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loanDepot, Inc. (LDI)

Q2 2021 Earnings Call

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MANAGEMENT DISCUSSION SECTION

Operator: Good morning and welcome everyone to loanDepot Second Quarter Conference Call. All lines have been placed on mute to prevent any background noise. [Operator Instructions] I would now like to turn the call over to Gerhard Erdelji, Senior Vice President, Investor Relations. Please go ahead.

Gerhard Erdelji

Senior Vice President, Investor Relations Officer, loanDepot, Inc.

Good morning everyone and thank you for joining our call. I'm Gerhard Erdelji, Investor Relations Officer here at loanDepot. Today we will discuss loanDepot's second quarter results. We are excited to share our financial results and other highlights of the quarter with you. Before we begin, I would like to remind everyone that this conference call may include forward-looking statements regarding the company's operating and financial performance in future periods. These statements are based on the company's current expectations and the available information.

Actual results for future periods may differ materially from these forward-looking statements, future risks or other factors that are described in the Risk Factors section of our filings with the SEC. A webcast and the transcript of this call will be posted on the company's Investor Relations website at investor.loandepot.com under the Events and Presentations' tab.

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On today's call, we have loanDepot's Founder, Chairman and CEO Anthony Hsieh, and our Chief Financial Officer, Patrick Flanagan to provide an overview of our quarter as well as our financial and operational results outlook and to answer your question. We are also joined by our Chief Capital Markets Officer, Jeff DerGurahian; our Chief Analytics Officer, John Lee; and our Chief Revenue Officer, Jeff Walsh, to help address any questions you might have after our prepared remarks.

And with that, I'll turn things over to Anthony to get us started. Anthony?

Anthony Hsieh

Founder, Chairman & Chief Executive Officer, loanDepot, Inc.

Thank you, Gerhard and good morning, everyone. I'm pleased to be with all of you on the call today. Thank you for joining us. I look forward to sharing my comments and answering your questions. What was in 2020, arguably the strongest mortgage market in history, fueled by the unique circumstances of the pandemic ended in the second quarter of 2021. While others see headwinds, we see opportunity because loanDepot was purpose-built for this moment in time. This is precisely when a diversified at-scale marketing powerhouse like loanDepot will shine.

Our model is designed to capitalize on this changing landscape and we are continuing to increase purchase volume, aggressively recruit loan officers, launch new joint ventures and new product offerings like the loanDepot Grand Slam, all while focusing on operational efficiencies and investing in our technology backbone. Based on data from the Mortgage Bankers Association, our model is succeeding as evidenced by the growth of our market share over the past year. It took us 10 years to grow to 2.3% market share and just one additional year to get to 3.3%, leaving 96.7% of the market for us to go after in the future.

In the same time period, we also achieved year-over-year and quarter-over-quarter increases in customer impressions and contacts as a result of our powerful data science and machine learning models that dramatically widened our top-of-funnel marketing reach. It's easy to do business and look attractive when interest rates are low, volume is high and margins are flat. However, when markets shift, weaknesses are exposed. When interest rates rise, originations shrink and margins vanish. And that's precisely when we gain market share with our scale, brand and diversified origination model. Companies that lack brand, technology, diversified reach and a suite of service offerings will not be successful in delivering customer or shareholder value.

Looking across the landscape of mortgage providers, we see lower gain on sale margins resulting from overcapacity and increased competitive pressure particularly in the wholesale Partner Channel.

We have noted previously that the industry will consolidate towards proven leaders as market shifts. We will withstand that pressure. And in fact, we can actually apply some pressure to the competitive landscape. Our purposely diversified origination model guards against margin compression in any particular channel, affording us a competitive advantage to profitably take market share. Because of our marketing power, its massive scale and our ability to fully leverage it, we demonstrate a nimbleness and versatility that relatively few can.

Our marketing machine is one of our greatest assets and able to successfully feed our direct lending loan officers as well as our end market and partner teams. Our ability to nimbly and successfully low balance in this way drove an 87% year-over-year and 31% quarter-over-quarter increase in our purchase mortgage transaction volumes. Complementing our customer acquisition and production scale is our brand, recognition of which increased 9% quarter-over-quarter. We have deliberately invested in our brand, helping it become the second-most recognized brand in the industry today.

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Thanks to our popular Home Means Everything campaign, our organic website traffic has increased 200% over the past quarter. In addition to our national broadcast campaigns, our partnership with Major League Baseball served over 406 million impressions in the second quarter. We just passed the All-Star break, and with the League Championship Series approaching later this year, we expect to substantially grow our brand recognition without significant additional cost. Disruption in the market today is all about better serving the homebuyer or seller with easy-to-navigate bundle of real estate services that simplify a complex and stressful transaction.

While others have approached this from the real estate side, we use the power and scale of our industry-leading top-of-the-funnel digital marketing power with our strategic and purposeful sister companies and other loanDepot assets to create a bundle service for our customers that most of our competitors simply cannot touch. To that end, we recently announced the launch of the loanDepot Grand Slam powered by mello Home. As most of you know, a constellation of important companies sit underneath the loanDepot umbrella.

We provide real estate services through mello Home and mortgage services through loanDepot. In addition, we also provide title, escrow, and closing services through our ACT and CUSA companies, and insurance services through melloInsurance. The strategy has been executed for many years with strategic acquisitions and organic build.

The loanDepot Grand Slam bundles each of these items, all of which are necessary for closing into one easy package to delight and simplify customer's journey of home ownership and to increase revenue for us in each transaction. This will ultimately provide greater return on end leverage of our marketing spend, constant interaction with our competitors with our customers throughout their entire home ownership experience via multiple touch points complete the five-wheel effect and increases our top-of-funnel velocity.

Today, loanDepot's more than a mortgage company. We're a digital commerce company committed to serving our customers throughout the homeownership journey. We are uniquely positioned to provide exceptional value and a reason to return to us long after the initial home financing transaction is complete. The loanDepot Grand Slam represents a significant step towards our vision to become the most trusted homeowner fulfillment company in the world.

There is an energy and enthusiasm at loanDepot. We're growing and remaining very true to our public statements about our intentions, abilities, and the ways in which we can do and will deliver for our customers. While we are proud of our progress, much of our energy is derived from the fact that we are just getting started. We're always looking for new opportunities to grow and further accelerate our long-term strategy. I am excited about what the future holds for our customers, our team and ultimately, our shareholders.

With that, I'll turn things over to our CFO, Pat Flanagan, who will take you through our financial results in more detail. Pat?

Patrick J. Flanagan

Chief Financial Officer, loanDepot, Inc.

Thanks, Anthony, and good morning, everyone. We're coming up on a six-month mark since our IPO in February and I'm both excited and proud of what we've achieved during this short period of time as a public company. Thanks to the continuous hard work and commitment of Team loanDepot. This quarter, we reported total revenue of $780 million, diluted earnings per share of $0.07 and adjusted diluted earnings per share of $0.18 reflecting lower loan origination volumes and gain on sale margins, which is reflective of the overall industry reality.

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In the second quarter, loan origination volume was $34.5 billion, a decrease of 17% from the first quarter of 2021. Our Retail and Partner strategies delivered $10.4 billion of purchase loan originations and $24.1 billion of refinance loan originations during that period. Our Retail Channel accounted for 81% of our loan originations and our Partner Channel accounted for 19% of our loan originations. The consistent contributions across both channels signify the strong customer and mortgage broker relationships we've built over time, as well as the effectiveness of our innovative mello technology platform to underwrite process and fund mortgage loans originated both in-house and with our partners while delivering exceptional customer experience.

Our rate lock volume of $42.1 billion for the second quarter resulted in quarterly total revenue of $780 million, which represented a decrease of 41% from the first quarter. The decrease in revenue is a result of the broader trend in the mortgage industry leading to lower industry loan origination volumes and gain on sale margins.

Our total expenses for the second quarter of 2021 decreased by 14% from the first quarter of 2021 primarily due to lower variable expenses on loan origination volume and IPO related expenses incurred in the first quarter. We also implemented cost cutting initiatives, the results of which we expect to be primarily realized in the second half of 2021. Our technology driven processes allow us to adjust our expenses to changing market conditions or as demonstrated by our increase in purchase loan originations during the quarter, adjusted – our pipeline composition to load balance our operational capabilities.

Our growing servicing portfolio perfectly complements our origination strategy ensures that we can serve our customers through the entire mortgage journey. The unpaid principal balance of our servicing portfolio grew to a record level of $138.8 billion as of June 30, 2021 compared to $129.7 billion in the first quarter. This gross – this growth was inclusive of a sale of $14.4 billion of unpaid principal balance completed during the quarter.

The change in fair value of our mortgage servicing rights was not fully offset by our hedging instruments as longer term interest rates fell and experienced a higher level of volatility. Also the low interest rate environment is continuing to result in high levels of amortization expense from higher prepayment rates. Fortunately, we were able to retain many of these customers as our organic refinance consumer direct recapture rate increased to 75% as compared to 72% for the first quarter of 2021, highlighting the strength of our customer relationships.

We are very proud of our progress because this growth was against the backdrop of growing our servicing portfolio in-house and relying relatively less on third-party subservicing partners. We reported adjusted EBITDA of $109.3 million and net income of $26.3 million as compared to $458.1 million and $427.9 million for the first quarter of 2021. The quarter-over-quarter decrease was primarily driven by the decline in gain on sale margins and rate lock volume.

Importantly, adjusted EBITDA exhibited a smaller decline than net income reflecting the strength of our core business. As we look ahead to the third quarter and building on our growth strategies that Anthony laid out and assuming no material changes in interest rates and competitive landscape, the company expects rate lock volume of between $44 billion and $54 billion, reflecting the recent decrease in interest rates, our strong July production volumes, and the addition of loan officers and joint venture partners.

We also expect loan origination volume between $30 billion and $36 billion. And we expect third quarter gain on sale margins of between 245 and 295 basis points origination volume.

Now, let me turn it back over to Anthony for some closing comments.

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Anthony Hsieh

Founder, Chairman & Chief Executive Officer, loanDepot, Inc.

Thank you, Pat. Before we turn to questions, I just want to take a moment and say that I'm proud of the team and our results this quarter. As proud as I am of all loanDepot has accomplished and as confident as I am about what loanDepot and our affiliate companies will deliver, we will never be a company that is satisfied or one that rest on our laurels. We remain focused on our strategy of offering even more adjacent non-mortgage real estate-related services that will serve our customers through every stage of the homeownership journey.

Providing our customers with robust choices in an expansive set of products and services through our proprietary technology, powerful data and analytical capabilities, and exceptional service is how we will continue to win, loanDepot is uniquely suited to reimagine the home buying and selling experience thanks to its top-of-the-funnel marketing and customer acquisition power, diversified loan origination strategy, proprietary technology, and ancillary services.

Our assets and capabilities are some of the most sophisticated and diverse in the industry today. We continue to use our collective wisdom, relentless drive, and unending curiosity about what is possible to delight customers and employees, diversify our offerings and subsequently our revenue stream, and deliver shareholder value.

During our initial public offering earlier this year, we told you we would continue to focus on our long term vision by growing our brand, investing in our technology, and aggressively recruiting loan officers as we continue to grow our market share. Our result this quarter demonstrate our commitment to those principles and you'll see us continuing to deliver on those promises in the quarter in years to come.

Now with that, we are ready to turn it back to the operator for Q&A. Operator?

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QUESTION AND ANSWER SECTION

Operator: [Operator Instructions] Your first question comes from the line of Doug Harter from Credit Suisse. Your line is open.

Douglas Harter
Analyst, Credit Suisse Securities (USA) LLC

Q

Thanks. First off, thanks for the guidance. I was just hoping you could talk a little bit more about how gain on sale margins have progressed kind of throughout the second quarter into July?

Patrick J. Flanagan
Chief Financial Officer, loanDepot, Inc.

A

Sure. Thanks, Doug. This is Pat. So as we stated in the range of guidance that we provided between 245 basis points and 295 basis points, we have seen a recovery in June and July for – caused by a combination of factors including expanding our product offerings. And we're confident in that range that we quoted and we've seen significant recovery in July. And I think that it's also representative of our multiple channels both partnership and retail allowing us the flexibility to offer different products at higher margins.

Douglas Harter
Analyst, Credit Suisse Securities (USA) LLC

Q

Great. And then can you just talk about how you're seeing consumer response to these lower rates and kind of thoughts as to whether we're starting to see refi burnout at this level of rates kind of putting that in the context of where we are today?

Anthony Hsieh
Founder, Chairman & Chief Executive Officer, loanDepot, Inc.

A

Hi, Doug. It's Anthony. So I think there was a couple of questions there.

First, with interest rates reducing a bit over the last month or so, we have seen an increase in refinance demand. But, more importantly, the company has shifted some of our marketing towards non rate-and-term refinance. So those consumers that are less interest-rate-sensitive, such as cash-out for debt consolidation, home improvements, and of course, purchase lending. So, there is a substantial amount of interest level from our customers. We are talking to more customers than ever in our 11-year or 11.5 year history.

We are seeing more lead being developed by our brand and our marketing team than our 11.5 year history. So there's plenty at the top-of-the-funnel. So this is a expense as well as a margin environment as the industry continues to sort out capacity and how to neutralize capacity and ultimately margins will return. The margins that you're seeing today is very temporary. It always happens during a time of change. And – but we're very bullish on the top-of-the-funnel, the customer demands are still very, very active.

Douglas Harter
Analyst, Credit Suisse Securities (USA) LLC

Q

All right. Thank you, Anthony.

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Anthony Hsieh
Founder, Chairman & Chief Executive Officer, loanDepot, Inc.

A

Of course.

Operator: Your next question comes from the line of Ryan Carr from Jefferies. Your line is open.

Ryan L. Carr
Analyst, Jefferies LLC

Q

Hi. Good morning, guys. Thanks for taking my question. First one is on the guidance, you're guiding up on gain on sale for 3Q. I'm curious like can you touch on the competitive trends you're seeing in the Retail Channel that kind of causes 2Q dynamics? And then is the 3Q guide mix shift, how much of that is a function of an improvement in margins versus mix shift across channels? Thank you.

Jeff Walsh
Chief Revenue Officer & Senior Executive Vice President, loanDepot, Inc.

A

Yeah, what we're seeing in the end – this is Jeff Walsh, what we're seeing in end market Retail Channel is the ability to kind of – to hold on to margins. And as we watch the kind of the compositions of our pipeline shift into purchase, we see a 31% increase in purchase volume Q-over-Q and 87% year-over-year because of the nature of that transaction, on the purchase side, the margins are higher. And we're positioned I think well to take advantage of both purchase and refi market. So, whatever the market gives us that diversification allows us to take advantage of either, but we're definitely seeing that dynamic of the margin on the retail side.

Anthony Hsieh
Founder, Chairman & Chief Executive Officer, loanDepot, Inc.

A

Hey, Ryan, it's Anthony. Let me just add on to Jeff's comments and provide some context. So, this is the start of a trend change and the industry is trying to sort out where margin should rest on a go-forward basis. And what I'm seeing today is the first of its kind and that is through different models and distribution margins or decoupled. You have one channel that is different from others, I've not seen that before. And it'd be interesting to see how to adjust one channel versus another. But it's not sustainable for margins to be decoupled when the industry is selling the same exact product. Now keep in mind that 90-plus percent of the fundings that we're still seeing through the mortgage industry today is fueled by FHA, VA, Fannie and Freddie.

So it is the same product with different margin profiles that has been decoupled. All of this is new post Financial Crisis and the fact that countrywide vacated 22% market share when it fell. So the land grab here and the race for substantial category leading lenders to mass market share. We're seeing some behavior that's interesting, but the decoupled margin is not sustainable. So we're watching that pretty carefully.

Ryan L. Carr
Analyst, Jefferies LLC

Q

Got it. Thank you and then a quick follow-up specifically on the expense side. Your expense cuts − where are you going to see the bulk of those come into play? I know you noted for the back half of this year, but what about 2022? And within that, where do you kind of see yourself getting from a pre-tax income as a percentage of volume basis for next year in a more normalized environment?

Patrick J. Flanagan
Chief Financial Officer, loanDepot, Inc.

A

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Yeah, Ryan. So where you would expect to see the expense savings in the back half of this year is going to be primarily in personnel expense and it's largely driven by changes in variable comp components. And as we mentioned during the IPO process, as we continue to roll out additional technologies, particularly in our fulfillment groups, it allows us to reduce the variable cost. And primarily, the fulfillment side of the house, reductions in overtime spending as we work through the pipeline backlog and we're more appropriately staffed with our – with the mix between salespeople and processing people.

And I think you'll see the continued rollout of technology into the next year. And we continue to focus on driving efficiencies out of the business. But we haven't provided any specific guidance towards that in 2022, yet but we're very focused on costs and efficiencies and reducing the volatility around those expenses when we have changes in the interest rate cycles.

Ryan L. Carr
Analyst, Jefferies LLC

Q

Thanks very much.

Operator: Your next question comes from the line of Manu Srivareerat from UBS. Your line is open.

Manu Srivareerat
Analyst, UBS Securities LLC

Q

Good morning, guys. I'm on for Brock Vandervliet this morning. How's everyone?

Anthony Hsieh
Founder, Chairman & Chief Executive Officer, loanDepot, Inc.

A

We're good, Manu. How are you?

Manu Srivareerat
Analyst, UBS Securities LLC

Q

Not bad, not bad. I just had a quick question on market share. Acknowledging, the pressure on volumes that we saw, looks like your market share in purchase and [ph] refi, some of it over (00:25:24) the last quarter. Any thoughts on whether it's the banks who are gaining share? Or whether [ph] that's a function of other factors (00:25:32) in the industry?

Anthony Hsieh
Founder, Chairman & Chief Executive Officer, loanDepot, Inc.

A

Manu, its Anthony. So we've grown our volume compared to last year, six months to this year, year-to-date six months. We've grown our volume at loanDepot by a 110%. We've grown on the average of 46% for the first 10 years of our history and growing our market share substantially in the last 6 to 12 months. A lot of that, is the fact that, we continue to be very disciplined on a diversified origination channel arguably the most diversified in contemporary times. We have end market loan officers, direct lending loan officers, joint venture partners and mortgage broker partners. And in addition to that, we've been very disciplined on, continually and consistently building our brand and our brand recognition that ultimately helps us drive down customer acquisition cost.

So the banks are conceding market share to nonbanks. And I think the nonbank community you're going to see consolidation continue to happen. The massive capacity buildup of nonbank lenders started in 2009. But I believe in the last nine months, it has shifted into a market that's going to consolidate. And we certainly are confident that

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we're going to be a beneficiary of this market that is consolidating while we continue to look for organic builds in all of our channels and as well as continue to be very aggressive on the lookout for any acquisition opportunities.

Manu Srivareerat
Analyst, UBS Securities LLC

Q

Okay. That's – that sounds good. Thank you for that color. And Anthony, [ph] many people comp your (00:27:27) comment last quarter, which was that no one would be willing to sell you a $1 bill for $0.90. And so I guess my question is that, any color on how long this excess capacity within the industry can persist? Is this – or are we talking quarters here or are we talking a year down the road?

Anthony Hsieh
Founder, Chairman & Chief Executive Officer, loanDepot, Inc.

A

It depends on where the 10 years will rest, so we certainly got some of that back. And as a result of it, mortgage volume increased because of lower volumes. But we've had some challenges in the purchase market because of a lack of inventory. So, we like the fact that there is pressure. So, selling $1 bills for $0.90 is a good thing for companies that have the proper strategy. We don't like giving away earnings. Certainly, that is something that no one likes; however, the value that we create in amassing market share is substantial.

So as we provide guidance, which by the way I'm against it, but my team very much wants to provide guidance to all of you. Margin is a reflection of how competitive we want to be. And I know my competitors think exactly the same way. And that is, it is a tool that we can use to temporarily put additional pressure on some of the lenders that cannot withstand that sort of pressure. And ultimately, the total addressable market is massive, the barrier to entry is significant and we are on our way to amass more market share over a long-term strategy. So, this is very, very temporary. This is a nine-inning game and we are in the bottom of the first inning and there's a long, long ways to go.

Manu Srivareerat
Analyst, UBS Securities LLC

Q

Got you. Appreciate the color. I do – I will say that I appreciate the guidance as well. Thanks for the time this morning, guys.

Anthony Hsieh
Founder, Chairman & Chief Executive Officer, loanDepot, Inc.

A

You're welcome.

Operator: Your next question comes from the line of Kevin Barker from Piper Sandler. Your line is open.

Kevin J. Barker
Analyst, Piper Sandler & Co.

Q

Good morning. Thanks for taking my questions. In regards to the gain on sales guidance, I just wanted to clarify that is on pull-through weighted gain on sale margin, right, not the stated to 228 gain on sale margin? Could you clarify that?

Patrick J. Flanagan
Chief Financial Officer, loanDepot, Inc.

A

Yeah. Kevin, no, that is on funded loan origination, not pull through [ph] weighted lock (00:30:09).

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Kevin J. Barker
Analyst, Piper Sandler & Co.

Q

So you have it going from 228 up to 245 to 295, right?

Patrick J. Flanagan
Chief Financial Officer, loanDepot, Inc.

A

That's correct.

Kevin J. Barker
Analyst, Piper Sandler & Co.

Q

Okay. And then the retail gain on sale margins went down 75 basis points quarter-over-quarter on funded volume, which seemed like a heavier drop than we've seen from other retail originators or ones that are focused mostly on the Retail Channel. Was there anything in particular that occurred this quarter that may have caused that additional weight? Was there something with hedging or pull-through that may have impacted it?

Patrick J. Flanagan
Chief Financial Officer, loanDepot, Inc.

A

No. I think more of what that was reflective is that the difference between funded loan volume that was carried over from the prior quarters [ph] and to watching the (00:30:50) current quarter. So, in the press release, when we show the pull-through weighted gain on sale margin for – at 264, I'm sure that we give the channel breakout. But there was less – there was less variability when you look at it on locks that occurred during the quarter. So I think it's – that was largely the timing differences that show it to be artificially low.

[indiscernible] (00:31:14)

Kevin J. Barker
Analyst, Piper Sandler & Co.

Q

Okay. If you were the right-size the gain on sale margin guidance on a pull-through weighted basis, what would that look like relative to the 264?

Patrick J. Flanagan
Chief Financial Officer, loanDepot, Inc.

A

Well, we'll circle back and get back to that. I don't have it that handy. But I can say that the trend that we're seeing now as we've overcome the majority of the pipeline backlog. So the level of [indiscernible] (00:31:48) should be representative of the – should be reflective of what the funded volume result in. And so, you're going to see the difference between pull through [ph] weighted lock gain on sale (00:32:01) and funded gain on sale become tighter.

Kevin J. Barker
Analyst, Piper Sandler & Co.

Q

Okay. And then, on the cost-cutting initiatives. Is there any way you could size up whether it's on an absolute basis or as a percentage of your total origination volume that we should expect with total operating expenses?

Patrick J. Flanagan
Chief Financial Officer, loanDepot, Inc.

A

Well, we're continuing to grow and add head count and add loan officers.

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So I would expect the overall dollars of expenses in the quarter to increase, but the costs to acquire and the [ph] cost to manufacture alone (00:32:37) will be representative of the operating leverage, we are creating through technology and change in workflow.

Kevin J. Barker
Analyst, Piper Sandler & Co.

Q

Okay. Thanks for taking my questions.

Operator: Your next question comes from the line of Trevor Cranston from JMP Securities. Your line is open.

Trevor Cranston
Analyst, JMP Securities LLC

Q

All right. Thanks. Good morning.

Anthony Hsieh
Founder, Chairman & Chief Executive Officer, loanDepot, Inc.

A

Good morning.

Trevor Cranston
Analyst, JMP Securities LLC

Q

You guys mentioned focusing more going forward on the non-REIT term refinancing opportunities and more so on the cash outside. I was wondering if you could maybe provide some color around kind of how much of the refi volume in 2Q was cash out? What you've seen in terms of the trends and success in growing the cash-out business and how much of a growth opportunity you think there is looking forward? Thanks.

Anthony Hsieh
Founder, Chairman & Chief Executive Officer, loanDepot, Inc.

A

We're looking that up right now, Trevor. I'm not sure, if we have that quite handy, but if not...

Trevor Cranston
Analyst, JMP Securities LLC

Q

Okay.

Anthony Hsieh
Founder, Chairman & Chief Executive Officer, loanDepot, Inc.

A

...we can certainly get back to you. Yeah, we don't have all the details for you, Trevor. But 56% of volume this quarter was cash-out and purchase. So we can certainly get you some of those details offline.

Patrick J. Flanagan
Chief Financial Officer, loanDepot, Inc.

A

And I think, we couple those cash out and purchase together as they're less interest rate-sensitive portions of the business.

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Trevor Cranston
Analyst, JMP Securities LLC

Q

Got it. Okay.

Patrick J. Flanagan
Chief Financial Officer, loanDepot, Inc.

A

Does that make sense?

Trevor Cranston
Analyst, JMP Securities LLC

Q

Yeah. That makes sense. Okay. Appreciate the comments. Thank you.

Operator: Your next question comes from the line of Stephen Sheldon from William Blair. Your line is open.

Stephen Sheldon
Analyst, William Blair & Co. LLC

Q

Hi. Thanks for taking my questions. It sounds like you're continuing to see strong lead volumes, so I wanted to ask I guess how much of that is being driven through loanDepot's organic channels versus relying on third-party leads?

Are you getting enough lead volume organically where you're not needing to rely on third-party sources especially with some of the increasing brand awareness that you've noted? Or have you opened up more on the third-party side to kind of supplement the strong lead volume that you're generating organically?

John Lee
Chief Analytics Officer, loanDepot, Inc.

A

This is, John Lee. I'll cover that. That's a great question. So we're seeing very strong organic lead volume growth as our top-of-funnel reach is really impacting our ability to market digitally and through other direct response channels. And we've actually seen our organic lead performance outperform the first half of 2020. It's up 60% versus last year, same period. We're also seeing a very large increase in website visitors and it's up 200% quarter-over-quarter.

So organic marketing and really our brand marketing is having an impact at the top-of-the-funnel, most importantly though, it's having a big impact at the purchase – at the transaction level as well. So, our brand awareness is converting into more transactions for the company.

Anthony Hsieh
Founder, Chairman & Chief Executive Officer, loanDepot, Inc.

A

And I just want – it's Anthony, I just want to add on to that. And I think the question was how much of it is organic, how much is the third-party? And the way that we measure that is we look at the return on investment of our marketing dollars on all of those channels. And what happens with third-party lead performance is we see an increase in conversion because of brand recognition. So, as we develop brand and add to the top-of-the-funnel of greater marketing spend, we're seeing this flywheel effect where organically we're producing more leads because of brand awareness and we're seeing higher conversion through our lead partners because of brand awareness.

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And my last comment that I want to make is understanding that a digital company that is creating velocity and commerce at the top-of-the-funnel as we add adjacent products and services, we have an embedded cost of marketing. And our ability to increase revenue by adding adjacent products and services to the same core customer base, which is a homeowner or home buyer allows us to further increase our marketing leverage and further get paid back on the marketing spend. This is an important point of differentiation between loanDepot and many of our legacy mortgage competitors is that they do not have these assets at the top of the business model.

Stephen Sheldon
Analyst, William Blair & Co. LLC

Q

Got it. That's really helpful. As a follow-up, I just wanted to ask about the Grand Slam package, just some more detail there on the rollout, the time line for it to be available, is it going to be kind of gradual by geography or more of a national rollout? And if it becomes highly utilized by consumers, how should investors think about the potential financial implications?

Anthony Hsieh
Founder, Chairman & Chief Executive Officer, loanDepot, Inc.

A

So, this is the future. So we've been hard at work on adding adjacent product services and adding these assets for many, many years. So the product is available on October 1. We have 4,000 of the top performance real estate agents throughout the country that is participating through mello Home, which is our sister company. Our title is going to be available. Jeff, correct me, if I'm wrong, about 40 states...

Jeff Walsh
Chief Revenue Officer & Senior Executive Vice President, loanDepot, Inc.

A

Yeah.

Anthony Hsieh
Founder, Chairman & Chief Executive Officer, loanDepot, Inc.

A

...as we roll that out, as well as rolling out melloInsurance and providing a free home warranty for our home buyers. What's important here is that as we create the top-of-the-funnel lead flow and many customers are coming to us, they do not yet have a real estate professional. They are looking to buy a home. They're looking to get prequalified. And this gives us the substantial opportunity to utilize our brand and allow that customer to come through us for us to initiate a transfer or introduction to a mello Home participating real estate agent.

And as a result of it, the bundle service which has a guaranteed low price component to the consumer, they will never pay more by utilizing the loanDepot Grand Slam. And as they do, we actually will provide a $7,000 cash rebate back to the consumer. So not only do they save money and have that $7,000 to fuel some of their moving costs or some of the cost to improve the property, but they have a bundle service and a single branded approach that encompasses all of those adjacent products and services together.

Stephen Sheldon
Analyst, William Blair & Co. LLC

Q

Great. Thank you.

Operator: Your next question comes from the line of James Faucette from Morgan Stanley. Your line is open.

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James E. Faucette
Analyst, Morgan Stanley & Co. LLC

Q

Hey, good morning. My question maybe seems a little bit odd given what's going on in the market, et cetera. But if we take a step back the market is still quite good. You're obviously making adjustments to the realities of kind of the current economics.

But to your point, Anthony, there'll be some point of normalization where things will kind of settle back into probably something that's more sustainable economically and you're still making a fair amount of money and generating good cash. So how should we think about like where the uses of that cash? Is this something where it makes sense to look at returns to shareholders? Or is this the right time to be reinvesting? Or should you be kind of building a war chest of funds in the event that rationalization and normalization takes longer than expected? Just trying to think through kind of the different ways that you can take advantage of the current environment even for this – under some pressure, right now?

John Lee
Chief Analytics Officer, loanDepot, Inc.

A

Hi, James. Thanks. It's a good question. And we think about capital planning and proper levels of liquidity to run our business, obviously constantly, we have internal metrics that we measure against. And then on the other hand, we're always looking at the right way for us to return and create value for our shareholders, so we can invest in growing our origination franchise, which we will and continuously do. And then it becomes a question of capital allocation on how much we want to invest in growing the servicing assets as well.

As we've said before, we're actively looking in the M&A market, both in the mortgage side and the non-mortgage side. And we will use – and we've also stated our intention to be a constant dividend payer on a quarterly basis. But outside of that, if we look at – that we have excess capital, we can use any kind of combination of factors to return or tools to return value to the shareholders we – as evidenced by our special dividend earlier in the year. And so we'll continue to evaluate all that, but the focus is on growing shareholder value.

James E. Faucette
Analyst, Morgan Stanley & Co. LLC

Q

And I appreciate that. And, Anthony, obviously you've been enmeshed in this industry much longer and deeper than probably anybody on this call or at least most people on this call. Can you – is there – was there a time where you can draw some parallels from your experience and kind of what was the things that you did with your companies whether loanDepot or previous ones in reaction to that? And just looking for any parallels to maybe what you've seen in your experience versus now and how it's informing your decision making right now?

Anthony Hsieh
Founder, Chairman & Chief Executive Officer, loanDepot, Inc.

A

James, this is certainly not our first rodeo. Everything here is highly predictable. There's been very, very little surprise. My challenge as the Founder and CEO is to make absolutely certain that this team is poised to continue on our strategic journey and that we don't get sidetracked by some of this temporary flavors that we're seeing today, which is highly predictable. It will return. This is all temporary. The primary difference here versus the cycles that I've done in the past – I've gone through in the past is the digital disruption. Consumers are changing.

We have to continue to invest into technology and brands. Those are the differentiators. That will not change during this disruption. That is creating wonderful opportunities for companies that get it. That understand how to build a better mousetrap for the future. So we have to remain very focused to our purpose and not allow the

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temporary noise of margin that is going to derail us in any way. So nothing, James that I've seen during this cycle that is really anything different.

James E. Faucette
Analyst, Morgan Stanley & Co. LLC

Q

Appreciate that. Thank you.

Operator: Your next question comes from the line of Mark DeVries from Barclays. Your line is open.

Mark C. DeVries
Analyst, Barclays Capital, Inc.

Q

Thank you. Were there any material differences this quarter in your retail gain on sale margins in the end-market business versus direct-to-consumer?

Anthony Hsieh
Founder, Chairman & Chief Executive Officer, loanDepot, Inc.

A

So, I'll take that. Yes. I don't believe, Mark, that we have separated out our revenues by direct lending versus end-market. But I will say that these two markets are decoupled, and that is not sustainable. They will come closer together as the market continues to adjust through the cycle.

Mark C. DeVries
Analyst, Barclays Capital, Inc.

Q

Okay. So, is it safe to say that the competitive dynamics in the wholesale channel really had an impact on the end-market where you're kind of competing more head-to-head than direct-to-consumer?

Anthony Hsieh
Founder, Chairman & Chief Executive Officer, loanDepot, Inc.

A

No. You can hear in the background here. No. What's happening right now is several things, but the wholesale market continues to be very, very competitive and that's going to continue to fuel pressure for the industry that we like. But 20% – less than 20% of our originations are our Partner Channel. And of that, I believe only half of that is our wholesale channel. So, as we continue to watch that, there's certainly pressures from how wholesale is pricing and the type of pressure that we're seeing through customers saying that they have received current bids or offers from mortgage brokers. But it's still not massively affecting the overall retail margins as of yet.

Jeff Walsh
Chief Revenue Officer & Senior Executive Vice President, loanDepot, Inc.

A

Let – and let me just add, where we see the competitive nature is more along the lines of purpose than it is by channel. So as we mentioned, the less rate sensitive customers are cash out, refinance and purchase. And we saw that – the opposite of that happened in 2Q where most of the pricing pressure came in the rate-and-term refi side regardless of what channel was originated in. And that's one of the reasons why we are focusing on broadening the product reach and continuing to purchase and we think actually having all four channels and the ability to toggle to the market is a competitive advantage.

Mark C. DeVries
Analyst, Barclays Capital, Inc.

Q

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Okay, that's helpful. And just wanted to clarify a few comments you made on Grand Slam. Did I hear correctly when – did you use the word free on the home warranty? Is that something where the premium is being covered? Are you referring to maybe a commission-free sale to the home warranty? But how does that kind of work?

Anthony Hsieh
Founder, Chairman & Chief Executive Officer, loanDepot, Inc.
A

We are a grouping that in and providing that product free of charge to our Grand Slam customers. So it is free.

Mark C. DeVries
Analyst, Barclays Capital, Inc.
Q

Okay, got it. And so that's effectively part of the rebate that you alluded to?

Anthony Hsieh
Founder, Chairman & Chief Executive Officer, loanDepot, Inc.
A

No, that's in addition to the cash rebate. So the way to look at that everyone is the fact that we have an embedded marketing cost as a mortgage lender. And as a mortgage lender, the return on marketing formula works very well for us. If you add in title revenue, closing revenue, real estate services revenue, that really juices our marketing return and it gives us the ability to provide some of those revenue and earnings as a rebate back to that customer.

Mark C. DeVries
Analyst, Barclays Capital, Inc.
Q

Okay, great. So that could come through both a free home warranty policy in addition to a rebate?

Anthony Hsieh
Founder, Chairman & Chief Executive Officer, loanDepot, Inc.
A

That's correct.

Mark C. DeVries
Analyst, Barclays Capital, Inc.
Q

Okay, interesting. Okay, thank you.

Anthony Hsieh
Founder, Chairman & Chief Executive Officer, loanDepot, Inc.
A

You're welcome.

Operator: There are no further questions at this time. Anthony Hsieh, I turn the call back over to you.

Anthony Hsieh
Founder, Chairman & Chief Executive Officer, loanDepot, Inc.

Well, thank you all again for joining us and for your questions. We look forward to continuing to build our relationship with each and every one of you over the long term. Thank you again and have a great rest of the day.

Operator: This concludes today's conference call. You may now disconnect.

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