01-Nov-2021

loanDepot, Inc. (LDI)

Q3 2021 Earnings Call

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MANAGEMENT DISCUSSION SECTION

Operator: Good morning and welcome everyone to loanDepot's Third 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 third 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. All statements other than statements of historical fact are statements that could be deemed forward looking statements including but not limited to guidance to our pull-through weighted rate lock volume, origination volume and pull-through weighted gain-on-sale margin. 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, due to risks or other factors that are described in the Risk Factors section of our filings with the SEC. A webcast and a transcript of this call will be posted on the company's Investor Relations website at investor.loandepot.com under the Events and Presentations tab.

On today's call, we have loanDepot's Founder, Chairman and CEO Anthony Hsieh; and 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 questions. We're also joined by our Chief Capital Markets Officer Jeff DerGurahian; our Chief Analytics Officer John Lee; and our Chief Revenue Officer Jeff Walz to help address any questions you might have after our prepared remarks.

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

Anthony Hsieh

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

Thank you, Gerhard. I'm pleased to be with all of you on the call today. Thank you for joining us. I look forward to sharing my perspective and answering your questions this morning.

The third quarter proved to be another strong milestone in market share growth. According to the most recent data from the NBA, our market share increased by 46% from 2.4% to 3.5% compared to the same quarter last year. To put that increase into perspective, while the third quarter of 2020 was our most profitable quarter ever, our largest annual increase in market share came after that, demonstrating the resiliency and strength of our diversified channel strategy. When you combine that strategy with our growth, growing brand and proprietary mello tech stack, loanDepot is the industry's only at-scale model of this type. And the hard work and enthusiasm of our talented employees delivered this growth.

Our result demonstrated the agility and operational flexibility of our multi-channel strategy, which enables us to succeed in any market condition, including challenging ones. When competitive pressures in one channel

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compress profit margins, we have the flexibility to focus on our other channels and still deliver on our strategic goals. When increasing interest rates reduce the demand for rate in term refinances, we pivoted to emphasize the origination of less interest rate-sensitive loans such as purchase and cash out refinances. Combined, these two categories of loans increased 13% over the last quarter.

The result of the third quarter are only a preview of what is to come in the future as we continue to hire the best, leverage our growing brand, develop and apply innovative technology solutions, drive down costs, and add more products and services to help our customers successfully navigate one of the most important financial transactions of their lives.

Our marketing engine and customer acquisition abilities are one of the best in the business. Notably, in October, we wrapped up the successful first year of our multi-year partnership with Major League Baseball. By dominating media exposure on one of the biggest stages in professional sports, the League Championship Series presented by loanDepot, our brand reached millions of baseball fans during ALCS and NLCS and was further supported by the launch of a new national advertising campaign, Portrait of a Homeowner, that shares the benefits and unique feelings of owning a home through the eyes of real loanDepot customers.

Our market share increase is a direct result of our growing investment in increasing marketing reach as well as our technology that matches customers to the best loan officer for their needs across our multichannel strategy. Our unique website visitors for the first nine months of 2021 are up over 16% compared to the same period in 2020. This was in the face of lower market volume.

With a similar advertising spend from the second quarter, we achieved double-digit brand metric increases during the third quarter with consideration increasing by 15% and awareness increasing by 14% during the third quarter. loanDepot's brand continues to gain momentum.

Looking ahead, the real estate services industry are moving towards consolidation of products and services for the homeowner, and loanDepot is leading the way. We are uniquely positioned with the brand, technology and scale to invest in these additional products and services, particularly with the loanDepot Grand Slam. Having announced this bundle of home buying services early in the third quarter, we are already starting to achieve early success, purchase lead funding, real estate agent introductions and real estate listings all increase substantially since the first quarter of this year.

This growth, while impressive, was primarily accomplished before we publicly announced our Grand Slam package and was internally driven. We expect even better results in the coming quarters. Growth rates should accelerate as direct-to-consumer marketing for mello Home and Grand Slam gains traction, and we won't stop there. We're already planning to offer additional products and services for the benefit of our customers.

Today loanDepot is more than a mortgage company. We're a digital commerce company committed to serving our customers throughout the home ownership journey with a full suite of products and services that meets our customers' needs along that journey. We are uniquely positioned to provide exceptional value and a reason to return to us long after an initial home financing transaction is complete.

There is an energy and enthusiasm in 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 are 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.

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

Patrick J. Flanagan

Chief Financial Officer, loanDepot, Inc.

Thanks, Anthony, and good morning, everyone. We're coming up on the 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 $924 million, diluted earnings per share of $0.40; and adjusted diluted earnings per share $0.46, reflecting higher loan origination volumes and gain on sale margins as well as lower operating expenses. In the third quarter, loan origination volume was $32 billion, a decrease of 7% from the second quarter of 2021. This met the guidance that we issued last quarter of loan origination volume of between $30 billion and $36 billion.

Our retail and partner strategies delivered $11 billion of purchase loan originations and $21 billion of refinance loan originations during the period. Our retail channel accounted for 78% of our loan originations and our partner channel accounted for 22% of our loan originations. The consistent contributions across both channels signify the strong customer and mortgage broker relationships we have 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 an exceptional customer experience.

Our rate lock volume of $43.7 billion for the third quarter resulted in total and quarterly total revenue of $924 million, which represented an increase of 18% from the second quarter. Rate lock volume came in at the low end of the guidance we issued last quarter of $44 billion to $54 billion. The increase in revenues is a result of the higher rate lock volume and gain on sale margins. Our gain on sale margin for the third quarter came in at 2.84% of loan origination volume. This also met our guidance for gain on sale margin that we issued last quarter of between 245 and 295 basis points. Going forward, we will be expressing gain on sale margin as a percentage of pull-through weighted rate lock volume, since this most closely aligns with the origination revenue that we recognize in each period. For comparative purposes, we have disclosed both gross and pull-through weighted rate lock volume in our earnings release this quarter.

Our total expenses for the third quarter of 2021 decreased by 1% from the second quarter of 2021, primarily due to lower variable expenses on lower loan origination volume, offset somewhat by higher marketing expenses as we continued to invest in our brand.

During the second quarter, there were lawsuits filed against the company. These were comprised primarily of shareholder suits motivated by the recent decline in our share price. There was also a suit filed by a former executive alleging loan underwriting improprieties and employment law claims. Given these are in active litigation, my comments must remain somewhat limited. However, loanDepot is committed to operating at all times according to ethical, responsible and compliant business practices grounded in values of inclusivity and respect for our team members, customers, and all of our stakeholders. Our procedures require all loans to be closed with proper documentation and subject to appropriate quality control. We intend to vigorously defend ourselves and are confident that we will prevail. These lawsuits and their claims have not resulted in any material adverse impacts from our warehouse lenders, the agencies or investors. We have not at this time recorded a liability related to these lawsuits.

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Our growing servicing portfolio perfectly complements our origination strategy and ensures we can serve our customers through their entire mortgage journey. The unpaid principal balance of our servicing portfolio grew to a record level of $145.3 billion as of September 30, 2021, compared to $138.8 billion in the second quarter. This growth was inclusive of a sale of $13.5 billion of unpaid principal balance completed during the quarter. Servicing fee income increased from $48 million in the third quarter of 2020 to $102 million in the third quarter of this year.

While relatively low market interest rates continue to result in faster pre-payment rates, we were able to retain many of these customers as preliminary organic refinance consumer direct recapture rates for the 12 months ended September 30, 2021 increased to 71% as compared to 61% for the 12 months ended September 30, 2020, highlighting the strength of our deepening customer relationships. We are extremely 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 sub-servicing partners. We have invested in our in-house servicing capabilities by growing the portfolio and bringing more servicing in-house. We leverage the infrastructure and create the scale to increase the earnings contribution from this recurring countercyclical business line.

We reported adjusted EBITDA of $238.3 million and net income of $154.3 million as compared to $109.3 million and $26.3 million for the second quarter of 2021. The quarter-over-quarter increase was primarily driven by the increase in net income, as well as a smaller net loss in the fair value of servicing rights.

As we look ahead to the fourth quarter and building on the growth strategy that Anthony laid out and assuming no material changes in interest rates and competitive landscape, the company expects pull-through weighted rate lock volume of between $18 billion and $28 billion, reflecting the recent increase in interest rates and seasonal slowdown in demand. We also expect loan origination volume between $26 billion and $31 billion, and we expect fourth quarter pull-through weighted gain on sale margins of between 210 and 260 basis points.

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

Anthony Hsieh

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

Thank you, Pat. I just wanted to take a moment and say that I'm proud of this team and our results this quarter. I'm also proud of the spirit of our company, employees and those that we choose to partner with. We are a company that believes in supporting the communities in which we do business and the people that make our success possible.

As proud as I am of all loanDepot has accomplished, we remain focused on our long term strategy and vision to become the most trusted home owner fulfillment company in the world, using our industry leading position to drive the type of value and ease that today's customers expect and demand.

Before we turn to questions, I want to re-emphasize what many of you have heard me talk about many times before. We are still very early in this mortgage market cycle that started after the great recession of 2008. The productive capacity in the industry at that time was wiped out with most of the top lenders either going out of business or being severely disrupted.

Since we began business in 2010, customer expectations and service level demands have changed significantly. The application of technology have accelerated every aspect of our business from customer acquisition to loan processing, underwriting and closing, and to servicing. While we are very proud of our market share growing to 3.5%, loanDepot with its digital assets, nationally recognized brand, cutting edge technology tools, relentless sales culture, and diversified channel strategy is in a leadership position to aggressively attack the remaining

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96.5% of the $12 trillion mortgage market. And as we expand and mature our adjacent real estate related service business, we can attack the broader $34 trillion residential real estate market, leading the consolidation of the market that is likely to occur. loanDepot represents an incredible value and we are confident we will continue to accelerate our growth, increase of market share, serve our customers, employees, shareholders and communities while outperforming in the long-term. We remain focused on our strategy of serving our customers through every stage of their homeownership journey.

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

QUESTION AND ANSWER SECTION

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

Douglas Harter
Analyst, Credit Suisse Securities (USA) LLC

Q

Thanks. The relative marketing spending was higher this quarter. I was just hoping you could talk about how you think about kind of balancing continuing to build out the brand making those marketing investments versus maybe pulling back given that the size of the market is a little bit smaller today.

John Lee
Chief Analytics Officer, loanDepot, Inc.

A

Good morning. This is John Lee, I'll take that question. So we're adapting to a changing demand profile in the refinance market, obviously, and our data-driven multichannel marketing strategy is working to drive higher lead volume and dive deeper into the refinance market.

During the quarter, we increased marketing spend 14% as you mentioned and grew at least 33%, which allowed us to expand market share to 3.5%. Our improving brand recognition and consideration is driving higher ad awareness and larger growth in our organic lead channels, which is up 41% year-over-year, and website traffic is also up 16% during the same period.

Our overall lead generation is up 118% year-over-year, and our purchase lead activity is up 29% quarter-over-quarter and 145% year-over-year. We believe this is a result of the incredible increase in brand awareness and consideration that's been driven by our increase in brand spend over the last 12 months.

In terms of continued growth, we have – obviously we're going to continue to expand into our multi-channel marketing strategy. We have very robust TV and digital assets and we are continuing to grow social media and website advertising.

Our partnerships with the MLB and Marlins Stadium have also increased our consideration and awareness in the market. For example, for MLB, we drove 595 million impressions since the launch of that partnership.

And relating to expansion of partnerships, yes, we are looking to grow. Our growth in brand awareness is driving more interest in partnerships across many verticals, and we have an internal partnership team focused on growing relationships in the future.

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Douglas Harter
Analyst, Credit Suisse Securities (USA) LLC

Q

Great. Just one follow up. I guess, is there any kind of seasonality to the marketing expense given the relationship with Major League Baseball and kind of the League Championship Series?

John Lee
Chief Analytics Officer, loanDepot, Inc.

A

That's a great question. There is and as we watch lead demand day-over-day, quarter-over-quarter, we'll adjust both our brand spend and our performance marketing spend, which is focused on lead generation to match that quarterly change in demand profile.

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

A

And Doug, it's Anthony. So I just want to chime in with my remarks on building the brand. I just want to remind everyone, arguably we're the only other non-bank brand in the market today. Brand matters. And as our number one competitor who is I believe 25 years our senior and has I believe 4x to 5x our current annual marketing spend, that there is just a nice draft process that in the terms of auto racing, we're just being pulled by our number one competitor as far as industry consideration and the fact that you can use your device to get a mortgage in today's world.

So building our brand, investing in our brand and looking at marketing in terms of direct response both digitally and offline is something that we track and best in class at. So tracking conversion, cost of customer acquisition on a per funding basis as well as building long term brand is sort of a balance that this company does, and we will continue to balance those two as we move forward and capture additional market and to build a national brand.

Douglas Harter
Analyst, Credit Suisse Securities (USA) LLC

Q

Great. Thank you.

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

A

You're welcome.

Operator: Your next question comes from the line of Brock Vandervliet with UBS. Your line is open.

Brock Vandervliet
Analyst, UBS Securities LLC

Q

Hi. Good morning. Thanks very much for the question. Just stepping back on the gain on sale, obviously last quarter felt like the world was coming to an end. I won't ask the trite question of what inning are we in, but can you kind of put in context where we are in terms of gain on sale? And yeah, I've got a follow-up for that.

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

A

Sure. Brock, thanks. It's Pat. Good question. So if the dynamics in gain on sale continue to evolve and be volatile based on demand in the market and where rates are and also seasonally, our – so, we think there's strength in

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our diversified origination channels because there's more – as the market changes, we can emphasize one channel over the other which reduces the volatility.

So currently, based on seasonality and which – as seasonality means it comes every year and the most recent rise in rates we're seeing gain on sale margins tending lower than where they were for the third quarter and not altogether unexpected for the fourth quarter.

As far as what inning we're in, it's hard to tell. We're pretty confident in the guidance we've given of gross margins on pull through weighted lock adjustment basis of between 210 and 260 basis points for Q4.

Brock Vandervliet
Analyst, UBS Securities LLC

Q

Okay. And one thing I know investors puzzle about a lot is just the interconnection between the different channels of origination and the gain on sale profile. It clearly seems like partner you're seeing more that that's consistent, more pressure, less in retail. How, I guess, interconnected have you found the varying channels so far in the cycle?

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

A

Hey, Brock, it's Anthony Hsieh. Great question. And perhaps Pat can answer it after my comments on a more of the mechanical answer. But keep in mind that in an adjusting market, various channels will have different reactions to the pressure. But ultimately as the pressure continues, it's all going to equalize between different channels.

I mean, the way that GOS is determined, it's a herd mentality. We are top three retail lender in the country, bank and non-bank, and we have 3.5% market share. So the market as at my comment is still very early since the 2008 financial crisis. So capacity is still spread out massively through the industry. So GOS is a herd mentality.

Now, some of the larger players can be front of the herd by placing more pressure. But the market follows the herd and ultimately, the pressure is a good thing for operating companies that have a unique advantage. So as the innings go on or the games go on, the seasons go on, the pressure is bad for earnings, but it's great for market share and for market positioning.

So this is where it's critically important for this organization to focus on the opportunities. Last year, because of growing market and volume, we had a record breaking earnings year topped by Q3 and what we had – record earnings for Q3. Now we have record market share for Q3 this year. So we will win either direction and as the market continues to change because of this herd mentality, what we can control is our cost structure, which we are leading the industry in.

So as far as the exact sort of decoupling or how the different channels is moving right now, Pat, if you have comments to that, that would be helpful.

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

A

Sure. I think particularly in the partner channel with your comment – and there's wide variation in GOS margin in our two kind of subcomponents of partnership channel. So our build-or-joint venture and bank referral and gain on sale margins actually increased quarter-over-quarter and we saw continued pricing pressure in the wholesale

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channel through mortgage brokers, where that side of the business actually decreased quarter-over-quarter. And we see the same thing happening in the retail side. There's been more resiliency and gain on sale margins in our in-market channel, and they're more relationship driven and less price competitive or sensitive customers, and increasing amount of competitiveness in the direct-to-consumer channel.

Brock Vandervliet
Analyst, UBS Securities LLC

Q

Got it. Okay, thank you very much for the color.

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

A

No problem.

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

Kevin J. Barker
Analyst, Piper Sandler Companies

Q

Good morning. Thanks for taking my questions. All right, so I want to follow up on your operating expenses, maybe some of the comments around marketing. We noticed that your operating expenses did come down slightly quarter-over-quarter, in particular personnel expense which dropped over $20 million. Are you expecting those expenses to continue to decline with production volume declining in the fourth quarter? And then also do you expect operating expenses as a percent of originations to continue to decline as we go into 2022?

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

A

Kevin, yeah. This is Pat. Another good question. So, the reductions that you saw quarter-over-quarter were based in large part due to initiatives that we began in the second quarter that focused around normalization of our workforce, redesign of compensation expenses and reduction of overtime. Then they continue into the fourth quarter. In addition to that, there are additional cost savings initiatives that have just recently begun that we would continue into the fourth quarter and into 2022. And I think of note, our actual savings exceeded our planned amount by 21% in the quarter, so we would expect those to continue to decline going into next year.

One part that's a little bit confusing as we continue to grow and build our servicing and move servicing in-house, we actually incur more personnel expense as we hire more folks in our in-house servicing platform that would have come through in sub-servicing and spends in previous quarters. So the dynamic of that's going to change slightly as we continue that migration.

Kevin J. Barker
Analyst, Piper Sandler Companies

Q

So would you expect your pre-tax margins to see quite a bit of seasonality as we go through the next couple of quarters just given seasonally lower volumes combined with the buildup of servicing personnel?

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

A

Yes, I do think that's correct. And I would point you back to the areas of guidance that we gave with lock volume, $18 billion to $28 billion, and funded volume between $26 billion and $31 billion. And then, GOS margins between

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210 and 260 on a locked basis and assume continued – a little bit of continued improvement we expect in expense margins.

Kevin J. Barker
Analyst, Piper Sandler Companies

Q

So would the expenses decline at a similar rate or a lesser rate than we saw and then we'll see in revenue just given your guidance?

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

A

We haven't provided that level of expense guidance going forward.

Kevin J. Barker
Analyst, Piper Sandler Companies

Q

Okay. And then can you give us just any recent progress that you've made with Grand Slam or any statistics on how that's being – how the rollout is going and any revenue generated from that?

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

A

Yeah. This is Jeff Walsh. I can talk about that a little bit. We have strong top-of-the-funnel momentum with mello Home as digital mortgage purchase leads are up. We believe the consolidation of services and service offerings is going to continue to accelerate. mello Home allows us to not only provide the mortgage financing, but also participate in real estate service and real estate fee. And we're also able to offer other services such as title, escrow, closing, insurance and soon to be other services related to the home – to home ownership.

All of this is really designed to create a better, less stressful buying experience, especially for first-time homeowners. So Anthony had mentioned that the overall fundings from digital purchase lease was up to $704 million from $416 million in Q1. Also, introductions to real estate agents were significantly up from Q1, where it was [ph] 596 (00:31:17) for up $142 million; up now to Q3 where it's [ph] 1,305 (00:31:22) for $412 million in real estate introductions.

Also on the sell side, opportunities were up going from $7 million in listings in Q1 to $81 million for the same period. So, kind of the overall momentum in all of the metrics that kind of drive mello Home and Grand Slam are all continuing to be positive heading in to the fourth quarter as well.

Kevin J. Barker
Analyst, Piper Sandler Companies

Q

Thanks for taking my questions.

Operator: The next question comes from the line of Bob Napoli with William Blair. Your line is open.

Robert Napoli
Analyst, William Blair & Co. LLC

Q

Hi. Good morning. Thank you for the question. So just, Anthony, you don't break out R&D expense separately, but can you talk about the level of R&D spend? Where – what are the most important areas of investment and what, maybe what kind of a product roadmap you have?

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

A

Hi, Bob. It's a – it's constantly boiling the ocean, right, as far as the digital journey. Just a few months ago we made a significant hire in George Brady. I'm happy to report that George has got great momentum here and has given me a digital roadmap that we are currently evaluating. There's lots of things to do because this industry is going to get a lot more complicated as far as the desires of a customer is no longer about mortgage. It's about the entire homeownership journey.

So, it's more than just the digital process and the innovation. It's about building out additional products and services in all the adjacencies. A customer wants to be able to buy a home and move in. And the way that this country has set up over the course of the last century is to force the customer to make multiple buying decisions on all of the appropriate decisions and different companies that must be involved.

So not answering your question directly, but from a very high level perspective, we are absolutely going to invest and invest heavily and almost double down on our digital and our tools going forward. This market, Bob, today is a market for us to attack. And this is a less than 12 year old company. We have risen to the top three retail lender in the country and we got here from making smart long-term decisions. GOS is really important and we will absolutely leverage and maximize GOS in leveraging our brand to lower customer acquisition costs. But market positioning and adding adjacent products and services to our core customers is sort of our long-term plan. But overall, the digital footprint of this organization remains very, very strong. George Brady will be leading that charge.

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

A

Hey, Bob, this is Pat. I can give you a just a little context of numbers as well. So year-to-date, we've capitalized $21.2 million for development spend of – to develop and maintain the mello technology stack. So I'll give you a decent perspective on the size of that investment.

Robert Napoli
Analyst, William Blair & Co. LLC

Q

Thank you. And then just a follow-up question, given what the outlook market outlook I guess over the next year, what are your thoughts around the market share gains and how focused are you on increasing that market share over the next year or two [indiscernible] (00:35:33)?

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

A

Bob, I typically don't call out market share gains. Market share gain is a byproduct of competitive advantages that the company has built. So, as we get into Q4 and Q1 that are typically thinner quarters for our industry, we need to be very balanced between expense management and preserving our ability to scale should the market surprise us next year with greater volumes than what MBA or Fannie or Freddie forecasting now.

I will say being in this business as long as I have I don't think those three institutions have been aggressive on their future year volume predictions. So I think we need to be sensitive to that. We also need to remember that – where 30-year fixed interest rates and today and the outstanding $12 trillion in outstanding mortgages, even a 10% or 15% turn on refinance is still a $1.5 trillion to $2 trillion refinance market, and there's plenty of equity and cash outs.

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So we believe that next year is going to be a bit stronger and we certainly want to be in the position to capture that.

Robert Napoli
Analyst, William Blair & Co. LLC

Q

Thank you. Appreciate it.

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

A

Sure.

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

Trevor Cranston
Analyst, JMP Securities LLC

Q

All right. Thanks. Couple questions on the servicing side, first, can you give us an update in terms of where you are in terms of transitioning the portfolio in-house and away from third-party sub services? And then the second question that you noted that you sold about $14 billion of MSRs during the third quarter. Was just curious if you could comment on what was driving that, you'd be thinking of any additional bulk sales as we head into the fourth quarter versus retaining everything. Thanks.

Jeff DerGurahian
Chief Capital Markets Officer, loanDepot, Inc.

A

Hey, Trevor, this is Jeff DerGurahian. I can fill that for you. In terms of the servicing transition in-house, everything is still going as planned. Right now we are servicing all new GSA originations, our in-house platform, and we expect to be fully transitioned off the sub servicers by the middle of 2022. And then in terms of the sale in Q3, we continue to look for ways to optimize the servicing asset on our balance sheet to work across sales and other income opportunities. And so we'll continue to do that going forward to match the size of the assets, the balance sheet, as well as again trying to maximize or recapture opportunities in other cross-sell.

Trevor Cranston
Analyst, JMP Securities LLC

Q

Okay. That makes sense. Thank you.

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

A

You're welcome.

Operator: Your next question comes from the line of John Davis with Raymond James. Your line is open.

John Davis
Analyst, Raymond James & Associates, Inc.

Q

Hey. Good morning, guys. Anthony, just want to get your thoughts on conforming loan limits likely going to go to about 20% here, and what do you think the impact is on the refi market? Maybe for loanDepot specifically, but also just the broader market given how much home prices have appreciated. And have you guys started raising your limits or any steps and preparing for that potential refi boom?

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

A

John, we certainly hope there's going to be a refi boom. The increased loan limits will no doubt broaden the audience and broaden the available mortgages out there today in terms of cash-out and to a lesser extent, rate in term.

I think more importantly, what we need to understand is when interest rates starts to move, it is a balancing act between supply and demand. The mortgage industry is still heavily populated with lots of cost on the labor side. And until that labor gets equalized to the current demand of mortgage applications, you have pressure on GOS. So this usually will normalize one, two, three quarters. And once it normalizes, all of a sudden, the market is going to seem very, very bullish. $1 trillion to refinance is still a ton of business. It just depends on how much labor is chasing after that trillion dollars.

So, we're going through that adjustment period now. And as I stated before, the pressure is good. It's good for market positioning. It's good for us to continue to focus on scale and efficiency and leveraging our technology as well as our very valuable brand. So the fact that agencies increasing their loan limits no doubt is going to help, but ultimately the labor in the industry has to be right size to match the current application demands.

John Davis
Analyst, Raymond James & Associates, Inc.

Q

Okay. And that's helpful. And then just a quick follow-up on GOS. I think obviously, I think it's really hard to say how long it's going to take to normalize the bigger picture. Is there anything that you see out there that may mean that GOS is going to be structurally lower going forward than where it has historically been, or is this more of just a timing thing? We don't know how long until it normalizes, but we believe it will normalize? Anything at all you see structurally that maybe changes GOS on a go forward basis?

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

A

Yeah. So again, GOS is more of a herd mentality, but there's two fundamental things driving GOS, John. One is the overcapacity in the industry. And everyone is chasing loan volumes to keep their workforce intact or keeping their company busy. So that pressure we have seen for the last four or five interest rate cycles spanning over the last 30 years.

But in this cycle, we also have some leaders in the industry that wants to add additional pressure by lowering price. So that is a strategic move. And that certainly is welcome because that puts additional pressure on the industry and washes out the weaker operational companies that are out there. So this is a cleansing of the capacity side. The capacity was built up starting in 2008 until now, and now the capacity will start to shrink. And it has to, because we just came off of a terrific year in 2020.

But the volumes in 2021 and 2022 are still likely to be in the top 5 to 10 in all-time mortgage lending history, so it's still going to be very, very healthy. It's not a matter of how much volume is in the next one, two, three years. It's a matter of how much capacity is in the industry.

John Davis
Analyst, Raymond James & Associates, Inc.

Q

All right. Very helpful. Thanks, guys.

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

A

Sure.

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

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

Q

Hey. Thank you very much. And thanks for all your comments and colors on the industry, what you see etcetera. I'm wondering if back to your point around market share gains, but also the things that you've been doing to take on more servicing, how should we think about like how much servicing you'd ultimately like do directly and how are you thinking about that as a path to future share gains and kind of retain that customer base through their life cycles? Thanks.

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

A

So let me – it's Anthony, James. Let me answer it strategically, and then perhaps Pat or Jeff can it can come in and add some narrative and color. We are just now transitioning servicing from third-party to our own internal servicing. That decision was not made because we didn't want to control servicing and in-house. We've always wanted that, but as a de novo start-up that started in January 2010, the prioritization of building technology and building assets of this organization – plus, in the first five years, we lacked the scale and the ability to hold these assets on balance sheets as we invested into origination, and we've grown this organization 40 plus percent on the average year-over-year for the first 11 years, it wasn't a lack of strategy of moving it internally with our servicing platform, but it's more of prioritization.

And the way that we look at holding servicing on a go-forward basis, the advantages of holding servicing for a model such as ours is the recapture rate. So you're really holding on to the assets until you get the second bite of the apple, as our recapture rate is hovering around 60% to 70%, which is industry's best. So we're able to get a second refinance out of that customer and we'll have incurred a zero marketing cost. So that is a very, very attractive proposition for our company with a consumer direct or direct lending platform.

As far as the yield on holding the asset, I'll let Jeff or Pat chime into that, but I wanted to at least lay out the reasons of holding servicing strategically.

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

A

Yeah James, it's Pat. Let me give a little bit of context. So as Anthony said, we want to be a single provider for homeowners for all of the products and needs that we can. And so we intend to keep as much of the servicing, especially where we believe we have good customer dynamics to be able to serve that customer in the future, subject to the constraints of our balance sheet.

So a couple of things, so the amount of servicing we can keep is very correlated to what the overall gain on sale margins are and what the cash flow dynamics look like. And the governor for us ends up being leverage on the balance sheet. So you'll see us continue to operate, keeping as much servicing asset as we can within and keeping the leverage at appropriate levels for our company.

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

Q

And I appreciate that. And Anthony I think the strategic benefits are pretty clearly [indiscernible] (00:47:24). I'm wondering as you kind of go through the decision-making process of which ones you retain, etcetera, and how we should expect that to grow over time, can you give a little bit of color what you're doing today and what you would like to do in the future in that regard?

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

A

Jeff, would you mind taking this one from James?

Jeff DerGurahian
Chief Capital Markets Officer, loanDepot, Inc.

A

Sure. James, we're always looking at consumer behavior. So it goes hand in hand with what's done by John Lee and his team on the analytic side. And so as trends develop in our borrower base and the consumer dataset, we'll continue to tweak how we look at certain borrowers that are available to be sold or retained and make that decision going forward again in the context of keeping within the limits of the balance sheet. So it's an ongoing process of just optimization.

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

Q

That's great. Thanks very much.

Jeff DerGurahian
Chief Capital Markets Officer, loanDepot, Inc.

A

You're welcome.

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

A

You're welcome.

Operator: And your last question comes from the line of Derek Hewitt with Bank of America. Your line is open.

Derek Hewett
Analyst, BofA Securities, Inc.

Q

Good morning, everyone. Maybe Anthony or Patrick, are you starting to see signs that some of these smaller subscale originators are willing to partner with stronger corporates that have the capacity to – excuse me, that are due to the overcapacity issues that were kind of raised earlier? And then also, what are your thoughts on stock buybacks?

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

A

I'll take the – this is Anthony, Derek. I'll take the first question and then I'll have Pat chime in on the stock buyback question. Yes, as pressure continues to mount, you're going to see lots more opportunities. The challenge here is, do we want to take 10 small bites or you want to go after one big bite?

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So integration, onboarding is a significant challenge in the mortgage industry. So, we have to look at onboarding and acquisitions very, very carefully. And we've done – and just to remind everybody, we've done two larger acquisitions in our history and have successfully integrated both of those organizations onto our platform in the mello tech stack.

So we're constantly evaluating. We're looking for quality companies that have a culture match. And as this pressure continues to mount, the targets will get cheaper. So we're very, very patient. And keep in mind that this business at scale has a tremendous barrier to entry, tremendous barrier to entry. To have loanDepot at our current scale and muscle and positioning with healthy liquidity and the most diversified originator in contemporary times, we are patient. The market is $12 trillion and we're just going to continue to look for opportunities and remain very, very, very patient. I'll let Pat or Jeff or others chime in on the stock buyback question.

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

A

Sure. Thanks, Anthony. So our number one focus here is growing and creating shareholder value, and we have a lot of tools at our disposal to do that. And the primary use of excess capital in our minds right now would – and the most – place where we'll grow the best shareholder value is continue to invest in the origination and servicing franchises. But we do have the other options to return shareholder value that we've used in the past.

We have been paying a regular dividend, and time to time we paid special dividend. We would consider stock repurchases, but one of the things that we believe is potentially constraining our stock price is the limited amount of float in the market. And so it's a less attractive alternative for us to return shareholder value at this time because it would compound that problem for us on a go-forward basis.

Derek Hewett
Analyst, BofA Securities, Inc.

Q

Thank you.

Patrick J. Flanagan
Chief Financial 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 all 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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