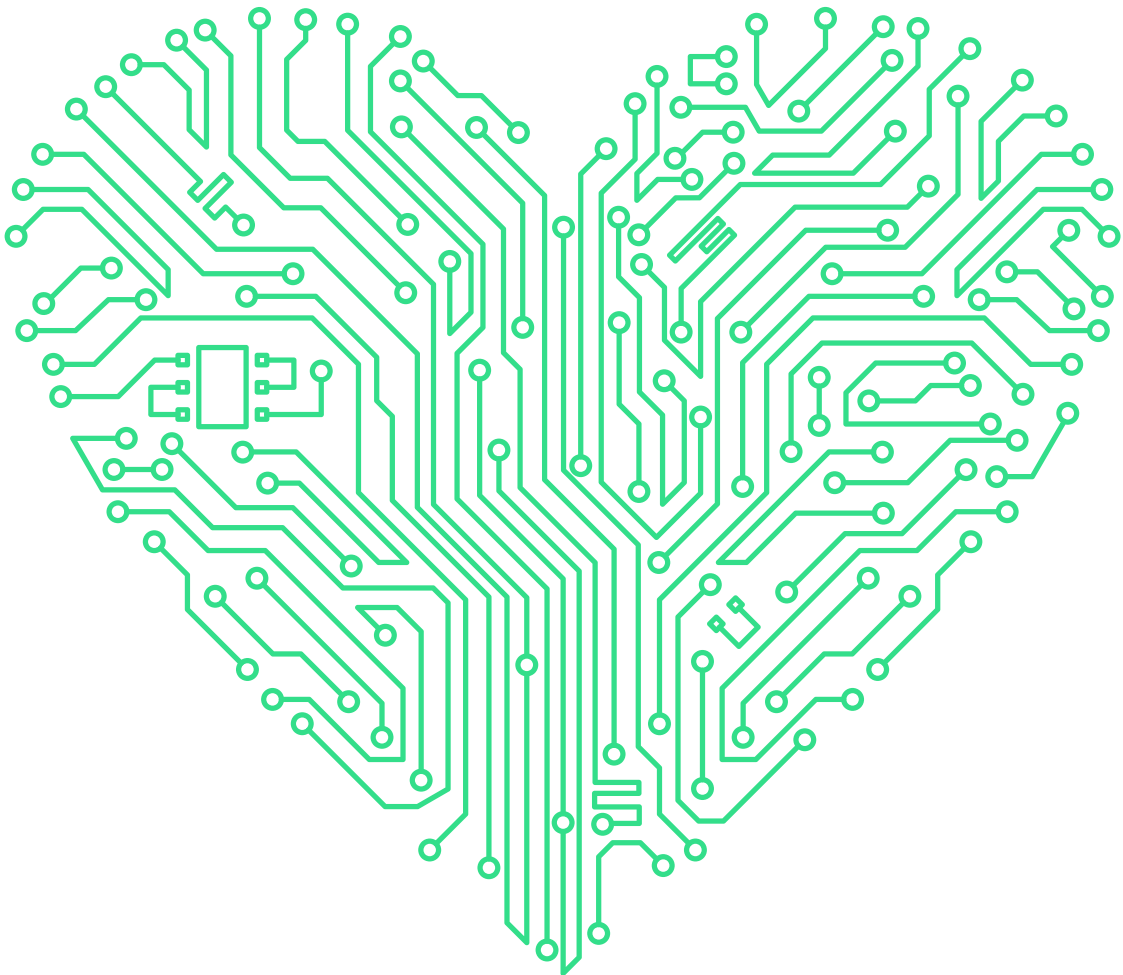**it's TRUE, you really can...**

Love Your LOS

Discover how highly accurate and complete borrower data, produced using specialist lending AI, is solving many common frustrations with loan origination systems and improving ROI.
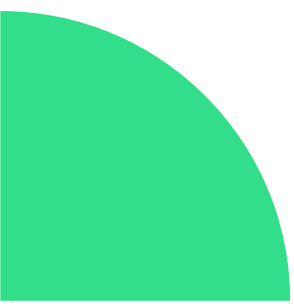
June 2023

TRUE

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Love Your LOS

The bane of existence for most mortgage professionals is trying to get loan files through the dreaded loan origination system, or "LOS." No matter the size of the lender, the size of the LOS, or the amount of automation in place, most lenders have a hate/hate relationship with their LOS.

Like a toxic relationship, the feeling of settling for what lenders consider "inexpensive" or "easy to adopt" makes it difficult for anyone to get excited about maximizing the functionality of their LOS.

Why Do Lenders Need An LOS?

Simply put, the LOS is software lenders use to manage mortgage loans – from the initial application to selling loans on the secondary market and all points in between. While the LOS has been around for decades, many of the capabilities that have evolved into the solutions we see today began to surface in the early 2000s. As borrowers began to demand faster, easier, and more digital methods for home loans, today's era of fintech vendors emerged with software to enable lenders to support these needs.

The Rise of Fintechs

Fintech vendors have promised the same thing: automation, simplicity and mobility. The array of options, from out-of-the-box solutions to proprietary systems, are enough to give any system administrator a headache. If selecting the right LOS isn't enough to stress out your IT team, now you can add all kinds of plug-ins! Want to connect your CRM directly to your LOS? There is a plug-in for that. How about sending your closing documents to the title agent digitally? There's one for that as well.

With so many ways to adapt an LOS, it seems that lenders should be over the moon with excitement for automations that save time and reduce errors. The reality is that most LOS installations are wrought with issues.

While most fintechs tout increased automation, their designs are based in rigid rules and workflow options. Look under the hood of most LOSs and you will find a glorified data collector in a fancy dress.

The technology does a solid job of orchestrating consistent workflows that move loans through origination, but hopes for a genuinely automated process have fallen short.

Why? Any system that relies heavily on data to maximize functionality will underperform if the data going in is not of the highest quality. Missing, incorrect or expired data requires human intervention, preventing task automation, adding human double-work, and greatly diminishing return on investment (ROI).

"Most lenders dislike their loan origination system," says Rich Swerbinsky, former President and Chief Operating Officer at The Mortgage Collaborative. "The vast majority of these platforms have failed to produce ROI."

Bad Data In,
Poor Decisions Out

In theory, a good LOS could almost entirely automate the origination process from end to end. However, without staff validating data quality, you will be hard-pressed to get an underwriter or closer to feel comfortable trusting the machine. For example, if the loan officer obtains an approve/eligible from the automated underwriting system (AUS), that approval could be in jeopardy if it contained incorrect income information. Underwriters won't trust automated approvals if there are any questions about data integrity and may choose to underwrite the loan manually, forgoing any advantage that automation can bring.

LOS quality data is also critical for reporting purposes. Department heads and senior leadership rely heavily on reporting to inform various decisions. Reports drive the most important decisions within lenders, from marketing spend to how much to hedge coverage to take out on the active pipeline. Even if you build the most sophisticated reporting database with fancy automated reports and alerts, none of it matters if the source data is flawed.
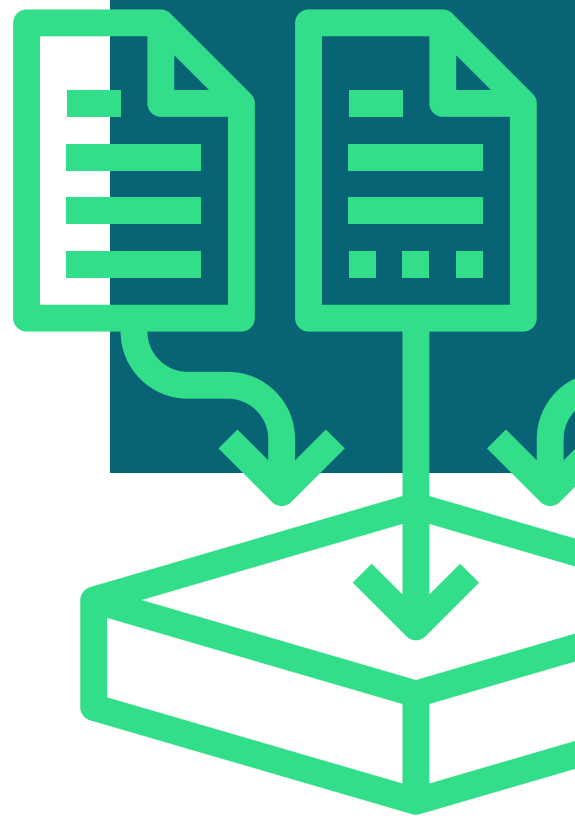
Bad Data In, Poor Decisions Out

(Continued)

Imagine a high-performance sports car running on economy fuel and oil. It stands to reason that the vehicle will not perform as you expect. The same philosophy holds true for an LOS. If the data "fuel" is of poor quality, the LOS cannot be expected to perform well. Sourcing and verifying data that powers the LOS is a slow and expensive task, but it's essential to avoid poor-quality loans.

As artificial intelligence enters the lending industry, solutions that enhance data quality offer the most value. AI tools like those from TRUE, a provider of a specialist AI for lending data, are akin to putting premium fuel and oil into that sports car. Consistently capable of outperforming human agents on data verification tasks, this category of AI is a powerful enabler of the hoped-for automation that reduces costs while generating high-quality loans and delivering a better customer service experience to borrowers. Your LOS can run like a well-oiled machine when AI is employed to ensure highly accurate, complete and validated data.
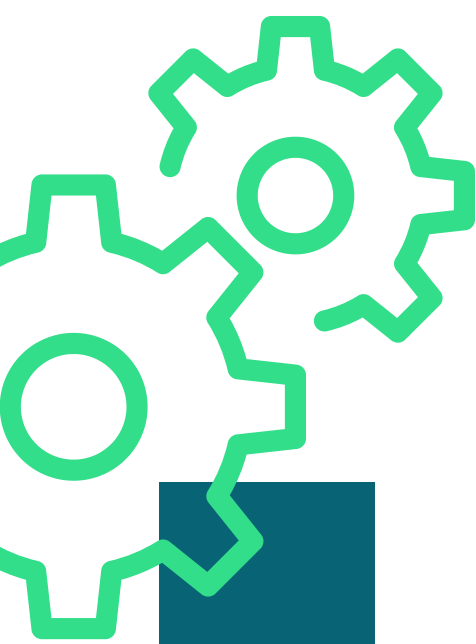
Right LOS, Right Price, Wrong Implementation

While flawed data is the root cause of many LOS frustrations, many system administrators will tell you that some of the most difficult issues can be traced back to the initial discovery and implementation phase.

A new LOS is a major undertaking, but too often it's C-suite executives who hold sway when selecting which LOS vendor, how to roll it out, and how to make current processes work in the proposed LOS workflow. It helps to include department heads that are more "in the weeds" of origination processes. They are usually better equipped to ask vendors questions that will reveal which LOS is right for the lender's business model, channels, customer service needs, and so forth.

Disjointed vendor selection can mean, when it comes time to launch the LOS, the staff using it soon come to believe that what was promised by the vendor was nothing more than a bait-and-switch. Lenders end up trying to force current processes to work within the new system instead of being open to changing processes to complement the workflow and automation available. These issues all stem from knowledge gaps among purchase decision makers, which quickly turn into problems during implementation.

Beware of "Shiny Object" Syndrome

If you are in the market for a new car (perhaps that sports car we mentioned earlier) you probably have an idea of what the vehicle needs to have versus what you would like it to have. You might even have created a list of "must have" and "nice to have" features. Perhaps you took it further and researched customer reviews, or Consumer Reports, to ensure the car meets certain performance and safety ratings, retains value, and is reliable.

Imagine if lenders adapted this breadth level of detail and stringency when selecting an LOS? Sure, everyone wants all the automation, but which automation tools are critical to day-to-day operations? If you really want that automation, will you need additional plug-ins to make it work? Do your other products, such as document preparation software or your pricing engine, have integrations with the LOS, or will you need to "jerry-rig" it to work?

One of the biggest mistakes lenders make is that they get so fixated on the "shiny object" in front of them that they buy way more LOS than they need or realize too late that they will need to buy even more software to get intended automations to work. Even worse, they buy an LOS they can't use because it will not support future growth or specific channels (such as wholesale or correspondent originations).

Love Your LOS!

The bottom line is that no LOS is perfect, even if you build it yourself, so you must ensure that your choice meets current and future needs. It's a huge decision, so be sure that you ask questions that cover all business needs related to the LOS and that the right people are involved in every step of the process so that unanticipated issues are spotted early. Develop a workflow that aligns with your needs and be clear on your non-negotiables with the LOS vendor. Your "nice to have" list should not replace your "must have" list, no matter how tempting it might be.

When it comes time to choose the LOS, identify who your department "champions" will be, as they will be the ones getting the rest of the team excited about the new LOS and all the efficiencies it will bring. Your champions will ask the right questions that concern the staff to ensure nothing is missed while working through the loan manufacturing lifecycle. If you are also a servicer, don't forget to include the servicing team in the conversation. A seamless transition between your LOS and servicing platform is critical to your success!
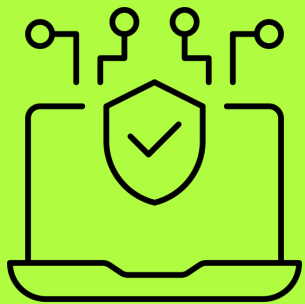
TRUE AI:
Your Automation Champion

TRUE Data Intelligence

TRUE Data Verification

If you are ready to take your loan originations to the next level, now is the time to contact TRUE. The company builds AI for the specific needs and data types in the lending industry. Packaged into the TRUE Data Intelligence and TRUE Data Verification products, the technology easily integrates with most LOS platforms and processes.

TRUE ensures data accuracy and completeness from step one – as borrowers upload documents – and uses contextual analytics to maintain correctness through closing and post-closing. The AI platform also supports income calculation, indexing, versioning, and automates every phase of data verification.

With TRUE, lenders gain a genuinely automated and reliable source of high data quality, resulting in smooth and efficient originations plus the highest possible confidence in lending decisions. More than that, your LOS will be equipped to perform as originally expected, resulting in improved ROI from sunk investments.

Visit www.true.ai for more information or to request a personalized demo.

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