Mortgage LOS Implementation: A Roadmap for Sustainability

A successful and sustainable loan origination system requires rigorous timelines, infrastructure readiness and workflow management.

Executive Summary

A loan origination system (LOS) is a powerful tool for developing the mortgage landscape of a lending organization and increasing lender responsiveness to market changes. Mortgage lenders implement a loan origination platform to stay competitive, increase efficiency, speed turnaround times, control loan quality and remain compliant with lending rules and regulations.

Studies suggest that 35% of LOS platform implementations fail and that 65% exceed budgets and timelines. A lack of thorough preparation and the absence of a clear roadmap add to the problem.

Because it can take some time before the benefits are realized, the LOS should be aligned with the organization's long-term strategy, with the goal of ultimately being absorbed as one of the core systems. That said, during the implementation, many elements can go wrong and spiral out of control, resulting in a disastrous outcome. Therefore, it is critical to develop an effective implementation roadmap.

This white paper evaluates the most common factors leading to LOS implementation failures. We then provide a roadmap that organizations can adopt to improve the odds of a successful implementation.

Challenges of Implementing LOS

Lack of Organizational Alignment

When an organization decides to implement an LOS, it should be prepared for a long journey. It takes an average of 8 to 24 months to complete the implementation, depending on customizations, integrations and channels. Hence, it's important that the cross-functional leadership team is aligned with the goals and objectives of the initiative. This will prevent any potential challenges when management weighs the short-term benefits against the long-term to decide on the future course. Well-developed goals and objectives can help resolve such challenges, enabling a more effective outcome.

Exceeding Timelines and Cost

Exceeding the budget and/or taking longer than expected to implement the LOS are among the top reasons for failure. Several factors typically cause delays and/or increase costs. For example, a change in the business scenario can trigger a new set of requirements. Every organization needs a strong governance and change management plan to control the project

Potential Bottlenecks

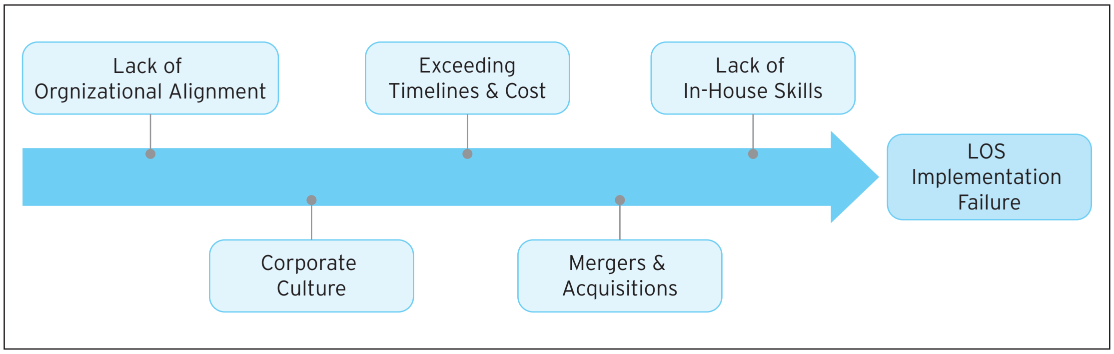

Figure 1

scope, reprioritize the requirements and, consequently, mitigate cost and timeline issues. Another common problem is the miscalculation of the estimated hours required for the implementation or the quantum of work that may require additional resources, thereby increasing costs. Additionally, because delays and cost increases can be caused by delivery-related dependencies on internal or external sources, lending organizations need to continuously monitor cost and timelines and be prepared to make prompt course corrections.

Rigid Corporate Structure

LOS implementations require a focused team that is agile, collaborative and skilled in innovative thinking. During the implementation process, resources might be realigned or redeployed, which can cause resentment and reduce productivity if not treated proactively. The project management office should focus on team-building activities and set expectations from the start.

Lack of In-house Skills

Unavailability of skilled resources can also lead to failure. Organizations need the right mix of skills and resources for a smooth implementation.

Mergers and Acquisitions

Merging with or acquiring a company that provides similar benefits to what the LOS is expected to provide can result in management shelving the implementation. But this high-level decision is usually out of the control of the PMO or the team working on the implementation.

Implementation Roadmap

All organizations are unique in their processes, cultures and goals. Each organization will have to adopt and customize the following factors to its own capabilities, methods, techniques and tools (see Figure 2, next page).

Program Office

The program office is the mission-control of the implementation. It should be well-connected with senior management and stakeholders and be well-aware of the status at ground zero and ensure that it is visible and transparent to all team members. In short, it should have a strong communication strategy that's both bottom-up and top-down. The program office, through its project managers and other stakeholders, should be proactive in identifying challenges, impediments and timeline slippage. It should manage all delivery dependencies through strong governance, escalation and change management procedures.

Clear Timelines and Milestones

A strong roadmap lays the foundation for success by indicating clear timelines and milestones of analysis, development and testing phases, and release timelines. The plan should factor in the possible changes owing to business priorities, slippage in third-party vendor release schedules and shortage of skilled resources. To be effective and remain relevant, it should embrace an agile approach; plans that are cast in stone can quickly become obsolete. Most importantly, the whole team should be aware of the timelines and milestones.

Workflow Management

The LOS can be segmented into several smaller workflows – point of sale, acquisition, processing, underwriting, closing, funding, post-closing and shipping. Each of these workflows performs a specific task in the loan lifecycle and may also be linked to third-party services. For example, the underwriter reviews the 1003 applications in-depth, evaluating the credit-worthiness, income, assets and liabilities of the borrower, and submits them to the investors' automated underwriting system (AUS). The underwriter may also ask for further information from the processor, loan officer or any other party to approve or deny a loan. Similarly, a processor or closer has its own tasks and responsibilities. Hence, the organization needs to group the requirements according to the workflow. This way, the PMO can ascertain the number of requirements that are implemented and the ones remaining.

Team Composition

Multiple teams, broadly categorized as IT and business teams, must work together on their specific roles and responsibilities to make the implementation a success. The IT team will be responsible for developing the LOS application, the networking team will ensure the LOS is securely connected to the internal and external systems, the hardware team will provide the infrastructure to host the application, and the database team will ensure the data from the LOS is stored securely and is available when required. The organization must align the teams with the workflow or workgroup (i.e., each workflow should have a dedicated team). Team size can be ascertained based on the complexity and number of requirements in the workflow.

For example, a global mortgage bank implementing the LOS had several teams, each of which was assigned to a workflow. Every team had a project manager, business analyst, developer, quality analyst and subject matter expert (SME). The project manager and the SME worked on several workflows, but the business analyst, developer and quality analyst were focused on the assigned workflow.

The business team, on the other hand, consists primarily of SMEs. These SMEs, who are well aware of the current market trends, rules and regulations, are responsible for providing the requirements for customizing the LOS. They perform the user acceptance testing or assign others, and train the end-users of the system.

Third-Party Vendor Readiness

A typical LOS interfaces with a host of external service providers, such as the AUS, credit agencies, document management agency, Mortgage Electronic Registration System, FraudGuard, appraisal and title vendors, cash processing vendors and investors. Making sure that third-party vendors agree with the timelines of their deliverables in the implementation avoids any last-minute surprises and delays. The deliverables should establish a successful communication interface between the LOS and the systems of the vendors to send service requests and receive responses.

Factors Involved

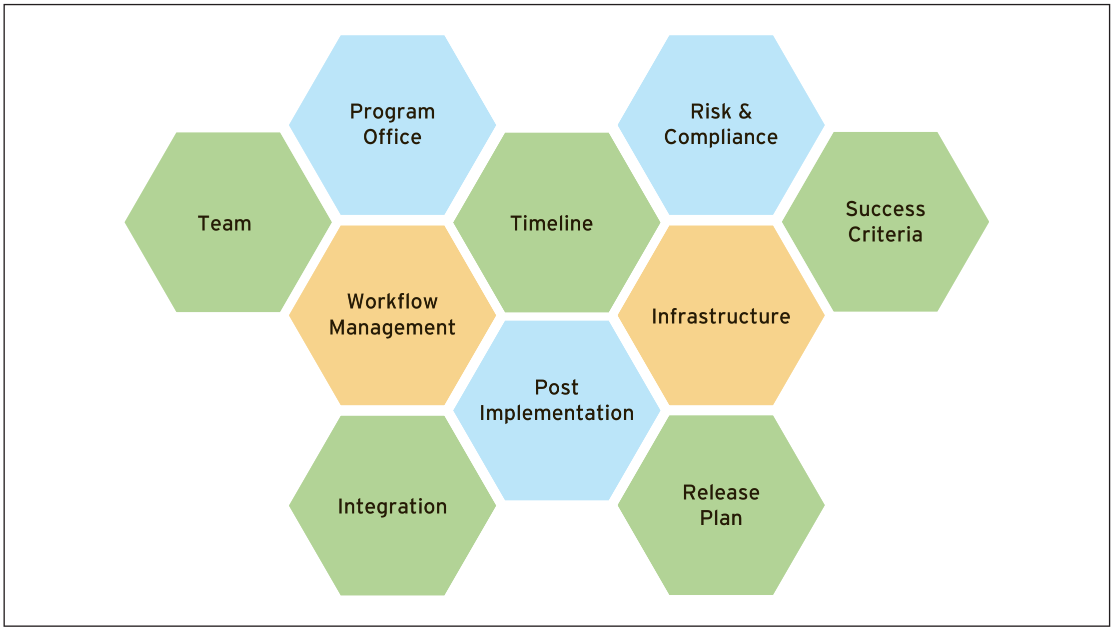

Figure 2

Infrastructure Readiness

The organization should finalize the infrastructure requirements during the LOS selection phase. The infrastructure would largely depend on the type of LOS architecture/ownership model under consideration. That is, the organization should determine whether it wants a traditional in-house hosted system or something more contemporary, such as software delivered as a service (or SaaS) model. In advance, lenders should conduct a thorough review of factors such as costs, long-term maintenance, data security and business continuity.

Integration with Downstream Systems

Many functions in the organization, such as finance, accounting, servicing, secondary marketing and reporting, require LOS data at different stages of the loan lifecycle.

For example, the hedging team may need certain loan data points as soon as the rate is locked with the borrower. And a larger set of loan data points may be required for boarding the loan into a servicing system after it is closed and funded. Therefore, the team working on integrating the downstream systems with the LOS must understand the data requirements and triggers of each system. The situation becomes complex if the downstream systems do not accept the industry standard extracts that most LOSs produce or if data is required in different formats by different systems. Property type, for example, may be required in alphanumeric format by one system and in numeric code by another. The most common practice in such situations is to store the LOS data in a database and transform it according to the rules and requirements of each of the systems before passing data to them.

Regulation and Compliance

The U.S. mortgage industry is heavily governed by regulations, which are continuously changing. To avoid hefty fines, it is crucial for mortgage firms to establish a group that only focuses on compliance. During implementation, the compliance group should provide a set of regulatory requirements to be implemented before the origination system is rolled out. The quality control team should be responsible for testing whether the implementation of these requirements is within the acceptable criteria of the compliance group.

Release Plan

The release plan should be part of the communication strategy of the PMO right from the initial stage. The plan should mostly address the "how" and "who" of the release (i.e., "How are you going to release and to whom?").

There are several ways to address the "how" part. A mortgage lender may decide to roll out a commercial off-the-shelf (COTS) version (with LOS customizations of product and pricing, security and integration with downstream systems at the very least) to help get users started on the system and then frequently release additional customizations for each workflow. Another mortgage lender may decide to customize the COTS version so that it adheres to the firm's business, compliance, regulatory and security requirements before rolling it out. Other customizations can then be rolled out in a phased manner. Each organization should customize the release plan to its own needs and priorities.

All roll-out methods should follow a top-down approach. That is to say, the initial release and subsequent customizations should follow the loan lifecycle. The initial releases should be focused on the workflow that captures the borrowers' information, rate locks, product selection, AUS and other documentation-related information. In some LOSs, this workflow is called an acquisition or application. As the loan transitions from this state to other workflows, the subsequent releases should be focused on processing, underwriting, closing, funding, post-closing and shipping.

Just prior to the release, it is a good practice to conduct a small pilot phase comprising specific units or branches before releasing the system across the organization. This can help to gauge potential levels of user acceptance and general functioning of all other systems that are connected to the LOS, as well as LOS application performance. When the governing committee feels that it has gathered enough confidence in the real-time functioning of the LOS, it can release the system across the organization.

Post-Implementation Plan

Having a plan for post-implementation activities is as important as the implementation plan itself. With any new system, the users must unlearn older ways of doing things and embrace a new system. Thorough training of each resource in his or her own area of specialization is, therefore, essential. Apart from this, there should be several resources that are well-trained on overall system functionalities. These resources should help others in the organization overcome initial new user challenges. A mortgage lender, for example, should create an LOS help desk immediately after rolling out the LOS.

It's also a good practice to maintain a log of user feedback, collected through the helpdesk, for further LOS improvement.

Success Criteria

Every organization should establish success criteria at the beginning of the implementation process. These can include:

- To what degree has the new LOS reduced the need for manual workarounds?
- Is there any time spent correcting the data from the LOS when it's loaded into a servicing system or before the loan is sold to investors?
- Is the loan production process fully compliant with existing regulations?
- Is the time taken to close and fund a loan within the expected timelines of stakeholders?
- Is the overall cost to originate a loan acceptable?

Answers to questions like these will help ascertain return-on-investment (ROI) and the level of success. These answers may not be available immediately after the implementation. The governing body will have to wait for the LOS efficiencies to surface to properly measure ROI.

Looking Ahead

An LOS implementation is a long and complex process. Multiple technology, business and human resources must come together to ensure success. Given its enormity and complexity, the LOS needs an implementation that is agile and responsive to the organization's specific needs and challenges.

Moreover, sustaining the focus over time is crucial for organizations that want to continuously improve their business by placing the customer at the core of their value proposition, while generating greater process efficiencies.

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