Software as a Service (SaaS) vs. License Purchase

Choosing the most appropriate delivery method for your Loan Servicing Software

By Greg Hindson

Buy the license or rent the software?

A quandary? Yes, but the good news is that loan servicing organizations like yours now have a meaningful choice.

You can choose between running and managing loan servicing software from your own IT infrastructure (known as the license or on-premise model) or you can opt to outsource the technical elements and simply focus on using the software (known as the Software as a Service, or SaaS model) in order to do what you do best. In the SaaS model, you simply pay for what you use, as you go.

Either way, the software functionality remains the same.

Understanding the Difference

A license purchase is a fairly straightforward way of acquiring software. You purchase a software license and load the program physically within your on-premise IT infrastructure. The application and the accompanying database are loaded onto corporate computers and servers, permitting clients (users) to log in and begin using the application. There may be additional hardware purchases involved, depending upon the technical specifications of individual applications.

The SaaS model represents an online application that leverages the technology assets and expertise of a third-party hosting company. (Besides the SaaS moniker, this online delivery and usage of an application is sometimes called “hosted,” “on-demand,” or “ASP.”)

In the SaaS world, a customer contracts – either on a monthly or annual subscription basis – to use an application hosted at a secure, off-site data center not owned by its own organization. The client organization uses the software through an Internet browser while leveraging the processing power and storage capacity of the offsite server, without the responsibility of managing the application or associated hardware. Also eliminated are the many security and data backup issues common with self-hosted applications and databases.

Web-based email services such as those offered by Google (Gmail) or Yahoo (Yahoo Mail) represent simple examples of SaaS services, whereby the applications and content used by clients reside on distant servers.

More complex examples of the SaaS model in the corporate world include salesforce.com, a provider of customer relationship management (CRM) and sales force automation, and ADP, the world’s largest automated payroll processor. The fast growth of these programs within many of the world’s best-known companies has sparked interest by companies of all sizes. According to a recent
Gartner report, 15 percent of large companies will have started projects to replace their financial, human capital management and procurement systems with new service-oriented architecture and SaaS-based solutions by 2010. The report also predicts that by 2012, more than a third of independent software vendors “will offer some of their applications optionally or exclusively as SaaS.”

Considerations in Making a Choice

Regardless of these trends, however, it's important to understand that business software decisions, including those related to loan servicing applications, are best made on a case-by-case basis, taking into consideration each unique business environment.

License or SaaS? Which model is right for you? The following are the key issues you ought to consider as you go through your decision-making process.

- **Financial environment.** Larger-size loan servicing organizations often select a license purchase because they can justify upfront capital expenditures.

  However, the up-front costs of acquiring a software license and associated hardware platforms can be significant and represent a capital outlay that smaller organizations may prefer to avoid. IT departments can avoid the costs of adding servers, powering and cooling those servers or even setting aside space for them in a data center, with the SaaS option. Because the software is supported by a managed services provider, IT managers don't need dedicated staffers to deal with help desk-related issues. In addition, an in-house server may have multiple applications or databases running at the same time, slowing down all processes.

  From a practical standpoint, SaaS permits affordable usage of a sophisticated system by very small loan servicing firms without the worry of internal IT expenses for supporting and upgrading hardware and software, or the space cost for housing hardware and IT resources.

  In this regard, SaaS has essentially leveled the playing field for lenders who in the past could not afford a quality servicing software.

- **Speed of implementation / startup.** Oftentimes, the SaaS model offers a quicker deployment schedule than the license-based, on-premise environment. According to the Cutter Consortium, “the online on-demand delivery model associated with SaaS eliminates the long deployment cycles that have been common with traditional enterprise applications.”

  However, if your organization possesses adequate IT infrastructure and staff resources, a software package implemented on-site can be accomplished in relatively short order if other priorities don't take precedence.

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• **Technology infrastructure and ongoing support.** Consider the workload and size of your IT department and how a new loan servicing software could affect them. Will your servicing software fall within their top priorities, or do they have too many other applications to support and operate already? Without the internal support of IT for backups, maintenance, upgrades and additional hardware purchases, hosting your software on-site may prove challenging.

If you do have an IT staff, engage them early in this process. Take advantage of this internal expertise to examine a vendor’s technology architecture to ensure it meets organizational security standards.

Upon your evaluation of possible software providers, it’s important to understanding the level of ongoing support that comes standard with your purchase. In particular, you should ask:

– Does the operations team have a solid level of product knowledge?
– How does the software integrate into a range of IT environments?
– Is the data center technical team soundly familiar with the loan servicing industry?
– What level of data security and monitoring is provided?
– How long has the company been in business?
– How often are upgrades released?

Another critical infrastructure issue is security and business continuity. Hosting your applications off-site can be advantageous from a business continuity perspective, especially for those smaller organizations possessing signiﬁcantly limited data security and backup resources.

Furthermore, businesses located in areas of the country where natural disasters may be a concern – such as coastal states with hurricane seasons or plains states prone to tornadoes or flooding – are likely to gravitate to a solution where the security of their data will be protected from these elements.

Access flexibility is another important element of the discussion. The simplicity offered by the SaaS model is unmatched by the license option. SaaS users have the ability to log into their system anytime and anywhere. All they need is an Internet connection.

• **Vendor Control and Service Level Agreements.** Under the right conditions, business managers selecting the SaaS delivery option enjoy greater control over the client-vendor relationship because they simply pay monthly fees and typically are free to switch vendors at any time if their current provider doesn’t live up to contractual obligations.
A key, however, is to ensure that Service Level Agreements (SLAs) are established and include guaranteed performance levels and vendor response times. Uptime expectations should be clearly understood. Contracts should also stipulate penalties such as credits against monthly fees if service levels aren't met.

- **Control.** Some managers are naturally averse to placing their applications and hardware in a location where they cannot easily see or touch them. They view offsite hosting as a loss of control. Thus, the SaaS model can represent a cultural adjustment.

The opposing view is the “play to your strengths” argument. A new wave of business managers are choosing to align internal resources with what they do best instead of the things that don't represent core competencies, such as maintaining and managing software applications.

If the main objective of implementing a new software package is to maximize or improve your loan portfolio performance (without worrying about the IT headaches involved in making that possible), the SaaS model provides that comfort. By taking the SaaS pathway, you will eliminate the need for managing an IT department, and can better concentrate on tasks to improve your bottom line, such as originating more loans.

In summary, choosing between the SaaS and license software models requires weighing the advantages of both and determining how they fit into your current set of finite corporate resources.

The other step in this journey, of course, is selecting the type of software and vendor you want as a true partner in your loan servicing business. (You can learn more about the steps you can take to make this decision by reading our white paper, “Best Practices in Selecting Loan Servicing Software.”

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