



The Cons of a SaaS LOS

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UNDENIABLY, MORTGAGE BANKERS SHOULD LEVERAGE some technology solutions delivered as services over the Web (known as Software as a Service or SaaS). Lenders clearly benefit from SaaS solutions such as doc prep, product pricing and eligibility, compliance checks and fraud detection solutions. The question is: Should lenders consider a SaaS provider to deliver their core origination software?

On the surface, SaaS benefits are persuasive since their immediate net result is a quick, low-cost start-up with a simplified IT infrastructure. However, a closer look suggests that the longer-term value proposition for SaaS is lacking, and the simplicity of its infrastructure entails profound risk.

When evaluating the SaaS option, it is useful to consider: 1) the difference between a hosted origination system and database (LOS), and a hosted service (like a doc prep); 2) the distinction between “single tenancy” and “multi-tenancy” hosted tools; and 3) the availability of hybrid-hosted LOS options.

In July 2009, mortgage lender users of a SaaS LOS solution received a message from their temporarily “out-of-business” solution provider. An e-mail advised them to log in for instructions to download their data within a seven-day window. A few days later they learned that the company had been bought and operations returned to normal. Good news for all, but the incident is an illustration of the catastrophic risk involved when lenders outsource and remotely locate their data.

Lenders that tap SaaS solutions for services such as document preparation have minimal data exposure since those systems pull data from the lender’s LOS database. The data is shared, not completely relocated. However, lenders that operate on a totally hosted LOS platform risk the devastating loss of current and historic pipeline data. Such a lender would be out of compliance across the board and would fail every possible audit if their service provider failed.

Adding insult to injury, if electronic document management is an element of the hosted SaaS LOS solution that fails, lenders are exponentially out of luck because there are no physical loan files to be found, in addition to their being no loan data.

Further, the SaaS “low-cost start-up” benefit begins to unravel the longer it is in use. Using SaaS is like leasing a car. Regardless of how long you pay for it, it never belongs to you. For the purposes of analyzing the risk/benefit proposition of SaaS for mortgage lenders, it is helpful to know the distinction between multi-tenant and single-tenant hosted architecture. Not as arcane as they may seem, these terms go to the heart of why SaaS is problematic for an LOS application.

Multi-tenant-hosted solutions providers (the traditional model for SaaS providers



since multi-tenancy is less costly and time consuming to administer) have one code-based application that supports all their clients in a single database of record. Database flags separate customer data, ideally allowing customer-only data visibility. Regardless, multi-tenant application bugs can put lender data at risk, making it visible to other lenders in the same SaaS environment.

Single tenant-hosted solutions provide a unique deployment, and database, for each customer. No data blending occurs and no data flagging is required. Single-tenant hosted solutions providers must apply more management to individual customer applications (since administration is done at the customer level, not the system level), but the trade-off is in greater ease of data migration and application customization, plus a better data security environment.

Another potential shortcoming for the multi-tenant SaaS LOS model is the uncertainty around third-party integrations. Whether due to data extraction challenges inherent to multi-tenant architecture or other even more esoteric obstacles, such integrations can range from vexing, to incomplete, to impossible.

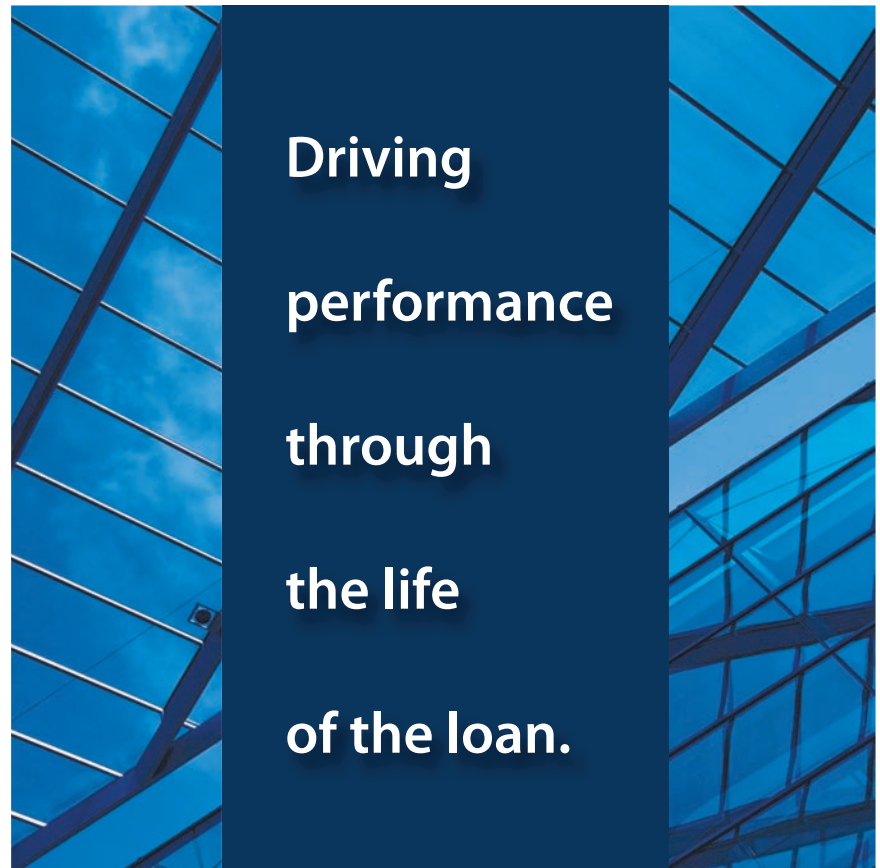
Taking into consideration the risks elemental to a SaaS LOS solution (total loss of data, data insecurity, captive data), and the true cost of ownership (ownership is not an option) is it possible for mortgage lenders to realize the benefits of a hosted LOS application? Yes, but they must confine their options to those which do not completely relocate data offsite unless they are willing to lose it.

For lenders that want to realize the greatest efficiencies allowed by the least risky practices, there are hybrid models or “contingency” hosted solutions. These solutions offer lenders the benefits of a hosted application—such as ease of remote access and automatic compliance updates—without the risks

of complete data loss, compromise or inaccessibility. **MT**

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