment ensures the following:

- Current versions of your software (including updates, patches, and releases) have been properly installed and are in production with your staff.
- Update, review and calibrate all process flowcharts and the capacity model based on new workflow needs that have been generated in the past year of production.
- Integrate new solutions into your workflows and/or loan origination system.

By calibrating your workflows and loan origination system annually, organizations realize higher levels of user productivity, along with leveraging the original investment you made in your loan origination system. Simply put, the annual assessment – the one-year 'tune-up' – puts money back in your pocket.

FOR MORE INFORMATION

When you would like more information on our loan origination selection and deployment approaches and services, or are interested in scheduling an introductory consultation, please contact us.



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