



Recovery Tips

What To Look For In An LOS

Lenders are looking for their Loan Origination System to handle more functionality than your “Father’s” LOS.

By Marc Riccio

It wasn't that long ago when consumers were in the market for a new car, exciting options such as high quality audio systems, alloy wheel rims, sunroofs, leather seats were not standard features. Consumers were forced to purchase these special options aftermarket from a third party.

Consumers purchasing a new car today expect their vehicles to include digital entertainment systems that include everything from your basic AM/FM plus Sirius XM satellite radio service with Bluetooth/Wi-Fi integration with their smartphones, GPS, cruise control, leather seats, alloy wheels, moon roof, etc. What we find more interesting is the car manufacturers don't produce most of these exciting options, but rather integrate these components so they are “built-in” to their total vehicle “package.” The key is they provide tight integration and support.

To a certain extent, the loan origination software space has evolved in the same way. Looking back the past ten to 15 years, if a lender was using a LOS platform that only supported mortgages, lenders would acquire a second lending platform for HELOC's, Consumer Loans or Commercial Loans. Often Lenders would subscribe to a separate Point-of-Sale platform for their loan officers or branches. HMDA reporting tools would be licensed to generate the .dat file or a Doc Prep solution was licensed to print documents like closing documents or disclosures.

Lenders are looking for their LOS to handle more functionality than your “Father's” LOS. Today, we recognize that electronic signatures, MISMO standards and other exciting functionality is high on lenders' wish lists. But sometimes we need to go back to the basics.

Lenders, like consumers purchasing new cars, are looking for basic innovative technology that is included in the “package,” which will help streamline their operations, keep them compliant and ease the vendor management process by doing business with ONE vendor.

Vendors are constantly developing new functionality and/or successfully integrating their lending platforms to deliver “expected” functionality. Those vendors that deliver a fully integrated, data-driven loan origination system (LOS) will be the winners in the LOS space.

So you might ask, what is “expected” functionality that Lenders expect in the “basic” package? Read on to learn what Lenders are expecting ...

The LOS Platform Should Support ALL Loan Types

Due to the forthcoming regulatory changes, the advantages of a multi-functional LOS platform

Lenders, like consumers purchasing new cars, are **looking for basic innovative technology** that is included in the “package.”

that supports more than one loan type greatly outweighs the idea of having multiple LOS system. This makes it easier to extract loan level data for reporting purposes ESPECIALLY with the new HMDA reporting requirements expected in just over 12 months. This approach will ultimately gain efficiencies and offer a better experience for Lenders.

Those Lenders that implement a LOS that can originate, process, underwrite, close and fund Mortgages, Equity Loans, HELOC, Construction Loans and Consumer loans are provided a competitive advantage, convenience and cost savings since they only have to manage a single system for all loan products.

Built-in Doc Prep and Reporting

The fact of the matter is ... LOS platforms are supposed to generate documents. Whether those documents are hard copy or generated electronically, Lenders still has to generate

critical lending documents. Lenders can expect cost savings are increased productivity when the LOS can generate all loan documents (including Loan Estimate and Closing Disclosures) directly from the LOS platform versus using a Third party “doc prep” service. Advantages include:

>> **Security** - Lender does not expose Borrower data outside their lending platform just to print documents.

>> **Quicker document generation** – documents are printed “on-demand” and no import or export process is required. Plus, it’s another link in the chain that can break if the Doc Prep provider is down.

>> **Reporting** - The reporting system should be internal with the LOS and users should be able to select any field in the database. Automated report scheduling should be supported and reports should be able to run dynamically. Besides generating hard copy reports, the reporting system should allow users to save reports in various formats including .pdf, .csv, excel, SQL, HTML and other popular formats. A data dictionary must be provided for quality report development and creating reports with graphical representation should be supported.

Since many legacy systems supported Crystal Reports templates, the ideal reporting system should be able to convert existing Crystal Report templates to your internal report writer environment.

>> **Configuration control** – flexibility of mapping fields.

Integrated Compliance Automation

This feature allows Lenders to validate or test compliance within your LOS platform such as QM/ATR, HOEPA, HPML (High Price Mortgage Loan), HMDA, Net Tangible Benefits. The LOS should also test for RESPA violations automatically and provide Forms compliance support without having to transfer data to a third-party compliance system. This results in...

>> Testing the compliance in your LOS, Lenders find there is a direct correlation in the reduction of regulatory errors.

>> Consistent Pass/Fail criteria will isolate specific violations that need to be addressed.

>> Live, real time results can be used for validating compliance.

>> Improved data transparency, which results in a smoother regulatory exam process. In other words, borrower data utilized during the regulatory testing process can easily be identified.

Smart Logic Equals Lender Definable Workflow

If you get 10 lenders in a room, I guarantee you will find 10 different ways to originate, process, underwrite and/or close loans. When the LOS allows lenders to

dictate the “flow” (or logic) of data entry screens, required fields and which forms are generated by loan type/plan, lenders obtain a powerful LOS tool that will increase productivity and eliminate end-user errors.

The LOS should support smart logic design and a lender definable workflow. This capability allows lenders to identify specific loan requirements and characteristics to ensure all required data elements and proper documentation (i.e. disclosures) are provided to the borrower. This capability will increase productivity and definitely reduce errors.

Processing or underwriting screens should be grouped together using smart logic or “staging.” Required fields should be dictated by regulatory requirements and/or the lender. If required fields are missing, a visual indicator should be turned immediately on so end-users are alerted immediately that required information is missing.

Other examples of Smart Logic include:

When originating a 5-1 ARM, the LOS identifies the product and only prints the 5-1 ARM disclosure that is specific for that product.

Another area impacted by this logic is the generation of Closing Documents. Similar to the 5-1 ARM example, the system can identify key characteristics and state system requirements so that ALL documents are accurately provided.

Integration and New Account Opening

You would think the days of manually re-keying data to order basic services like credit, title, flood, appraisals, insurance, DU or LP are over. NOT. Many lenders still have manual processes when it comes to ordering 3rd party services.

Today, LOS platforms can deliver two-way, real time integration with service providers at time of application. Look for those vendors that follow MISMO standards.

This also leads to New Account Opening. The LOS should capture enough applicant information to open a new deposit account or at least cross sell other products. It is important to support OFAC at time of application. Two-way integration with the bank’s or credit union’s core system is very popular and supported by LOS vendors. Two-way integration means populating the loan application with CIF data at time of taking a loan application and uploading (also referred to as boarding a loan) closing and accounting information to the core system once the loan has closed.

There you have it, the five basic “features” that should be included in your LOS “package”. So get those keys out and start driving those loans home! ❖

Marc Riccio, President of Specialized Data Systems, Inc., has over thirty years of experience providing software solutions to the financial industry. Marc is known for his forward thinking and vision of introducing new and innovative technologies including “rules-based” Loan Origination software, COLD/Document Image Systems, Internet Security Services on Demand, Cloud Computing and now Operational Risk Management software. Prior to founding Specialized Data Systems in 1989, Marc worked for several technology companies as a Systems Analyst, Account Manager and Sales Manager.