I just returned from the MBA Annual Convention which is always the industries biggest event. Once again, this event proves to be a must attend conference. The most interesting event was that of Mortgage.com. The first two days of the event their booth was well staffed but come the third day, not a Mortgage.com employee was in sight. It was on that day that the company announced the vast majority of the staff would be laid off and their operations would be shut down. Consider the plight of all the employees who prepared for the show, setup countless meetings and flew from Florida to S.F. Half way through the show, they find they no longer have an employer. Never has there been such a stark example of how the dot com bust can effect our industry.

Just as important, we have to consider all the companies who've invested significant energy and resources in working with Mortgage.com. Few companies can afford to spin their wheels working with a company on a fast track to oblivion. Thus, when a company goes down, so too go the investments and efforts of dozens of other companies. For example, one company that worked closely with Mortgage.com was so angered that they setup a web site against the founder using the founders name for the web address. The web site was built to find others that might be taking legal action against the failing company. Is it any wonder why new startups have such a difficult time permeating the mortgage industry? This is an age-old industry that often frowns on new comers and for obviously good reasons.

Mortgage.com is just one of dozens of failures in the mortgage technology sector that hit our industry each year. In 1997, the MBA Annual exhibit floor had about 10 new companies with Windows based prequalification software companies – most were gone two years later. In 1994, we saw at least 8 new companies with loan origination systems that were based on Windows. All of these companies disappeared as the vendors that dominated the market with the DOS applications ended up dominating the market with Windows applications. Back in 1986 there were no less than 46 companies exhibiting at the MBA Annual that were selling loan origination software. Today, it's dominated by four vendors in the broker market and about 6 vendors in the mortgage banking market. Of those 46 companies, only about 5 still exist today. For each of these failures there were dozens to hundreds of customers that purchased these products and lost their entire investment. Lost investments were anywhere from hundreds of dollars per mortgage company to hundreds of thousands of dollars.

With each new computer platform we've seen a rush of startups come in to try and unseat the existing vendors for mortgage software. This was very clear when Windows was introduced. Today, we have a new platform, which is the Internet. Once again, there are a bunch of new dot com companies rushing in to provide an Internet based loan origination system. Based upon the last twenty years, it's fairly easy to predict that these companies will eventually go out of business as the existing vendors will migrate to the new platform and take their existing customer base with them. Still, I'm already hearing mortgage companies sign up with these startups and can't help but wonder if all their investments and energies will be wasted.

Does this mean we shouldn't trust any dot com startups? This also wouldn't be fair for the future of our imdustry. It would most likely take a dot com company to completely reinvent a segment of our industry. Innovators like IMX, Ultraprise and Ellie Mae could potentially reshape how we do business. To not give them the opportunity would be an injustice to the future of the industry.

So just how can we decide when a mortgage technology startup should be trusted and perhaps even adopted? Start with common sense and look at the new technology. Does it really help reinvent something we do today or is it simply a company claiming to be the next best application for which solutions already exist? Those merely trying to improve on existing solutions will find it almost impossible to steal away enough market share from the entrenched vendors to allow their business to make it long term. In addition, the existing vendors will quickly adopt any new platform or technology that's truly worthwhile. For those companies that actually have a new solution to the way we do business, investigate their claims well and talk to any referrals. Are others using it and will they continue to use it? Check their backing and funding. Many are operating on money from a few friends and when their money dries up, you're stuck with worthless technology. If they pass these tests, then give it a try but attempt to do so at minimal cost. Ideally, the company will allow you to try the service without a large investment. Most well funded startups will allow this. If you find the service really works well then tell the world. The best technology solutions often grow by word of mouth. Just like the Realtor looking for a great mortgage originator, word of mouth advertising always produces the best results.