

Changing the Loan Origination Software Industry

Software as a service (SaaS) is the latest tech term garnering buzz in the world of loan origination software (LOS). Successfully deployed in numerous industries, SaaS is a subscription-based software model, also referred to as “pay-as-you-go” or “on-demand” software, and the reasons for its rise are many.

First and foremost, SaaS eliminates the need for banks to install and run LOS on their own hardware. Banks are no longer limited to purchasing and installing an LOS license using “client/server” technology and, instead, can “subscribe” to the software, which is accessible over the Internet. The bank can access the software via a Web browser or thin client, and depending on the software vendor, make payments monthly, quarterly or even annually.

The key benefit of SaaS is that the software vendor now takes responsibility for deploying and hosting the software, enabling the vendor to constantly add value by providing and

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updating the hardware infrastructure and, most importantly, maintaining the LOS for the end-user bank.

For years, LOS has been installed on the bank’s hardware and operated over the bank’s network using either shrink-wrapped or rules-based software solutions.

Shrink-wrapped LOS offers very limited flexibility when it comes to changing parameters such as setting up new loan types, adding new fields, designing forms and reports, or building in workflow capabilities. Many existing shrink-wrapped LOS are legacy systems developed in older programming languages which offer very little in Web services support and no migration path. This makes it difficult (and in some cases impossible) to electronically obtain data from other third party lending providers such as Fannie Mae and Freddie Mac.

In contrast, rules-based solutions allow banks to customize their parameters and process loans based on their lending practices and procedures. However, in this scenario the bank

must hire a dedicated resource trained to maintain the rules and ensure a successful installation. Community banks have traditionally been less able to afford this additional resource and thus have been limited to purchasing shrink-wrapped solutions.

With the SaaS model, software vendors providing rules-based LOS are able to successfully market their technology to community banks. These rules-based systems offer much better functionality, workflow capabilities and scalability than their shrink-wrapped counterparts, as well as all the benefits of a subscriber-based solution, making the SaaS model hard to beat:

Lower upfront investment: Rules-based LOS requires a significant initial investment, usually starting between \$75,000 and \$100,000. The SaaS model is based on a subscription model, so the initial investment is much lower.

Lower infrastructure costs: The cost of installing in-house LOS is not limited to the software license. Additional costs, such as purchasing hardware, operating systems, database software, forms design, and report writing tools plus the costs associated with upgrading the hardware infrastructure, are eliminated.

Security and reliability: The software vendor maintains firewall and intrusion detection, third party penetration testing and annual SAS 70 audits. The software vendor provides daily backup and sophisticated high capacity infrastructure environments, and is responsible for backing up the software and providing full disaster recovery services. The end result is a safer, more reliable system.

Remote access: Since the software is hosted by the software vendor and is accessible over the Internet, it’s easy and safe for loan officers and branch personnel to access it without having to install or maintain any software on their computer.

Strategic compliance partners: Software vendors are constantly interacting and working with third party vendors to enhance their software and provide ongoing regulatory changes.

Simply put, a SaaS solution using rules-based technology offers community banks a comprehensive loan origination software solution at an affordable price without the former on-going costs, risks, and hassles. ♦



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