



## LOS Market Share Drama

LOOKING OVER THE PAST 10 YEARS, THE loan origination systems (LOSes) that were popular a decade ago are still popular today. However, there have been significant changes in market share, and the only thing we can say for sure is that it's almost impossible for new entrants to gain a foothold. In fact, none of the top LOS vendors was new to the market in the past 10 years.

What is worth noting is how the market has migrated among the top four vendors. Wholesale Access, Columbia, Maryland, has done a great job in surveying both the mortgage broker industry and the mortgage banking industry. I have seen and evaluated other surveys, and Wholesale Access has done the job exceptionally well. Wholesale Access takes a very large sample size of the industry, which ensures statistical significance. This article will discuss some of the findings of the mortgage broker study that provides the LOS market share by vendor. A future article will discuss the findings of the LOS market shares for mortgage bankers.

Figure 1 shows the changes in market share for the top four LOS vendors among mortgage brokers.

There are several things we can conclude from Figure 1. One is that the top four LOS vendors, as a group, have increased their market share over the years. This has been at the expense of a number of smaller firms. Several firms have gone out of business while others weren't able to penetrate the market and, in fact, had a challenging time even hanging on to the customers they had. Clearly, any new LOS that came to market found it nearly impossible to get its foot in the door.

Those mortgage brokers that purchase an LOS from any other than a top-four vendor likely found themselves in a dilemma. LOS software vendors with a small customer base aren't able to fund their research and development (R&D) to keep up with the major vendors. They

really only have two options: to spend far more than they earn, which eventually puts them out of business; or to charge their mortgage customers far more than the competing LOS vendors. For these and other reasons, in most situations, mortgage brokers are better off purchasing from a top-four vendor.

Another very interesting development illustrated in Figure 1 is how Calyx Software, San Jose, California, has significantly expanded its market

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share at the expense of the other vendors. The survey doesn't help us determine why this happened, although I've done a number of informal surveys on my own with mortgage brokers.

Some will say that Calyx has developed a terrific product with a great price. Others will fault the other LOSes for taking some wrong steps. There's also the Microsoft® effect that tends to happen throughout the software industry. That is when one software vendor eventually dominates a segment, and as it

grows larger it has greater resources to develop the software even further—which ultimately makes it impossible for the other vendors to catch up. As the previous owner of Contour Software Inc., I know very well that the more customers you have, the more you can improve the software because you have much higher revenues to commit to R&D.

When I look at Figure 1, it's my belief that changes in ownership and management can explain the migration in market share. All the LOS vendors except for Calyx had a complete change in ownership and management.

I sold Contour in early 1998, and as we can see, the market share for Contour dropped the most as it was the first major LOS to be sold to First American Corporation, Santa Ana (it was sold again in 2001 to Ellie Mae Inc., Dublin, California). In 2000, Genesis 2000 Inc. was sold first to the now-defunct iOwn.com, and then again later that year to Ellie Mae. Byte Enterprises was sold to NetUpdate Inc., Bellevue, Washington, in 2000 and then again to CBC Companies Inc., Columbus, Ohio, in early 2002. Byte also had a complete management change with both sales. Byte's market share had been gaining until it was sold, at which point it quickly lost market share.

LOS Vendor	Market Share		
	1998	2000	2002
Calyx Point®	40.7%	55.2%	66.1%
Genesis 2000®	16.6%	14.5%	12.9%
Byte TQS™	11.9%	12.2%	9.7%
Contour	15.2%	7.5%	4.8%
Other*	15.6%	10.6%	6.5%
All Mortgage Brokers	100%	100%	100%

\* "Other" includes a large number of smaller LOS vendors as well as none used.

SOURCE: WHOLESAL ACCESS

So why is it that a change in ownership and management can create such a significant turnaround in fortunes? I believe there are several factors at work. In all cases, the new management team had no prior knowledge about how to run an LOS company. The previous owners took years to hone their skills. I also had an opportunity to talk with the previous owners of Byte and Genesis. These former owners were at odds with the "new direction" that the new owners were taking their companies. In fact, none of the previous owners is with the old companies today. In each case, the new management team proceeded with major changes to how the companies were run. In the case of Ellie Mae, it is completely replacing Genesis and Contour with a different LOS.

Managing an LOS company is highly complex, and ultimately you have to rely on gut feelings in making many of the important day-to-day decisions. A new management team often proceeds to make a lot of changes, believing it is bringing fresh ideas to an old software firm. From my experience, often those major changes have not helped the products. When I look back at the three LOS products and their history, I can't see where new changes have been beneficial.

There isn't any evidence showing that the trend noted in Figure 1 has changed since 2002. Wholesale Access will be completing another mortgage broker survey soon, and my guess is that it will show more of the same market share trends.

I'm not a big fan of having one LOS vendor dominate our industry. I think it hurts innovation and reduces competition. I also believe that at some point, Calyx will find it difficult to grow further as it saturates the market. With the other three vendors not faring well at this point, perhaps finally the door will open for a new LOS vendor to move into the top four.

I can't see any firm on the immediate horizon that could be moving into this position, but I'm keeping my eyes wide open.

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