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THE INFATUATION WITH

Technology RFP

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Ever wonder why the mortgage lending industry is so infatuated with the technology request for proposal (RFP) process? Me too. Here's my reason for wondering:

All Loan Origination Systems (LOS) do the same exact thing.

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Every LOS in use today, the loan origination systems from which any and every lender may readily choose, each do the same exact thing: they originate, process, underwrite, close and fund first lien residential real estate and home equity loans.

While each LOS provider will claim, perhaps correctly, that their LOS manufactures a loan differently because it has a special this, or a unique that. But when it's all sorted, data goes in, a loan comes out. If this weren't true then some of today's LOS providers could not possibly be in business. But they are in business, they are closing loans, so, therefore, they're all the same.

The same can be said of Point of Sale (POS) systems, by the way. The process of capturing an applicant's data on-line hasn't appreciably changed since the early days of internet mortgage lending.

There are a couple of reasons I think it is important to point this out now, in the first half of 2022 during the mortgage industry's sudden and abrupt downshift into one of the most difficult purchase markets of all time. If you're thinking about shopping for an LOS, consider these three points first:

Your technology is under-utilized.

In a recent blog post I wrote that all POS/LOS technology is underutilized because it is misunderstood. All too often lenders shop for something new rather than take the time to learn about what they have. Oftentimes a lender's existing platform will serve their needs. It is far less costly to learn the current system than to shop for AND implement a new system.

You can't afford it, part I.

Loan volume is projected to be off by 40% this year, according to MBA's April 13, 2022 forecast. The expenses associated with manufacturing loans were up at the end of 2021; they've only gotten worse in the first four months of 2022. Revenues were down, too, over the same time period, and also not trending well. Profits, therefore, are declining swiftly. There's no money for an expensive RFP or implementation process.

New technology does not equal greater productivity.

I've researched and written extensively about this. A lender can achieve high productivity (and a low cost to close) on any of the existing LOS technologies. New technology will not always result in higher profitability.

Plenty of people will disagree with me, lenders and LOS/POS providers alike. Some lenders will go shopping for new technology this year. If you are one of this (or next) year's shoppers, please reconsider the traditional RFP process for these reasons:

It's a waste of time.

You already know the answers. An RFP is a semi-exhaustive feature/function catalog. If you agree with the thesis that all LOS do the same thing, then there's no point in the exercise.

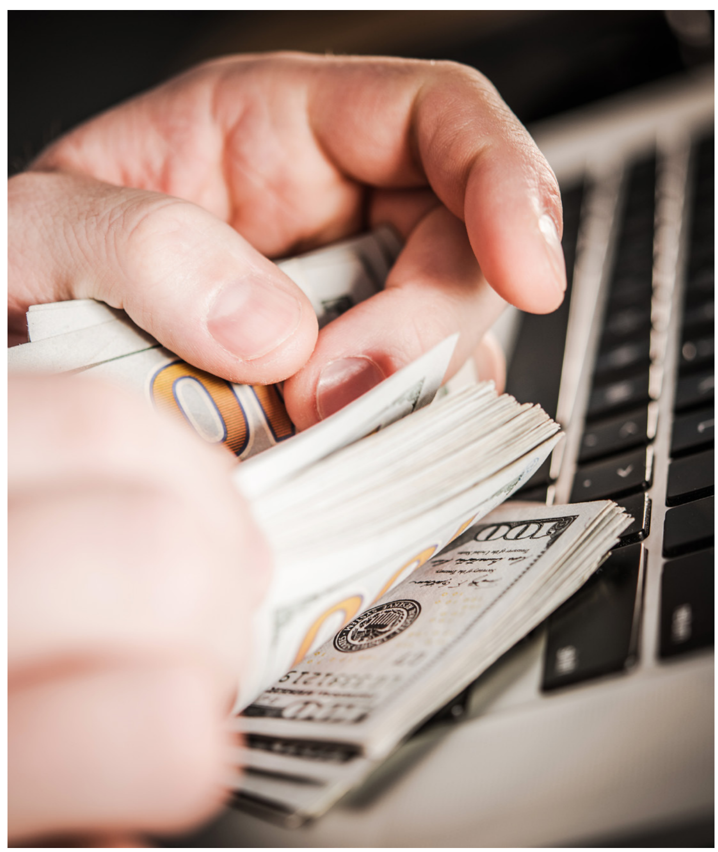
This is true for another reason, one that is as obvious as it is overlooked: the vast majority of mortgage loans closed today are very standard and uniform. Fannie Mae and Freddie Mac together acquire more than 70% of all loans originated each year. Of the remainder, many are originated according to Fannie and Freddie guidelines. If almost all loans are destined for the same two investors, how much feature/function variability can there be? Should there be?

You can't afford it, part II.

If you are going to shop for a new LOS you're going to have to implement a new LOS. Both cost money, money is tight.

An example here might help. Let's assume a lender has $100 to spend on shopping for and implementing a new LOS. How would the lender allocate the $100 budget to assure the best outcome, which is higher productivity from their new LOS? The answer: spend no more than $20 on the RFP process. Spend $80 on implementation.

The trouble is the traditional RFP process will consume at least $50 of the $100, leaving far too little for a thorough, results-oriented implementation. This is important because LOS projects fail as a result of poor implementations. By contrast, RFP processes don't fail: they result in a choice.



Choosing an LOS in 2022 is a matter of making two determinations. First, choose the LOS provider that you can partner with. The technology used to originate loans becomes a part of you and a part of your teams, much like our cell phones. You have to be able to work closely – and well – with your LOS provider. This is far more important than ticking and tying every last feature and function. Working well together starts with a thorough implementation process where processes and products are understood on the one hand and technology capabilities are explained and leveraged on the other. This same dialogue has to continue post-implementation because things change. Technology isn't 'set it and forget it'. It becomes more capable over time. Users have to stay current.

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Second, choose an LOS provider with deep, verifiable financial resources. Contracting markets hurt lenders, no question about it. Contracting markets hit technology vendors hard, too. The financial windfalls of the last two years are done, gone and spent. It's not an overstatement to say that mortgage technology company revenues will decline by 30% or more, in the aggregate this year. That's billions of dollars. What that means to lenders is less maintenance, fewer new features and functions, and potentially lower service levels. What this means to some vendors is viability. There is no '2020/2021 money falling from the sky' bonanza on the near- or mid-term horizon; 2022's market volume belies the markets ahead.

It's time we gave up our infatuation with the old RFP process. It's an old process developed by old practitioners that uses old questions to solve old problems that have already been solved. And it's expensive. Time to ask the new relevant questions: can I work with you today and next year and long into the future and how much money do you have, really, to support me. Ask a lot of questions about relationships and money. Then spend your 'New LOS Budget' on implementation. That's if, after reading this, you decide shopping for an LOS is even necessary.