Mortgage LOS Platform Evaluation and Selection

A comprehensive and fact-based process that takes into account business goals, channels, target segments, products and investors can help lenders find the “best fit” LOS platform from among the numerous options available.

Executive Summary

The mortgage loan origination system (LOS) is the most critical piece of technology for mortgage lenders. It is ubiquitous in the life of loan officers, processors, underwriters, closers, funders and other support staff responsible for originating and fulfilling loans.

Since the LOS platform is among the most significant investments that a mortgage bank makes, LOS evaluation and selection is critical to the success of the organization. With multiple forces and constraints to consider, selecting an LOS can be a daunting task. The considerations that influence this decision include strategic, business, functional, nonfunctional, technology, interfacing, compliance, financial and time factors.

The fact that over 30 vendors offer LOS platforms makes the decision even more difficult. Most LOS platform vendors have targeted offerings for various segments based on mortgage banks’ business models, size, channels, IT ownership preferences, cost and time appetite, etc. Evaluating and selecting an LOS platform that fits the organization’s needs requires matching the functionality, scale, ownership model, cost and timelines with the needs of the originator. This is as much an art as a science.

This white paper outlines some key challenges that a typical lender faces while evaluating and selecting an LOS platform. It lays out a structured approach, based on a model, which aims to enable an apples-to-apples comparison and remove subjectivity and prejudice from the selection process.

LOS Platform Overview

A typical LOS supports end-to-end loan production processes from lead to close, as depicted in Figure 1. To support these processes, an LOS is typically designed (see Figure 2) to have the following four components:

- **Point of Sale (POS):** A POS system allows customers, loan officers and brokers to manage leads, compare products and process application-related information and initial/final rate lock. Usually a fully Web-enabled solution, it gives staff the flexibility to access POS functionality anywhere an Internet connection is available. Typically, banks have separate POS systems for different channels such as retail, wholesale and correspondent. The data from
the POS eventually flows into the LOS fulfillment system.

- **Fulfillment:** This is the most complex and the largest functionality of an LOS. Fulfillment provides functionalities for operations to work on various tasks of the mortgage lifecycle through workflow orchestration and core processing support for activities such as processing, underwriting, closing, funding and post-closing.

- **Product and Pricing Engine:** A product and pricing engine houses business rules on the products offered, product pricing and discount points, product eligibility criteria, underwriting rules and all loan conditions. This is typically accessed by business users for managing business changes, and is a key determinant of the time-to-market and system agility. Some LOS platforms do not include a sophisticated enterprise business rules management system. Originators, therefore, may choose to implement these functions through an industry-standard business rules engine. Most LOS platforms offer built-in integration with external product and pricing engines.

### Origination Processes Supported by LOS

![Figure 1](image1.png)

### Mortgage LOS Reference Architecture

![Figure 2](image2.png)
• **Interface Layer (External and Internal):** This component provides interfaces to various external and internal systems. External interfaces are typically with standard third-party vendors that provide services such as credit, flood, loan processor (LP), desktop underwriter (DU), property appraisal, etc. Internal interfaces typically connect with banks’ internal systems such as document management systems, CRM systems, etc.

**LOS Evaluation and Selection Considerations**

With more than 30 different LOS systems on the market, selecting an LOS that suits the broader needs of the organization is a difficult task. Due to stringent post-recession regulations, every LOS in the marketplace today is functionally capable of supporting end-to-end mortgage origination processes. However, lenders today are demanding even more from their LOS platforms. When functional support is a given, other aspects such as technology architecture, agility, a full suite of components and the time and cost required to implement the platform become more important. Apart from functional capability, some of the important aspects of an LOS evaluation are:

- **Time:** A typical LOS implementation takes anywhere between six to 24 months depending on the scale, channels, products, customization, integration, IT capability and bandwidth. It is thus important to determine the business appetite for time-to-market, and how the LOS fits into the time frame dictated by the business dynamics.

- **Cost of Ownership:** Based on our experience, LOS implementation typically costs lenders between US$2 million to US$60 million, depending on factors such as customization, scale, channels, products, integration and the ownership model (SaaS transaction-based versus ASP fixed-cost model versus hosting in-house). Maintenance and enhancement costs vary significantly based on the aforementioned factors and could range between US $100,000 to millions of dollars per year. Hence, it is important that a lender evaluate products’ total cost of ownership based on how it aligns with its business needs and IT operating model.

- **Technology Architecture:** The key aspects of the technology evaluation include technology component mapping for each layer (presentation, business logic, interfaces and database), and the corresponding fit with the overall organizational set-up, infrastructure, interfaces, capabilities, IT sourcing and technology strategy.

- **Integration:** An LOS platform orchestrates various processes and services required to originate mortgages. Therefore, building the requisite interfaces with several internal and external systems requires significant effort. Hence, the lender should consider out-of-the-box interface capabilities as well as technology architecture and flexibility to support custom interfaces.

- **Customization vs. Configuration:** Customizations are expensive as typically product vendors’ professional services teams undertake the customization while internal staff takes care of configurations (with training). Many vendors offer product training as well as partner with implementation services providers for these customizations and configurations. However, to arrive at an operating model, it is important to determine the gaps in the LOS platform versus the functionality required and classify them as customizations or configurations to arrive at the right model for managing implementation. An LOS platform with basic configurations will provide lenders the option of user setup and product setup, while a truly configurable platform will provide the ability to design workflow, and manage product, pricing, business rules and user rights at the screen/factivity level.

- **Product Implementation Processes and Documentation:** Vendors’ LOS implementation processes and the associated templates and reference documents are a key determinant of the success or failure of the platform implementation, and require a detailed assessment. Lenders should evaluate vendors’ implementation processes by reviewing key process steps, project management processes, RACI matrix and risk management practices. Lenders should also review key reference documents such as reference process maps, project plans, functional specifications, technology architectures, estimation methodologies, etc.

- **Regulatory Compliance:** With the government periodically rolling out regulations (e.g., the Dodd Frank Act (DFA), the Consumer Financial
Protection Bureau (CFPB), etc.), it is important to validate that the platform is flexible enough to keep up with such regulations.

• **Data Governance and Accountability:** Given Uniform Loan Data Delivery (ULDD) guidelines and the increased focus on accountability, an LOS platform needs to have the flexibility and features to incorporate future needs.

**LOS Evaluation and Selection Approach**

LOS evaluation and selection is a complex and detailed process wherein lenders need to evaluate each platform on multiple factors. As mentioned earlier, these factors include the business model (business goals, channels, target segment, products, investors, etc.), IT and technology strategy, time, cost and other considerations. We advise lenders to embrace a robust LOS evaluation and selection approach to ensure selection of the “best fit” LOS product for their needs (see Figure 3). It starts with a step which is often addressed inadequately – capture organizational needs.

**Capture Organizational Needs**

• **Identify Business Needs:** Identification of business needs includes capturing details on present and future functional and business requirements – target segments, channels, products, investors, volumes, cost and time appetites, etc. These requirements will help drive the overall vendor evaluation and selection process and narrow in on the best-fit LOS platform for the lender. For example, a focused lender with only a direct-to-consumer channel and only prime jumbo loans will have very different needs compared with a full-services retail lender.

• **Identify and Define IT and Technology Strategy and Preferences:** This includes determining the IT ownership model and costs, capability management, vendor strategy, IT strategy and technology preferences. For example, a lender with low origination volume and a small range of products may choose a SaaS model and out-of-the-box implementation to reduce costs, embrace an operational expenditure model, and reduce the implementation time. A large player with several products and channels can opt for the internally hosted model with significant customization if it deems its business needs require this model and it has the deep pockets to support it.

• **Prepare Process Maps/Feature Lists:** Process maps/feature lists will help clearly define the functional scope of the system along with user profiles, setup and configuration features, etc., and thus objectively determine the product fit and gaps.

• **Prepare Architecture Diagram:** An LOS platform interfaces with several internal and external systems and industry participants (see Figure 2). The lender needs to ensure that the chosen LOS can support all these interfaces and vendors. An architecture diagram helps visualize and map all the interfaces to connections that the vendor currently supports – thus helping the lender evaluate the platform on technology interface stack fit.
Conduct RFP Process

Establish Vendor Evaluation Criteria: As mentioned above, the key considerations for an LOS product evaluation and selection include: functional fit, technology architecture, IT strategy and ownership model, time required to implement, cost of ownership, integration capabilities, level of customization/configuration, product implementation process and documentation level, etc. The details and weights of these factors will depend upon the organizational needs captured in the earlier phase. The request for proposal (RFP) for vendor evaluation and selection should be refined to objectively evaluate vendors on the above considerations. This is in contrast to the traditional RFP approach that is often subjective in nature. Each question in the RFP will measure the vendor on a factor with an associated weight, resulting in a combined factor score. This comprehensive vendor score can be used for the first-level screening.

Response Evaluation and Short-listing: The objective of the RFP process is to short-list five or six vendors that best fit the organizational needs from among 20 to 30 vendors. The comprehensive RFP questionnaire includes weights for various factors, which are determined based on organizational needs, and helps short-list vendors that are the best fit for the organization.

Vendor Due Diligence

Vendor due diligence is the most critical and, ironically, the most ignored aspect of product evaluation and selection. This step validates the claims that vendors make in the RFP. Vendor due diligence typically comprises demos/meetings, workshops and deep-dive sessions to assess product functionalities, technology architecture, processes, documentation levels, etc.

Demos/Meetings: All the short-listed vendors are invited to make presentations and give a platform demo. Typically, these meetings last for two to three hours. The vendor presentation covers aspects such as an overview of the company, platform and process, financials/contracting models offered and people capabilities. The platform demo covers functional aspects, administration features, product and pricing setup, nonfunctional features, functional architecture (including interfaces), technology architecture, integration capabilities, etc. Typically, two to three vendors are short-listed for further deep-dive and due diligence.

Deep-dive Workshops: Deep-dive workshops should cover an in-depth analysis of the base product features, the product implementation processes, customization versus configuration determination/comparison, an analysis of the technology architecture, interfacing capabilities, regulatory compliance adaptation, functional fit/gap analysis and a high-level effort/time determination to fill the gaps.

Conclusion

The LOS evaluation and selection process must ensure that lenders choose the LOS platform that best fits their overall needs as it involves a significant investment of time, effort and cost. Lenders can ensure this by evaluating LOS platforms on a comprehensive set of parameters including functional, nonfunctional, cost, time, ownership, technology, IT strategy and business fit as detailed earlier. Further, these parameters should be evaluated based on a quantitative framework to enable apples-to-apples comparison, thus removing subjectivity in the decision-making process. A “best of breed” approach would be template-driven with quantitative and precise criteria to measure and compare each parameter that truly reflects the needs of a lender. For example, functional coverage would compare/validate the functionalities provided out of the box, while nonfunctional parameters would cover aspects such as interfaces and extracts, audit trail, data validations, etc. The cost aspects would include the total cost of ownership, the ownership model (SaaS, ASP, hosted in-house), maintenance, licensing and development/implementation costs. IT strategy would cover aspects such as technology preferences and ownership/hosting preferences. Business fit would cover channels, products, volumes and the overall business strategy fit.

The significance and importance of each of these parameters and the corresponding sub-parameters will vary from lender to lender. The evaluation approach should therefore allow lenders to apply different weights to these parameters and see how these parameters compare across vendors. A best-of-breed approach should be comprehensive, configurable, objective and flexible, thus helping lenders evaluate and select the best-fit LOS platform.
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About Cognizant’s Mortgage Practice

Cognizant’s Mortgage Practice employs over 70 subject matter experts and analysts and 5,000-plus associates, and has successfully delivered over 500 large and complex engagements across originations, secondary markets, servicing and loss mitigation in the U.S. and UK and throughout Europe. We offer consulting, IT, BPO and IT infrastructure services across all functional areas. Mortgage LOS product evaluation and selection is a proprietary methodology designed and developed by Cognizant to assist lenders with LOS platform selection. www.cognizant.com/banking-financial-services/consumer-lending

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