

Is Your Business Ready For An Enterprise-Wide System?

***Fears of changing the IT infrastructure may result
in more problems than you need.***

By David Hultquist and
Aditya Bhelande

All businesses aspire to grow, and mortgage banking is no exception. Business growth can occur either organically or through mergers and acquisitions. In either case, organizations find themselves over time having many software systems, often with significant overlap in the functions they perform.

Supporting redundant systems increases overhead and creates operational issues. Consolidating multiple systems into one centrally administered service streamlines processes and minimizes administrative overhead.

Lenders wind up with a variety of disparate systems as they grow, merge and evolve. Almost always, these systems do not work with each other, take too many people to manage and maintain, create data inconsistencies, cannot adequately scale, cannot adapt to new and changing business needs, etc.

Dealing with redundant systems inhibits a lender's ability to respond quickly to changing market conditions. Enhancements or configuration changes must be performed in multiple systems simultaneously. All the different vendors, each with its own pricing, licensing, contract and support policies, must be dealt with. And system downtime has to be coordinated so it doesn't impact the day-to-day operations.

In a recent survey, eight out of 10 lenders said that they lose business flexibility due to technology limitations. The most common technology related complaints were:

- What the business wants to do cannot be done with the existing IT infrastructure and software applications.



- It will be too expensive and will take too long to implement needed changes.

- There is a lack of skilled resources to make changes.

Some lenders have a fear of changing IT infrastructure, because it can be an expensive disruption. This perception may not be incorrect: Historically, most IT projects are late or fail altogether. But avoiding change is no option because the downside of outdated systems includes:

- increased operational and maintenance costs,
- loss of competitiveness,
- worsening customer service and reputation, and
- compliance issues.

All of these issues that arise from dealing with many disparate systems makes one think: How can one consolidate overlapping functions so that they can be managed centrally and deployed universally?

Certain elements of the lending infrastructure need to be centralized. These may be processes, policies, data sources, vendor relationships or other "strategic" aspects of the business. Pricing, underwriting, vendor management and compliance are some of the common functions that benefit from centralization. Consolidation of strategic functions like these can foster better consistency, oversight, adherence to policy and economies of scale or scope.

A system built to perform one of these core functions can serve as an enterprise resource. It is centrally administered, but available ubiquitously and on-demand across the entire organization and by key business partners.

A system meant to be used as an enterprise resource must have the following characteristics:

- utilizes standard protocols for communicating with other systems,

David Hultquist and Aditya Bhelande are, respectively, vice president of marketing and senior product marketing manager at Dorado Corp., San Mateo, Calif. They can be reached at (650) 227-7300.

- has stateless nature so that it can be independently managed as its own entity,

- tracks changes and provides audit capabilities, and

- adapts rapidly to changing business conditions.

Benefits of this new model include leveraged investment, speed to market, reduced overhead, consistency of execution, and reduced errors across all channels and all phases of the operations workflow.

Steering the enterprise

Most lenders use multiple pricing engines, whether they know it or not. Program selection and loan pricing functions are used by - and perhaps buried inside - each point-of-sale application, each loan origination system, the consumer Web site, the broker portal, the secondary system, etc. This fact causes operational problems and inefficiencies across the whole business. It creates a nightmare for credit policy or secondary marketing staff responsible for accurate, consistent and timely pricing across all channels.

It is extremely difficult for lenders to consistently, reliably and quickly roll out new programs, change programs, or update rates, when having to do so on multiple systems. Some lenders have suffered financial losses; for others, this has created compliance or market credibility problems.

A product and pricing engine, deployed as an enterprise resource, serves as the consistent, up-to-date and reliable "source of truth" for loan

program information, eligibility requirements, policies and pricing.

In the old-fashioned schematics of redundant, overlapping systems from multiple vendors, everything is channel-specific - one pricing engine per channel for retail, wholesale and correspondent operations. Changes must be managed across multiple systems, which is time-consuming and slows down the time it takes to market (it also raises the risk of systems getting out of synch with inconsistent or out-of-date information and rules).

In a centralized enterprise resource, a single pricing engine from a single vendor serves all origination channels, which makes it easy to keep track of changes for audits and compliance. Pricing changes are made once and then rolled out to every channel as required, thus offering significant savings in time and energy.

Introducing a new loan program

Let's look at just one typical scenario in a mortgage lending operation: designing and rolling out a new loan program. We'll examine how this would be accomplished, and we'll compare to the equivalent processes done on multiple pricing engines versus a single pricing engine deployed as a centralized enterprise resource.

With multiple pricing engines, the task of setting up program descriptions and rules must be repeated on each pricing system, probably in very different ways. New loan programs must be tested on each pricing engine. Rolling out new loan programs

has to be carefully coordinated so the new programs are available through different pricing engines to the appropriate channels at the desired time.

On a single, centralized setup, program descriptions and rules are created once, in a single system, with one skill set. The relatively smaller number of needed resources makes it easier to plan and coordinate. Testing must be done only once, so programs can be rolled out to market with greater speed.

Is the enterprise resource model right for your lending business? Thinking about the following issues may help you to decide:

- How many pricing engines do you have across your entire organization?

- Do you often need to make the same pricing changes in each of these pricing engines?

- Does this process slow your ability to react to market changes?

- What might be the financial impact of such lack of agility?

- Does incorrect pricing - due to inconsistencies across systems - cause expensive closing delays, customer dissatisfaction, compliance issues, rate risk, pair-offs or other business problems?

If you have multiple systems that perform program selection and loan pricing functions - and you're concerned about the business issues described above - you should consider consolidating the product and pricing function into a centrally managed enterprise resource - a single source of truth.

SME