 By Scott Cooley

Is Now the Best Time for **Technology Investments?**

I tend to be a contrarian investor with all of my investments. In 2005, at the peak of the housing market, I predicted we'd see the worst housing downturn since the Great Depression and that it would lead to a national, if not global, recession. My investments included shorting (betting the stocks would drop) stocks of public builders, mortgage insurance (MI) companies, consumer finance firms, mortgage firms and, most of all, the subprime lenders.

From what I've read, the great investor Warren Buffett also believes in buying when everyone else thinks of selling a given asset. I believe we are now entering a time that will be the best possible period for investing in mortgage technology. The foremost reason is because it's a contrarian play. But there are many other reasons as well.

Yes, most every lender seems to be dumping software projects and shedding licenses as employees are being laid off. Many lenders have gone out of business, leaving some technology vendors without a customer base. Witness Austin, Texas–based ARC Systems and its inability to even sell its well-known technology platform. Just a year ago, this firm was easily worth more than $10 million—and now it's gone. Millions have been poured into ARC System's automated underwriting engine, and all that investment certainly has value to some lender at some future date.

There are many other systems out there looking for a new owner, too. Many of these would be a bargain purchase to the right firm. Lenders can purchase some of the technology assets for pennies on the dollar. Of course, there are risks—but times like these don't come around very often.

In fact, I've talked with several venture-capital (VC) firms that have an interest in acquiring mortgage technology assets on the cheap. They know that we are getting into the best possible time to either buy technology assets or buy entire mortgage technology firms. They are also looking around at ways to bring multiple firms together to form a larger company. VC firms are very smart about knowing the right time to buy, and they are clearly stepping in.

So whether you are looking to buy a technology solution to build a business upon or you are looking to buy an entire mortgage technology firm, there are many other reasons why now is a great time to do so.

I've found that after 25 years the biggest risk to any technology implementation is not having the right people. During the boom times, it's almost impossible to find the right people with the needed experience. If you can find them, they are very expensive. During this downturn, there have been so many lenders that have closed their doors that there are legions of highly talented mortgage technologists available. For any given position, there are many well-qualified candidates ready and willing to work for reasonable wages. They won't be demanding high salaries, either, as most would just be happy to have gainful employment during times like these.

I also believe that the timing is perfect right now to start a technology project. Besides employee talent, we are operating in a reduced-volume environment where lenders have the time to work on projects. The resources are available to fine-tune systems and implement them. Excess employee time can be well invested in technology initiatives.

Another advantage for the lender looking to purchase technology from a vendor today is that the vendor will likely have the resources needed for implementation.

Further, when your new technology project is fully developed, there's a good chance that we'll be near the bottom of the market—and when you are at the bottom, there's nowhere to go but up. Seriously, the perfect scenario is to have a fully operational technology firm or solution ready for the inevitable upturn in our industry. As volumes increase, the needed efficiencies will be in place to better compete.

Another advantage for the lender looking to purchase technology from a vendor today is that the vendor will likely have the resources needed for implementation. During the busy times in our industry cycles, it can be very difficult to get the attention of vendors. They often have a lot of other customers all competing for the same resources. During times like these, you'll find they'll jump to make the sale and continue to jump after the sale. They are doing everything they can to keep their employees busy and to avoid layoffs of well-trained staff.

They will cater to their customers to help ensure the ongoing revenue that is desperately needed.

For buyers of mortgage technology firms, there are several more reasons why now is the best time for an acquisition. The obvious one is that the firms are often discounted because of market conditions. Another consideration is that the competition is far less formidable. Often, the smaller competitors go out of business, and there will be few new startups during this time—the common logic being, "Who would ever start a mortgage technology firm in times like these?"

I have always found that the downside of a cycle is the best time to pick up market share from the competitors. When I ran Contour Software for 20 years, I found that any sizable market share changes occurred during the worst of times.

Finally, the smallest competitors can often be acquired for almost nothing. They either go out of business or sell for the cash value of their hard assets. This makes it easy to roll up several similar companies and migrate the clients to one platform. This can create tremendous savings in terms of being able to spread research and development (R&D) costs over more users.

By far, the best thing to do after an acquisition is to funnel some money into the firm. Mortgage technology firms with money in the bank can make some very profitable investments that will pay off handsomely when the market turns around.

Many of the largest mortgage technology firms today got their start when the market was at its worst. Consider that Calyx Software started in 1991, Interlinq started in 1983 and GHR Systems Inc. in 1984, and it was 1982 when I started Contour Software. Interest rates for mortgage loans were running 18 percent then. Everyone called me crazy for starting a mortgage technology firm with those kinds of interest rates.

Perhaps I was crazy—but it was the best time to invest in technology.

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