Transaction System Development

It's been almost 15 years since the first interface was developed between an LOS (loan origination system) and a vendor that supplies services to the mortgage origination company. This original interface worked wonders, and by the mid-1990s ordering credit reports using the data within the LOS became the standard.

The basic design of the interface was to move data both ways between the LOS and whatever system the credit reporting vendor developed. While this interface served us well, it's remained essentially unchanged in all these years. Any improvements were simply to make it easier for the user to accomplish the task at hand.

We've also expanded from the credit interface to automated underwriting systems. Flood certificates can also be ordered electronically, but this interface has hardly reached mainstream use throughout the industry. Wholesalers-to-broker transactions are making decent progress. In short, though, in my view, we just aren't making the kind of progress we should be in handling all the transactions electronically. Let's take at look at the process of development.

LOS developers like Byte, Calyx and Ellie Mae are working to develop transaction networks. They charge vendors to participate on their networks. Vendors have slim profit margins, so having a significant percentage of the cost of a service being eaten up by a transaction network is a lot to ask. The LOS vendors are looking hungrily to these transactions as a strong new revenue stream, but they are finding out that the fees must be fair and reasonable.

Another problem is that the transaction networks haven't progressed as much as they should. Users and vendors need a higher level of solutions. As an example, there are many steps in the appraisal process, and just ordering the appraisal electronically isn't enough. What's needed is for the transaction networks to handle real-time feeds for status.

In the appraisal example, each step the appraiser makes should be tracked inside the LOS. Thus, when the loan processor hits the loan-status option inside the LOS, he or she would see exactly what the appraiser has done with that order. This might include order received, borrower contacted, home-site visit booked, home reviewed, comps analyzed, report completed and report delivered. Imagine this sort of detail for every transaction a loan originator handles.

Once the transaction networks can handle this level, all the parties would welcome the small charges, as they would be worth the efficiency gains. What loan processor wouldn't love to see a loan status report that gave complete details from every third party with whom he or she works?

The LOS vendors could even take the returned data and then react to that data appropriately. For example, when the appraisal order was received back, the appraised value would be placed into the LOS database. It could then react to that information and notify the loan processor if the appraised value was below the purchase price or anticipated value.

The LOSes need to react to the data that is received from the vendors, thus making the processor more efficient and alerting the processor to potential problems. While we would all like loan processors to be proactive in obtaining new information, it's actually easier for them to be reactive to intelligent reporting.

When you look at where transaction handling is headed, it's easy to see that transaction networks existing outside of the LOS have a limited future. Yet, there are companies still attempting to build such solutions. In the past, such companies as GE's NetOriginate, nCommand and Bridgespan all met doom in trying to build such solutions. The LOS absolutely owns the transaction networks, but we have to wonder if it is really doing enough.

A recent survey from Columbia, Maryland–based Wholesale Access, a respected independent research firm, showed Calyx had a 66 percent market share of the LOS industry. This makes Calyx the Microsoft® of the industry. What comes with that success is an obligation to lead the industry. Yet, when it comes to transaction network development, in my opinion, Calyx has followed rather than led. I challenge the company to step up and help build a more advanced solution for the industry as a whole. Our industry must continue to become more efficient and lower costs for the consumer. Calyx has had a lot of success in building a simple and efficient LOS, but the industry would greatly benefit if it would now take the next step in doing the same for transactions.

It's hard to understand why so little has been invested in the systems that exist inside the LOS, especially compared with all the money poured into the systems that exist outside the LOS. Perhaps GE should have invested with Calyx to build a much better solution for the thousands of Calyx customers (though I understand that Calyx has refused all investment offers). Perhaps Ellie Mae should have taken its ePASS® to the next level rather than building yet another LOS with Encompass (giving Ellie Mae three LOSes).

We're missing the next big evolutionary step in the industry, and yet it's right at our fingertips. Mortgage bankers and mortgage brokers should demand more.

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