



Demand Surges For The Hosted LOS

Can a lender prudently outsource its system of record over the Web?

A few years ago most mortgage professionals dismissed the notion of using a hosted loan origination system as a system of record. Have all your data housed offsite and your LOS managed by a vendor that also serves your competitors? No way.

To put it mildly, things have changed. In October, hosted LOS provider PCLender.com noted that it had added contracts with six new lender customers during August and September. Similar news followed. Del Mar DataTrac, OpenClose and Avista also are adding new customers. Also, Mortgage Dashboard has just entered a relationship with Wolters Kluwer to offer expanded services for its users,

and Mortgage Builder has just added a hosted version to get its piece of this expanding market.

CC Pace mortgage consultant Craig Hughes said that today even large lenders are becoming more interested in the pricing model of an LOS than they are in whether it is installed behind their firewall. He noted that Columbia, Md.-based Lending Space offers "partnership pricing" to lenders using its hosted system: they only pay for the use of LendingSpace on transactions that actually close. PCLender and others also offer that pricing.

To hone the hosted value proposition to its sharpest point, Austin, Texas-based Mortgage-Dashboard now offers community banks, credit unions and other mortgage lenders a pay-per-use system for \$50 per closed loan, billed to the lender as doc prep and charged back to the borrower at closing. Mortgage-

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Dashboard CEO Jorge Sauri said, "It's essentially like getting an on-demand, state-of-the-art, end-to-end mortgage banking platform for free." The system will soon be offered on an automated self-serve basis, Mr. Sauri pointed out, and like PCLender and some others, MortgageDashboard offers lenders an opportunity to test ride the system before signing up.

Of course, cost of ownership cannot be the only consideration in selecting an LOS or data repository. With security and data-storage issues continuing to dog the mortgage industry, the criteria for state-of-the-art collocation data centers (SAS 70 Level II security, etc.) have become familiar to most mortgage industry executives. Today lenders can find consultants that specialize in data center selection, and they can even have their data sequestered in underground centers designed to withstand nuclear blasts.

mained intact. Not only did they suffer no interruption of business, they actually tripled closed-loan production within a month after the fire.

"There were closed files that needed to be paid out," recalled 1st Metropolitan COO Ron Steele. "Having the electronic information allowed the branch to approach lenders for the documentation they needed to submit to our QA department and get paid out as though nothing had happened."

Ellie Mae's launch and refinement of its hosted version offers a valuable case study of the maturation of that market. When the first hosted version of Encompass launched in 2004, recalls Mr. Corr, "there was a very modest amount of demand for the product." Ellie Mae partnered with a small Michigan-based ASP firm called Lasso Technologies to offer the Encompass LOS online to customers like Carteret Mortgage that Ellie Mae and Lasso

ing it in a heterogeneous environment with hundreds of servers."

At the time some mortgage LOS vendors were harnessing Ajax (Asynchronous Java and XML) to iron out latency problems encountered when harnessing Internet technology to offer rich client applications. Ellie Mae chose, rather, to move Encompass Anywhere beyond Citrix by developing its own streaming technology in a Microsoft .NET environment.

A big plus for Smart Client applications is that they are easy to deploy and inexpensive to maintain. The Microsoft Smart Client platform offers an extensive library of re-usable software modules, consumes XML Web services and can be deployed and updated from a centralized server. "Our Smart Client was developed internally by one of our super-brilliant developers. It's native in Encompass," said Mr. Corr. "We don't have to license it from any third party like Citrix. Now all our customers are on that technology." He said Ajax "is not nearly as robust."

When 1st Metropolitan picked Encompass to replace its previous system, "we originally planned to host Encompass ourselves, then took a look at Encompass Anywhere," said Mr. Steele. Now, though a few branches have resisted adoption because they have slow Internet connections, FFM's net branch operation is "90% Encompass, and the latest iteration, with the Ellie Mae Smart Client, is the best we have had to date." FMM corporate picked the banker edition of Encompass. "It's probably not the most absolutely complete back end for a lender," commented Mr. Steele, "but it is fairly easy for a company like ours to implement and use."

Ellie Mae now boasts some 10,000 Encompass Anywhere users, close to 15% of its total user base. "That's what's selling these days," Mr. Corr said. "Encompass Anywhere resonates very well with the dynamics of this mar-

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Indeed, dealing with data security and management has become a motive to select a hosted solution, notes Ellie Mae chief strategic officer Jonathan Corr, because lenders can thereby avoid investing in their own data centers. "Hosting acts as insurance, because if something catastrophic happens it's very costly otherwise. Using a hosted model means you are sharing an insurance policy with your peers."

Our readers may recall that when a New Jersey branch of 1st Metropolitan Mortgage burned down back in 2006, the office was running again in no time, largely because that particular office had just switched to the hosted Encompass Anywhere LOS. All their loan data re-

jointly served. After verifying that it could "add the Encompass secret sauce" to Lasso's Citrix platform, Ellie Mae purchased Lasso in May 2005 and launched Encompass Anywhere to let users access their entire pipeline and all their loan data from any Internet-connected PC.

Right after the Lasso purchase and the launch of Encompass Anywhere, a spike in new users caused some latency in performance that Ellie corrected in a week or two. "Citrix was a good solution when you're managing a homogeneous environment, such as a corporate Internet," said Mr. Corr, "where you have similar desktops. We were one of the biggest companies us-

ket." It may be more than coincidence that two out of the three de novo lenders we looked at in a recent article launched with a hosted LOS.

For hosted LOS providers the quality of their vendor and service-provider integrations and partnerships can be a crucial factor, as Del Mar DataTrac and other SaaS providers have shown. Tennessee-based wholesaler Acopia Capital Group signed up with PCLender for an end-to-end enterprise platform largely based on its solid integration with Optimal Blue and other vendors.

Another company, net branch operator Mann Mortgage, also was swayed by the Optimal Blue integration when it chose PCLender to replace its previous LOS. Cost of ownership was only weighted one-third in their LOS selection criteria.

"Mann Mortgage is running a hedge, has warehouse lines, needs to run complicated 'what-if' scenarios, and needs an automated peek at HMDA," said Mann Mortgage CIO Robert Jones. Service was more important, he said, and in that regard he was swayed by whether or not their next vendor used offshoring for customer service. "I have to please branch managers," he said. "I want them to speak to someone who speaks English."

He said the final selection boiled down to a choice between PCLender and Avista, though half the branches were using Encompass instead of following Mann into adopting PCLender. "You have to choose an ASP or SaaS vendor carefully, because it's only as good as the support that is offered. PCLender gives us caviar service."

PCLender has made an in-depth strategic commitment to the hosted LOS space before Ellie Mae did. PCLender currently supports over 300 lenders with a system "that has boasted 99.99% uptime since 1999" with a SAS 70 Type II audit that goes beyond the data center to cover system support, security, disaster recovery, and business

resumption policies and procedures. "These processes provide substantially higher levels of IT resources and accountability to lenders that must support the data privacy requirements established by Gramm-Leach-Bliley and Sarbanes-Oxley," said PCLender president and CEO Lionel Urban.

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enterprise application that provides "technology for the entire life cycle of a loan" and includes "retail websites, consumer application, B2B website portals, LOS, documents, imaging, AUS, secondary marketing, warehouse management, and servicing into a single platform.

"Business logic can be implemented to significantly streamline data entry and provide much better summary reporting," he said. "For instance, when a borrower applies on the lender's website they get real-time disclosures and loan conditions based on Fannie Mae or Freddie Mac's AUS. The loan officer is electronically notified, conditions are loaded to the LOS via imaging, and the processor can be working on a virtual file all within the same business day." He said the cost savings over a conventional LOS system are significant.

With regulatory requirements for greater transparency likely to increase, the mortgage industry's appetite for lower-cost hosted systems is likely to increase as well.

As an example, said Mr. Urban, "The more advanced hosted technology systems manage tables on behalf of the lenders to ensure best business practices are followed. These practices include license tracking, updated loan

indexes, and accurate mortgage insurance tables to ensure disclosures are accurately made."

He noted that centralized reporting allows management to quickly identify "revenue leaks" or compliance violations and take corrective actions.

"The hosted platform is clearly the wave of the future," said Mr. Hughes.

"The technology works, the Internet speed and bandwidth are readily available, and the cost and labor savings potential are substantial. We ourselves [at CC Pace] are moving as much of our operations to hosted environments as we can, including our CRM, phone services and even e-mail. Regarding adoption in the mortgage industry, I see two impediments to the shift to hosted solutions.

"First, it is simply a natural resistance to the change in mindset. Even though hosted environments have long been in place for the servicing side of the house, that hasn't been the case with the production side — and it takes time to get comfortable with changing the paradigm. Second, is the practical reality that you typically have to be willing to accept less customization of the platform in a hosted environment."

Nevertheless, even for mega-lenders, stated Avista Solutions' CEO Mark Phlieger, "Spending a hundred million dollars on an enterprise LOS built by in-house designers and engineers is a relic from the past." When lenders assume that they are differentiating themselves via technology, taking a close look at advanced hosted systems can tell them whether they are just daydreaming. **MT**