New Data on LOS Productivity

THERE ISN'T ANY QUESTION THAT THE loan origination system (LOS) is the primary computer application used by the originators in our industry. From an overall productivity standpoint, nothing is as important to a mortgage origination company. For all the years that LOSes have been in existence (since the early 1980s), I am not aware of a single published article that has tried to determine which LOSes are the most productive and efficient.

Clearly, whether a company spends $1,000 or $1 million on an LOS, the efficiency of an LOS should be a primary determinant in the selection of a system. However, this attribute hasn't been used because of the lack of available credible statistical data.

For help in filling this void, I've tapped the experts at Wholesale Access, Columbia, Maryland. Every year this mortgage research and consulting firm completes an extensive survey of our industry, alternating in focus between mortgage brokers and mortgage bankers. I've asked Wholesale Access to take the data it has collected and analyze it a little differently.

As part of its surveys, the company collects information such as overall cost per loan, employee productivity per loan, which loan origination system each company uses and their LOS satisfaction level. From this information, we can get an independent analysis that is statistically significant in that it relies on a sample size of more than 800 mortgage brokers, collected in 2002 for survey results released in 2003.

What follows is some of Wholesale Access' data, along with the author's analysis.

In the mortgage broker market, there are different LOS products that capture significant market share than those for mortgage banking companies. The LOS products popular for mortgage banking firms will be covered next year in a related column built around Wholesale Access survey data.

All of the statistics that follow are from Wholesale Access' survey conducted in 2002 and formally released in 2003 (see Figure 1 for an expanded list of survey results). For this column, we'll concentrate on the top four LOS vendors for brokers. There is a large drop-off in market share after the top four,

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>
> **—SCOTT COOLEY**

and the result is lack of enough responses for statistical significance.

According to the Wholesale Access survey, the overall market share for these companies are:

- San Jose, California–based Calyx Software's Point®: 66.1 percent
- Dublin, California–based Ellie Mae Inc.'s Genesis 2000®: 12.9 percent
- Columbus, Ohio–based CBC Companies Inc.'s Byte TQS™: 9.7 percent
- Ellie Mae's The Loan Handler®: 4.8 percent

(Note: At the time of Wholesale Access' survey, The Loan Handler was marketed as an Ellie Mae/Contour product.)

When we look at the last three surveys (released in 1999, 2001 and 2003)

of mortgage brokers by Wholesale Access, we see that Calyx gained market share against the other LOSes. I term this the "Microsoftification" of the LOS market. The more companies that use one product, the more the other companies in the industry desire to use the same product because of software compatibility issues. Note that the market share numbers are by number of mortgage broker firms using each LOS—not the market share by loan volume.

When we look at user satisfaction rates, we also see Calyx scoring well. It would appear that Calyx also gained market share because of the high satisfaction of its customer base. On a scale of 1 to 5, with 5 being the most satisfied, Wholesale Access' rankings of the four products are:

- Calyx Point: 4.61
- Byte TQS: 4.25
- Genesis 2000: 4.24
- The Loan Handler: 4.02

While there is a variance, I'm not sure that I would consider it a major variance (from 4.0 to 4.6). If you talk with mortgage brokers, you will find some who will love and hate each of these LOSes. When you ask them what they liked most about their LOS, the most common attribute was ease of use. According to Wholesale Access' survey, the descriptive responses from the mortgage brokers placed a lot of weight on how easy the LOS is to use. Although customer satisfaction is an important statistic, I'm not sure I would consider it the most important if I were the owner of an origination business.

Another area I looked at was the average annual loan production by software product from the most recent Wholesale Access survey. I find this area interesting, as it suggests the average size of the client for each product in the sample group of brokerage firms. This can help someone looking for a new LOS to understand what size mortgage broker each software vendor

caters to. The average annual loan production by software product is:

■ The Loan Handler: $61.9 million per year

■ Genesis 2000: $42.6 million per year

■ Calyx Point: $37.5 million per year

■ Byte TQS: $29.2 million per year

The only thing this really shows is the average client size for a given LOS for a certain point in time. It can't be read in such a way to infer that if you bought a certain system you would somehow obtain more loan volume. Some LOSes have more or fewer features and cost more or less, which can be attractive to different size mortgage brokers. The other aspect this helps us with is to determine market share for

these products by loan volume.

The final two tables are what I consider the most important elements of this survey. The first looks at expense per loan by LOS product—the total cost for each loan produced by a mortgage broker when segmented by LOS vendor:

■ Byte TQS: $1,529

■ Calyx Point: $1,428

■ Genesis 2000: $1,324

■ The Loan Handler: $1,161

(Wholesale Access compiled these numbers by using the total annual expenses in 2002 for each mortgage brokerage firm divided by the number of loans originated that same year.)

There is a significant difference among the vendors. Imagine knocking 32 percent off your total company

expenses simply by the choice of your LOS. If you lowered your expenses by 32 percent, what would that do for your profits? If you normally put 10 percent to your bottom line, you would more than triple your profits when choosing the lowest-cost LOS compared with the highest cost. I was personally surprised to find this much of a difference among the LOS products.

In the final table, we look at the number of loans produced per worker. In the same survey, we look at how many full-time equivalent employees (FTEs) each firm has divided by the number of loans closed in 2002. This gives a look at employee productivity:

■ Ellie Mae/The Loan Handler: 56.1 loans

Figure 1	What Is the Name of Your Firm's Loan Origination Software Provider?											
	2002 Production Range											
Loan Origination System Used	**< $10 Million**		**$10 million to $24 million**		**$25 million to $49 million**		**$50 million to $99 million**		**$100 million and up**		**Total**	
	Count	Column %	Count	Column %	Count	Column %	Count	Column %	Count	Column %	Count	Column %
No front-end software program	19	7.1	8	2.5	2	0.9	1	0.9			30	3.0
Calyx Point	173	64.6	213	65.5	151	70.6	68	59.6	51	70.8	656	66.1
Ellie Mae/Genesis 2000	32	11.9	43	13.2	28	13.1	16	14.0	9	12.5	128	12.9
Byte TQS	33	12.3	31	9.5	20	9.3	10	8.8	2	2.8	96	9.7
Ellie Mae/Contour's The Loan Handler	6	2.2	16	4.9	7	3.3	12	10.5	7	9.7	48	4.8
Smartfil			1	0.3							1	0.1
Pipeline Solutions	1	0.4	3	0.9	3	1.4	2	1.8			9	.0.9
Ram's Power Pak			2	0.6							2	0.2
INTERLINQ–MortgageWare	1	0.4	1	0.3					2	2.8	4	0.4
Proprietary-developed program	1	0.4			1	0.5	1	0.9	1	1.4	4	0.4
Dynatek			3	0.9			2	1.8			5	0.5
TLQ	1	0.4									1	0.1
Win Mort			1	0.3							1	0.1
Cytec	1	0.4									1	0.1
Financial Services			1	0.3							1	0.1
Omni Scan					1	0.5					1	0.1
Wholesaler							1	0.9			1	0.1
QuickView			1	0.3							1	0.1
Loan Mortgage					1	0.5					1	0.1
eMagic			1	0.3							1	0,1
Energizer							1	0.9				
Total	**268**	**100.0**	**325**	**100.0**	**214**	**100.0**	**114**	**100.0**	**72**	**100.0**	**993**	**100.0**

SOURCE: WHOLESALE ACCESS *MORTGAGE BROKERS 2002* SURVEY

- Byte: 46.2 loans
- Ellie Mae/Genesis: 41.9 loans
- Calyx: 40.2 loans

These numbers suggest that an LOS can make a big difference in the success of a company from a productivity perspective. I doubt few in the industry would believe that their staff could handle 40 percent more loan volume because of their choice of an LOS.

What's even more interesting is the relationship of this productivity data with the user satisfaction findings. It shows that users find some LOSes to be easier to use than others, but that doesn't always equate to better productivity. In fact, the findings about customer satisfaction suggest a possible inverse relationship with productivity. It reminds me of how some of the old DOS applications were actually less productive when they were converted to a Windows® application (more the exception than the rule, though).

I did try to poke holes in this analysis, and the only possible red flag I could find was when we looked back at loan volume by LOS. Is it possible that larger mortgage brokers are generally more productive than smaller mortgage brokers because of reasons other than mere choice of LOS? Of course, that might be true. The problem with this thinking is that when we look at the industry as a whole, we generally find that the smaller the mortgage origination company, the lower the cost per loan to originate. This is why mortgage brokers tend to originate loans more cheaply than many large banks.

Although I was the founder of Contour, I don't have any financial interest in the success or failure of any of these LOSes—I sold Contour in 1998. Today I often help mortgage companies try to determine which LOS is the best for them, but it's always a challenge. When I look at these numbers, I feel like the industry finally may be getting some guidance on which LOSes are the most productive.

Because the release of the information in this column is an industry first, we very well could be redefining how LOS companies will be evaluated going forward.

If you're interested in the entire mortgage broker survey, please contact Wholesale Access (www.wholesaleaccess.com). Wholesale Access is also just completing its mortgage banking survey, which will have similar numbers available for the higher-end LOSes. For a mortgage banker looking for a new LOS, its content could be invaluable.

For the last 25 years I've dreamed of having some real, hard evidence showing that an LOS can make a difference for a mortgage origination company. Yet, all we've had to go on was what mortgage companies thought about their own LOS. The LOS software marketplace has always been primarily sold via referrals from existing clients. As an industry, we need to do a better job of determining which products truly make us more productive.

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