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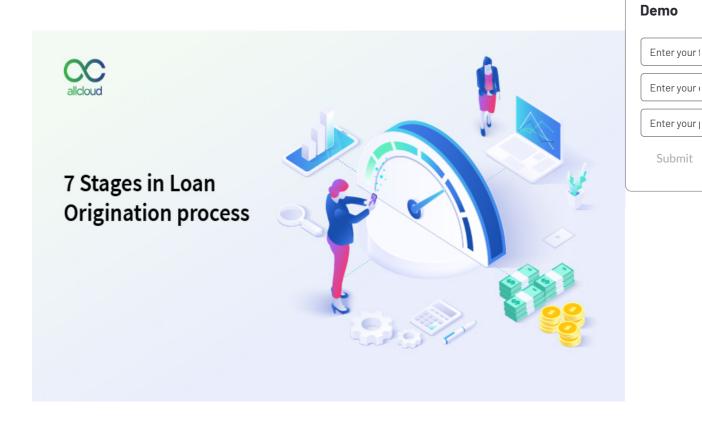Products   Solutions   Company   Resources   Talk to our experts

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7 Stages in Loan Origination process

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The First stage of Lending/Financial services is Known as Loan Origination process. The most important & critical stage in complete Loan servicing. The Finance Industry is now shifting its focus on Customer engagement & Satisfaction with the elements of design & delivery that fulfils customers' expectations first.

For almost every lender the definition of the term Loan origination is different – where it starts, the different stages within the process and where it ends. Every Loan type will have a different approval process that can be manual or automatic. Lenders have their "secret sauce" when it comes to Loan Origination that they never want to share as Loan origination is what makes Companies stand out from their competition. Loan Origination System is responsible for managing everything from pre-qualification to the approval of funding the loan.

Below are the stages that are critical components of Loan Origination process :

1) Pre-Qualification Process

This is the first step in the Loan origination process. At this stage, the potential borrower will receive a list of items they need to submit to the lender to get a loan. This may include :

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Once this information is submitted to the lending company, Lender reviews the documents and a pre-approval is made, allowing the borrower to continue in the process to get a loan.

2) Loan Application

This is the second stage of the loan origination process. In this stage, the borrower completes the loan application. Sometimes this application can be paper-based, but today lenders are shifting towards an electronic version that makes this stage Paperless. New technologies allow completing the application online through website & mobile app, and collected data can be tailored to specific loan products.

3) Application Processing

At this stage, the application is received by the credit department and the first step done by the department is to review it for accuracy, genuine & Completeness. If all the required fields are not completed, the application will be returned to the borrower or the credit analyst and they will reach out the borrower to procure the missing information.

Lenders use LOAN ORIGINATION SYSTEM (LOS) to know the creditworthiness of the borrowers. A good LOS will help a lender setup workflows to process a loan. It can automatically flag files with missing required fields, return it to the borrowers and notify sales/Credit department to rework. Depending on the organization & product, exception processing might be a part of this stage.

4) Underwriting Process

When an application is totally completed, the underwriting process begins. Now Lender checks the application taking a variety of components into account: credit score, risk scores, and many lenders generate their own unique criteria for scoring that can be unique to their business or industry. Nowadays, this process is fully automated with the help of a rule engine & API integrations with Credit scoring engine's (CIBIL, EXPERIAN etc.) in LOS. In a rule engine, the lender can load underwriting guidelines specific to products.

5) Credit Decision

Depending on the results from the underwriting process, an application will be approved, denied or sent back to the originator for additional information. If certain criteria's don't match according to the rule engine set in the system, there can be an automatic change in the parameters, such as reduced loan amount or different interest rates.

6) Quality Check

Since lending is highly regulated, the quality check stage of the loan origination process is critical to lenders. The application is sent to the quality control team, that analyze critical variables against internal and external rules and regulations. This is the last look at the application before it goes to funding.

7) Loan Funding

ensure that all necessary documents are executed before or together with funding.

Checkout AutoCloud- [Loan Origination System](#) to know how it can help you enhance customer experience and let you customers get loans in less than 5 mins.

Frequently Asked Questions

1. What is a loan origination system?

A Mortgage Loan Origination System (LOS) is nothing but a framework that accepts a finished loan application and manages the loan transaction from start to finish. To reduce risk and improve loan production quality, LOS systems can include elements such as records management, compliance tools, and pricing and eligibility engines. When doing so, it further integrates with several other systems such as CRM, document production, POS, compliance, third-party vendors, etc.

Thus, to briefly understand LOS, you can say that Loan origination is the procedure through which an individual who is the borrower applies for a mortgage, and a lender either approves or denies this application. The origination procedure involves all steps from application to financing disbursement or rejection of the application.

The loan origination system is essentially the system that is used for automating and regulating the processes of loan application and disbursal.

It is typically time-consuming and labor-intensive. Loan origination typically takes somewhere around 35 and 40 days. Nonetheless, it is becoming easier and quicker with the increased use of automated systems.

2. What are LOS and LMS in Banking?

Banks and lending agencies are diversifying their financial funds to include lending services and provisions that can be tailored to the specific borrower. This is solely being done in response to the ever-increasing forms in which companies and consumers attempt to borrow funds for specialized products. However, these institutions are running into potential barriers with their present loaning technology.

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When lending institutions try to work with unusual borrowers searching for specialized funds, or perhaps even vendors that make use of a direct-to-consumer framework that doesn't cleanly verify the criteria required in conventional LOS, the technology becomes a setback.

The solution to address these flaws is to integrate such LOS and LMS solutions with an automation solution capable of seamlessly incorporating business requirements and decision-making software into these workloads.

3. What is the LOS system?

In the past few years, loan origination systems (LOS) are becoming a common banking catchword among banks and credit unions. Nevertheless, the word LOS can mean different things to different bankers.

A LOS is recognized as a collection of software solutions services that optimize commercial mortgage origination frameworks at a financial institution in regard to the workflow. Additionally, many people also regard it as a fantastic tool that promotes growth and a better borrower experience. One might argue that it is simply a buzzword.

However, as the loaning landscape becomes more dynamic and the mortgage processes become more infuriating and time-consuming, it's critical to understand what exactly a loan origination system really is. It's also essential to comprehend how a LOS can assist your respective bank and credit union.

A loan origination system (LOS) can be recognized as a system that streamlines and handles the entire loan procedure, from assessment of the application to insurance, authorization, supporting documents, pricing, financing, and management. While all these stages may differ from one organization to the next, every other bank and credit union follows a similar procedure to authorize mortgages and preserve a loaning relationship.

4. What does origination mean?

The procedure through which a respective borrower applies for a personal mortgage and a lender further processes this application is known as loan origination. In a nutshell, Origination typically refers to all the primary steps that occur between the receipt of a mortgage application and the release or decline of funds. Mortgage loans have a distinct loan origination method.

Mortgage servicing includes everything starting from the finances being disbursed to the loan being approved. Loan origination is a subset of opening a new account for financial institutions. Mortgage lenders and other mortgage service companies are good examples of mortgage origination.

You can find numerous types of loans. The steps involved in mortgage origination differ depending on the type of loan, different kinds of mortgage risks, controller, lender policy, and so on.

5. What is the difference between origination and underwriting

The very method of acquiring a loan is known as loan origination. It begins with the first stage- pre-qualification and concludes with the last step- loan approval or rejection. Determining the eligibility, figuring out the mortgage amount you wish to borrow, calculating the rate of interest on the mortgage, evaluating credit risk, making informed

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On the other hand, underwriting can be recognized as the process through which your mortgage company authenticates your revenue, assets, loans, and property information before finalizing your mortgage application.

Although underwriting occurs behind the scenes, you will be involved. Your lender may demand extra documents as well as answers, including the source of your liquid funds, or you may be required to provide evidence of additional assets.

The underwriter assists the financial institution in determining whether or not you would receive loan approval and further works with you to ensure that all required paperwork is submitted. Finally, the underwriter will make certain that you do not close on a loan that you cannot afford. Unless you do qualify, the mortgage underwriter has the authority to deny your loan.

6. What is the loan cycle?

A loan cycle refers to the time span between when a borrower appears to apply for a mortgage and when it is paid back to the lender along with interest. The average loan cycle includes six stages. These are:

- **Pre-loan calculations:** The borrower can start the process of loan application only after a set of calculations is completed.

- **Research:** As electronic lending has expanded its market presence, borrowers have complete access to knowledgeable data about a wide range of financial product lines.

- **Application:** While this step appears to be straightforward, providing inaccurate information on crucial documents could prolong your loan request by extended periods of time.

- **Document verification:** Each financial firm has its own multi-layered verification system, and timeframes for the same can range from a week to about 15 days.

- **Loan Approval and Disbursement:** This process takes place after the verification of your documents.

- **Loan Repayment and Loan Closure:** Borrowers must make sure to pay their Instalments on time or avoid risking having their credit score negatively impacted.

7. How do banks process loan applications?

Personal loans are easier to obtain than home loans or other property loans. The primary steps that are involved in processing loan applications include-

- When your chosen bank receives a mortgage application, it will gather the data you offer and compare it with the data they have on file, including your bank balance, financial assets, salary, EMIs debited from your bank statement, and so on.

- Your identification and address information will be cross-checked and confirmed by the bank using your KYC documents. Financial institutions may visit you to verify your address and inquire about your office's employment period.

- Further, A copy of your salary paystubs or income tax return will assist the bank in determining your repayment ability. This will thus help you determine how much loan money the bank is ready to give you.

- The financial institution will also consider your age, remaining employment period, future salary growth, and so on to determine how much mortgage you should receive.

8. What is the difference between LOS and POS?

For lenders, a LOS is recognized as the system of record. LOS systems existed way before POS systems came into the picture, with the main objective of doing all of the legwork in the back end.

These systems deal with elements such as.

- The ability of financial institutions to process a loan.

- Assisting lenders in keeping up with changing regulations from the customer to the shareholder.

- Designed to last the entire loan life cycle.

POS is nothing but a Digital loan Application for borrowers: A Loan Point-of-Sale is a modern way to ensure that lenders take a complete application, from beginning to end, digitally.

It adheres to the Loan Officer. Rather than handling manual administrative duties, a Mortgage POS allows lenders to intensely on the borrower.

It is also for the Processor: Mortgage POS enables processors to organize and process files more quickly, allowing them to handle loans more quickly and efficiently. It also aids in the reduction of human error. POS enables the Realtor to interact with both the mortgage lender as well as the borrower.

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