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loanDepot, Inc.

Fourth Quarter 2021 Earnings Call

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James Faucette, *Morgan Stanley*

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Arren Cyganovich, *Citigroup*

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John Davis, *Raymond James*

Ryan Nash, *Goldman Sachs*

PRESENTATION

Operator

Good morning. My name is David and I will be your conference Operator today. At this time, I'd like to welcome everyone to the loanDepot, Inc. Fourth Quarter 2021 Earnings Call.

Today's conference is being recorded. After the speakers' remarks, there will be a question-and-answer session.

Gerhard Erdelji with Investor Relations, you may begin your conference.

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Gerhard Erdelji

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 year-end and fourth quarter 2021 results. We are excited to share our financial results and other highlights 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 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 investors.loandepot.com under the Events and Presentations tab.

On today's call, we have loanDepot 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 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.

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

Anthony Hsieh

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.

Two thousand twenty-one demonstrated the success of our strategy to increase market share during a period of changing market conditions. This is quite an achievement for a Company as young as ours. Just three weeks ago, we celebrated our 12th birthday. We aren't even a teenager yet, but loanDepot is now the second-largest independent mortgage brand in the country. We've grown at 49% compounded annual rates since our inception and we plan to continue this growth in the long term.

Our growth is very intentional. We have built loanDepot to succeed during all market conditions. Conditions like those we enjoyed in 2020 are when loanDepot drives revenue, but the conditions we expect to navigate in 2022 give us an incredible opportunity to capture market share.

Our business was purpose-built with periods of pressure in mind. Our proprietary tech stack, our intentionally diverse mix of channels, and our sophisticated performance marketing machine mean we control our inflow, our customer contact strategy, and the point of loan origination. This is a critical competitive advantage enabling us to pivot and adjust our production as market trends demand. In fact, historically speaking, it's been during periods of decreasing volume that loanDepot's unique strategy and differentiated assets have resulted in outsized market share growth. Those are the periods when we most demonstrate our ability to succeed.

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We ended 2021 with a 3.4% market share, compared to 2.5% at the end of 2020, and grew purchase origination volume by 39% during 2021 as well. Purchase volume growth demonstrated the power of our multi-channel strategy. If we include less interest rate-sensitive cash-out refinance volume to a purchase volume, growth was 56% year-over-year. While interest rates were increasing and refinance lines were declining, we invested in growing our end market retail branches and joint venture partners to drive this growth.

Our industry is a cyclical one and the market conditions we face today have been faced before by loanDepot's experienced Leadership Team, the members of which have collectively navigated many housing and interest rate cycles over the last 35 years. 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 meet our customers' needs along that journey.

Our investment in building out our in-house servicing platform, including our recently announced Ginnie Mae servicing, allows us to deliver exceptional customer care throughout the customer life cycle. This deepening of the relationship gives our customers another reason to return to us long after the initial home financing transaction is complete.

loanDepot is growing and we have remained very true to our public statements about our strategies, abilities, and the ways in which we can, do, and will deliver for our customers. We have achieved much for such a young age, and while we are proud of our progress, we believe that times like these, when the market contracts, are when the assets we have built will lead our industry.

Our 2021 results are only a preview of what's to come as we leverage our 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.

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 Flanagan

Thanks, Anthony. Good morning everyone. Next week will be the first anniversary of our IPO, 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 hard work of Team loanDepot.

During the fourth quarter, loan origination volume was $29 billion, a decrease of 9% from the third quarter of 2021. This was near the high end of the guidance we issued last quarter of between $26 billion and $31 billion. Our retail and partner strategies delivered $10 billion of purchase loan originations and $19 billion of refinance loan originations during that period.

Our retail channel accounted for 77%, and our partner channel accounted for 23% 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 pull-through weighted rate lock volume of $23 billion for the fourth quarter resulted in quarterly loan revenue of $705 million, which represented a decrease of 24% from the third quarter. Rate lock volume came in consistent with the guidance we issued last quarter of $18 billion to $28 billion.

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The decrease in revenues is a result of lower rate lock volume and gain on sale margins. Our pull-through weighted gain on sale margin for the fourth quarter came in at 281 basis points. This exceeded our guidance for gain on sale margin that we issued last quarter of between 210 and 260 basis points but was down from the 299 basis points in the third quarter.

Our growing servicing portfolio perfectly complements our origination strategy and ensures we can serve our customers through the entire mortgage journey. The unpaid principal balance of our servicing portfolio grew to a record level of $162.1 billion as of December 31, 2021, compared to $145.3 billion as of September 30, 2021. Servicing fee income increased from $64 million in the fourth quarter of 2020 to $114 million in the fourth quarter of 2021.

While relatively low market interest rates continued to result in faster prepayment rates, we were able to retain many of these customers as our organic recapture rate for 2021 increased to 72% as compared to 64% for 2020, highlighting the strength of our deepening customer relationships. We are extremely proud of our progress because this growth was against the backdrop of our growing servicing portfolio in-house and relying less on third party sub-servicing partners.

We have invested our in-house servicing capabilities, and by growing the portfolio and bringing more servicing in-house, including our recently announced Ginnie Mae servicing, we leveraged the infrastructure and created the scale to increase the earnings contribution from this recurring countercyclical business line.

This progress is demonstrated by the cost of servicing our portfolio as a percentage of the unpaid principal balance decreasing from 3.6 basis points in the fourth quarter of 2020 to 2.3 basis points in the fourth quarter of 2021. This figure represents all servicing costs, including sub-servicing, personnel, and other G&A costs. We expect this trend to continue as we grow our portfolio, leveraging our investment in this business while also providing a better customer experience.

Our total expenses for the fourth quarter of 2021 decreased by 7% from the third quarter of 2021 due to lower variable expenses on lower loan origination volume and lower marketing expenses reflecting a seasonal decrease in spend. Our focus on efficiency and scale have resulted in total expenses as a percentage of total originations decreasing even as our market shares continued to increase in 2021.

As we look ahead in the first quarter of this year, and assuming no material changes in interest rates or the competitive landscape, we expect total weighted rate lock volume of between $19 billion and $29 billion, reflecting the recent increase in interest rates and seasonal slowdown in demand. We also expect loan origination volume between $19 billion and $24 billion. We expect first quarter pull-through weighted gain on sale margins of between 200 and 250 basis points, reflecting the increased competitive pressure.

Considering the operating environment that we are expecting, we intend to continue paying our regular quarterly dividend currently yielding 6.8% based on yesterday's closing price, providing an attractive current return to our shareholders.

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

Anthony Hsieh

Thank you, Pat. While Pat just laid out our expectations for the first quarter, let me take this opportunity to share how we're thinking about 2022.

The Mortgage Bankers Association expects mortgage volumes to decrease by 35% this year. This is neither unexpected nor unprecedented. It's a repeat of the numerous cycles I've experienced over the

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course of my career. What makes this one unique is that this may turn out to be the first sustained market decline since the passage of Dodd-Frank.

Many of our competitors have not been tested during both a significant market downturn and a more restrictive regulatory environment. Many of our competitors may find it difficult to grow or even maintain their volumes without significant increases in customer acquisition and marketing costs. At the same time, loan officer compensation structures are less flexible in this post-Dodd-Frank environment. The result is that expense structures are going to be significantly tested.

Our diversified origination channels, end market retail, direct-to-consumer, wholesale, and joint venture partnerships allow us to flex as the market changes. Additionally, our investment in our in-house servicing platform and growing servicing portfolio should prove to be valuable assets as interest rates increase.

Together with our investments in our tech stack and brand, we bring a set of unique and differentiated assets that position us to successfully compete in a never-before-seen market environment. These advantages are attractive to talent, and we see enormous opportunity to attract high-performing loan officers to loanDepot as weaker models come under increasing pressure in the months to come. We are also doing the necessary work to ensure our operation appropriately reflects our expectations for the changing market. We are adjusting our capacity to align our cost structure with our expectations for volume.

We will continue to invest in technology to drive operational efficiencies in our in-house servicing platform to drive deeper customer relationships, and our retail and JV origination capabilities to drive purchase volume, and in our brand to drive top of the funnel consideration. We have the capital, liquidity, brand awareness, and employee talent to continue seizing market share even as total market origination volume falls.

We believe this will pay dividends when the market improves as we will be poised to start the next cycle in a dominant competitive position. We are well-positioned to demonstrate the long-term value of loanDepot by remaining focused on our strategic priorities while seizing share from competitors that may not be capable of withstanding these challenging conditions. As I noted in my previous comments, the real estate industry will consolidate, and I believe we've already seen that begin.

There is an excitement and enthusiasm throughout loanDepot as we prepare to demonstrate the power of the Company to outperform when the market is challenging. We are looking forward to sharing our success with all of you.

I am a strong believer in this Company, so much so that in the last quarter, I personally bought $10 million of our shares on the open market. In my opinion, loanDepot represents an incredible value, and I am confident we will continue to accelerate our growth, increase our 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 the home ownership journey and becoming the most trusted homeowner fulfillment company in the world.

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

Operator

We'll take our first question from Doug Harter with Credit Suisse.

Douglas Harter

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Thanks. If I look at Page 16 of your presentation about your expenses, that's had a downward trajectory. Could you just talk about your expectations for the expenses in '22 and beyond, in light of a smaller overall market?

Patrick Flanagan

Thanks Doug. This is Patrick Flanagan.

As you noted on the presentation, we have made steady progress and over the last five years taken our expenses from 369 basis points at the peak of total expenses down to 223 basis points. We're continuing to focus on adjusting our capacity, vendor consolidation, changes and reductions in our real estate footprint as a result of capacity adjustments and increasing CAT (phon) efficiencies.

You noted in contracting markets sometimes you'll see marketing expenses increase slightly as there is more competition for a reducing number of leads, so although we're not providing specific guidance on the expense levels, our focus is continued efficiencies. What you will also see is that we are going to continue to invest in technology and continue to invest in growing our balance sheet and growing our servicing business.

Douglas Harter

Got it. I guess if you could just talk about how comfortable you are with your current overall expense level compared to where you had the gain on sale margins in the first quarter and your expected level of profitability in the near term?

Patrick Flanagan

Well, as a CFO, we're always working on becoming more efficient, and we're very focused on that through the first quarter as have we been throughout the last year to make sure that we adjust our capacity to what the market size are. The bigger unknown is where gain on sale margins will be in the face of uncertainty in origination demand. I think we're expecting and we're driving the business towards the guidance that we gave on pull-through weighted locks and lock margins for the quarter.

Anthony Hsieh

Hey, Doug, it's Anthony Hsieh. Let me just complement Pat's responses by rewinding a bit and talking about GOS.

Keep in mind that the pressure to GOS is a reflection of the shrinkage in the marketplace, going from $4 trillion-plus last year to $3 trillion. Historically, any time you have a $3 trillion market, it's time for celebration, except for this year because you're coming off of a $4 trillion high, which was a record-breaker for the industry.

Because the industry is trying to push out a trillion dollars of capacity, you have this GOS pressure. Keep in mind, that GOS is going to continue to adjust according to some of the irrational behavior of competition trying to keep its capacity full without layoffs or workforce reductions.

Now, I also want to point out the fact that even during a pressured state like the industry is seeing today, you're still looking at around 300 basis points all-in from cradle to grave, and we have to remember, yes, expenses, labor is critically important for any sort of scale player such as loanDepot and our competitors, the majority of cost in that GOS is still marketing and sales.

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Marketing and sales is where the pressure is, not necessarily the fixed expenses, so we need to pay particular attention to that. Sales and marketing is well over 100 basis points and still climbing, so as that sales and marketing eats up the biggest chunk of the available 300 basis points, and if you're in the wholesale business, you're splitting that 300 basis points with your originator, which is your mortgage broker, so you can really see where the pressure is to both sides. There's a lot of pressure if you're a sales and marketing company, and there's a lot of pressure if you're a funding or a lending company.

Regardless, sales and marketing, performance lead management and marketing, brand recognition, and conversion is going to make a difference, so this is where we are highly confident going into this sort of head sea (phon), if you will, simply because we have some of the differentiated asset that we've been working on for the last 12 years. Most of the cost structure within that 300 basis points is still sales and marketing.

Douglas Harter

Great. Thank you.

Operator

Next we'll go to Kevin Barker with Piper Sandler.

Kevin Barker

Thank you. Given you're continuing to drive market share here and margins remain under pressure, do you feel like you can continue to sustain positive earnings in the near term, even though there's quite a bit of pressure here, especially in the first quarter? I understand it probably will get seasonally better in the second and third quarter, but do you feel like you have the operating efficiency levers to be able to maintain that profitability and book value growth throughout 2022?

Patrick Flanagan

Kevin, it's a great question. I think we try to answer that with the guidance we give you. We think that it's a little bit of a shrinking market with closed volume decreasing between $19 billion and $24 billion in the first quarter and pull-through weighted lock volume between $19 billion and $29 billion. As Anthony was saying, where the pressures come in is in marketing and sales, but we're very focused on our themes of profitable market share growth, so we haven't provided all of the answers and we understand that, but we're busy adjusting capacity, vendor consolidation, and working on additional tech efficiencies with the goal in mind of profitable market share growth.

Kevin Barker

Okay, and then how would you balance the opportunity cost of driving market share gains at lower profit margins today versus the potential for much greater profit margins in the future? Maybe in other words, can you estimate what the difference in profitability may look like today versus what you think you could produce at some time in the future, assuming we don't have another refi wave like we did in 2020 or early 2021?

Anthony Hsieh

Hey Kevin, it's Anthony Hsieh. Let me try to respond to your last question.

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I would just (audio interference) everyone that profitability could change instantly as this pressure starts to lift. This pressure could last another one, two, three quarters, but it will go away within that amount of time provided that the market stays right around $3 trillion. Now, if it shrinks to $2 trillion, $2.5 trillion, that pressure will continue until the industry gets right-sized in capacity.

What is important to me, and I've seen this many times over, is for us to continue to build on our assets. As an example, we are the second brand now as a non-bank lender in the country. Our brand lifted by 80% last year in brand awareness. Our web traffic increased 50% year-over-year last year as we continued to build out a national brand. That is hard to measure in profitability, and we all know there is significant barriers to entry in this marketplace. If you are not a scale top 10 lender today, most likely there will not be any newcomers in the top 10 for the next five to 10 years. It is over if you're not in the game today.

While this market continues to adjust and this trend continues to mature, the total addressable market just gets larger. Because of household formation, new home sales, average loan net increases, there's just more prize for us around the next corner, so although this quarter, next quarter is important and we certainly look at those numbers religiously every day, looking at expenses and studying our competition, it's the long-term view that allows us to be disciplined to continue to invest in the technology, efficiency, brand, and market positioning.

Kevin Barker

Okay, I appreciate that and I think that makes sense, and it will drive value over the long term. What I'm trying to find is, is there any way to quantify what you expect these investments to generate as far as profitability targets, whether it's a return on equity, return on assets, or some type of long-term profitability goalpost that you're targeting, given these investments that you're making?

Anthony Hsieh

Yes, very, very fair question, and I get that. The hard part to quantify is the GOS, the return of GOS, so as I talked about before, once that pressure starts to lift, the industry is less likely a motivator to sell dollar bills for $0.80 so that GOS will return, and that GOS returns very fast in a very big way and much, much faster than you're able to improve efficiency.

Efficiency gains over a long period of time gives you a competitive advantage during a downturn. Profit is recognized in this industry when capacity starts to catch up and volumes return. It's the GOS that fuels the profitability, not necessarily expenses. Expenses is your competitive advantage during a market like this.

Kevin Barker

Got it. Thank you for taking my questions. Thanks, Anthony.

Anthony Hsieh

Of course.

Operator

Next we'll go to James Faucette with Morgan Stanley.

James Faucette

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Hey, thanks a lot, and thanks for taking the time this morning. I wanted to follow up on the GOS question there, Anthony, and your comments.

When you look at the market overall, I'm wondering how much are you reacting to what's happening with GOS, etc., versus being a player in what's happening there in an effort to try to gain market share and gain that long-term advantage with the customer base?

I ask that because you're now at a size where you would think, or at least I would think that we would start to see yourselves be able to influence what those levels are at, so I'm just trying to think through if you're looking for share and others are, how much of an impact that may be having and why you think that should abate over the course of 2022.

Anthony Hsieh

James, we have daily morning huddles on market conditions, competitive pricing pressures, and overall pricing strategy on a daily basis, so we are very close to the vibrations of the road, if you will. So far, we have not been a participant in creating the market pressures. We study what the market is doing and we certainly try to maximize our revenue opportunities while making absolutely certain that we're competitive and there is no decay to our conversions.

We are a Company that very much evaluates our top line marketing return on investment. We are not a legacy mortgage company where we're just waiting for our loan officers to create business for us, so there is a fine line between being aggressive on conversions, which is pricing, versus making absolutely certain that we maximize what the market gives us. I would say currently, it doesn't mean we won't be aggressive and to lead the market—we may, but for now we constantly look at the market conditions every morning and we try to adjust our pricing accordingly.

James Faucette

That's really helpful context, Anthony.

My follow-up question was just with the rising interest rates, and you mentioned cash-out refi, where does that specifically fit into the strategy and is that meaningful enough of a segment to contribute to your outlook for 2022? Just wondering how we should think about the changing potential products in the market overall, especially from loanDepot.

Anthony Hsieh

We are in historical times. Keep in mind that no cycle in previous history where Fannie, Freddie, FHA, and EA own 90% of the fundings in our industry, so going back to the last cycle, 60% was non-government agency fundings. Let me say that again – so, previous to Dodd-Frank and previous to the financial crisis of 2007, and for the three to four decades prior to that, greater than 50% of the liquidity is driven by private mortgage products. Today after Dodd-Frank, that market has not returned. Non-QM is a very small portion of the industry (inaudible) greater than 90%, so the industry is still somewhat restrictive to the type of credit that we are able to offer through ability to repay and the non-QM rules and Dodd-Frank.

As I said in my opening comments, this is a first, everybody. This is the first significant downturn in pressure that is completely different from cycles before because of our regulatory environment, so the purpose of loans doesn't change the product of the loan. The product of the loan is still pretty much the same: 90%-plus Fannie, Freddie, FHA, and EA. How the consumer utilizes these products is changing.

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Simply because of rising interest rates, the rating term market is starting to disappear, but you have lots of consumption out there from consumers, and the best way to leverage consumer credit is still through a cash-out refinance in the 3% range versus any other type of credit that a consumer can lever.

Now, the amount of volume through a cash-out refinance is going to be much smaller than rate term in 2020 but it's still massive, but if you have 10 people or 10 companies chasing after eight consumers, this is what is creating the GOS pressure, but that capacity will normalize and then GOS will return. It does every time. I can guarantee you that. We believe that's going to happen. In our opinion, the pressure is going to last anywhere from one to three quarters.

Patrick Flanagan

Just to add a little numbers in addition to what Anthony said, the transition for us, and focused on less interest rate-sensitive consumers, is well underway. For the fourth quarter, for example, the percentage of loans that were purchase and cash-out refi in our total originations was 75%, so we've already made the transition and are continuing.

James Faucette

That's great. Thanks for all the data and input.

Anthony Hsieh

Thank you, James.

Operator

Next we'll go to Trevor Cranston with JMP Securities.

Trevor Cranston

Hi, thanks. Good morning. A question on the servicing business. The MSR assets obviously grown pretty substantially over the last year or so. Now that you—you know, when you look at it now, it's larger than the Company's equity base. Can you talk about how much capacity you have to continue retaining the majority of your MSRs on originations, maybe in terms of the financing you have in place for that?

Then second part of the question, I think you mentioned that the expectation was that the cost to service should continue trending downwards over time. I was wondering if you could maybe provide some context around what level we should think about that getting to over the next year or two. Thanks.

Patrick Flanagan

Sure. The level of MSRs to tangible net worth is a great question, and it kind of falls into our capital management strategy. We continue to look at our balance sheet to make sure that we're maintaining healthy levels of both liquidity and leverage, and the retention rates and construction of the MSR assets are a big lever that we can use to moderate that. As noted, we have very little leverage against the MSR assets and we have additional capacity there to raise cash, but we also look at the market and from time to time sell MSRs in the form of bulk sales or co-issue deals, and we generally try to be strategic in what we keep on balance sheet, and we try to keep loan profiles where we have the best opportunity and chance to refinance the customer and build over the long-term value and lifetime value of that customer.

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I think you'll see us maintain leverage and liquidity ratios that are similar to or close to where they currently are.

Trevor Cranston

Great. Okay.

Patrick Flanagan

As far as cost of servicing, we expect continued improvement as we move off of the sub-servicer platform, more towards in-house. I don't have specific guidance to give you on where those costs can go. It's kind of a combination of the speed in which we continue to transfer (inaudible) and the economic conditions around delinquency levels and the retention rates as the platform scales, but there is more room to get more (inaudible) for sure.

Trevor Cranston

Okay, got it. I think you mentioned in the prepared remarks the intention to maintain the $0.08 dividend level. I was curious if you could just share some thoughts around why you guys are comfortable with that, given the near-term competitive pressures on earnings, and if there's an environment that would potentially cause you to revisit the level that the dividend is currently at. Thanks.

Patrick Flanagan

Yes, well we started our life as a public company with the idea of creating shareholder value through a multitude of tools, and earnings is one of those and paying a dividend is another, and we think it's a great opportunity to be a growth company that generates cash flow where we're comfortable paying that. We think that we're an incredible value in today's market: the 6.8% dividend yield, based off yesterday's close price, is certainly attractive in today's market, and we continue to evaluate all the tools available to create shareholder value.

When we have the free cash flow like we have, we'll continue to want to maintain that regular dividend. We think it's one of the attractive things about our Company.

Trevor Cranston

Yes, okay. That's helpful. Thank you.

Operator

Next we'll go to Arren Cyganovich with Citigroup.

Arren Cyganovich

Thanks. I guess just following up on that last question, the midpoint of your guidance range equates to about $540 million of gain on sale, which is a reduction from the 4Q level in 1Q, and you made $0.09 last quarter, your dividend is $0.08. I know everybody is focused on cost, but we're not getting an answer that I think seems satisfactory from a cost standpoint. You talk about over-capacity in the industry, but it seems like you have yourself over-capacity and that you need to right-size your cost structure.

Patrick Flanagan

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Yes, well I think I've mentioned it multiple times already that our focus on expenses is adjusting our capacity and gaining additional efficiencies in technology, and so we are very mindful of what the market size is. I would point to the fact that quarter over quarter and year over year, we've continued to reduce our expenses, and so I think our experienced management team, we've been through these cycles before and we're well prepared to adjust our cost and continue to focus on the things that drive long-term value and put us in a position to take advantage of opportunities when the market presents.

The other thing about loanDepot is we have—and I think in my opening remarks, I said our focus is on profitable market share gain, and that will continue to be it. We have a long history of—our biggest market share gains have come in the toughest markets and shrinking environments, and so those are where our focus is going forward.

Arren Cyganovich

It seems to me that both you and Rocket actually gained market share in the disruptive environment of when the pandemic first hit. It seems to go against what you're saying about gaining market share in a tighter mortgage environment. If there is indeed over-capacity and there's more competition, that equation doesn't really make a whole lot of sense to me, to gain market share when there's more people fighting for a smaller pie.

Patrick Flanagan

I think it's the strength of our business model that allows us to do that. The diversified channel with a nationally recognized brand gives us a competitive advantage when it comes to competing with others in the marketplace for a shrinking number of customers, and then the growing power of our balance sheet with over half a million customers in our servicing book today, and so I think that the combination of all those things is what makes us attractive.

I would just point back to our history. Our biggest gains in market share growth have come in the contracting markets. Our biggest profit comes in expansions of market conditions like 2020, but we had less market share gain in 2020 than we did in times when the market shrinks.

Anthony Hsieh

Hey Arren, it's Anthony Hsieh. I think your question is warranted, and let me just explain a little bit mechanically why loanDepot is very, very different.

In contemporary times today, again post Dodd-Frank, we are arguably and, we believe, the most diversified modern time originator in today's marketplace. In addition to having consumer direct, and market retail, joint venture, third party origination which is the broker channel, if you look at our two largest competitors, one is almost 50/50 between consumer direct and wholesale, the other one is 100% wholesale. They're all great businesses, they're great competitors, we certainly respect both of them, but if you look at our model, we are fishing from a lot more pond than our competitors.

When it comes to different marketplaces where there's consumer direct, and consumer direct is a very hard model to build because you're not relying on existing loan officer relationships that brings you business. That is more of your end market loan officer universe. Then certainly wholesale, you're waiting for a mortgage broker to be an originator for you. Consumer direct, which is our number one competitor, and arguably there's only two scale lenders, you'd have to have a very sophisticated marketing machine, and you have to be able to generate leads offline, online through multiple efforts and then track that lead in a way that is performing like a digital business.

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Even today, last year we generated over 10 million top of the funnel leads, and we expect to have at least that level going forward this year in a market that's decreasing 30%-plus. If we just look at that alone, this year we would drive as many digital leads at the top of the funnel as we did last year, while the market is forecast to decrease by 30%. That's going to give us an opportunity to increase market share. Why? Because we have the scale, we have the brand, and we have the performance marketing asset that most of our legacy competitors in the mortgage industry do not have.

Arren Cyganovich

I appreciate that, and that was one of the reasons why we thought favorably of your Company into this, but the strategy doesn't appear to be resonating with investors. Even folks that have wholesale-focused or correspondent lending-focused businesses are trading at higher multiples than you are, so there seems to be a disconnect between your story and what investors are willing to pay for that. I'll just make that as my final comment.

Anthony Hsieh

Yes, and my response to that is we're obviously disappointed as well, but this is the second inning of a long game here, and we certainly are very disciplined to our approach.

Operator

Next we'll go to Stephen Sheldon with William Blair.

Stephen Sheldon

Hey, thanks for taking my questions. Most have actually been asked and answered, but curious what the new product pipeline looks like. I think you mentioned before the potential to add more products and services in 2022, so it'd be great to get some more detail on what that could look like and, I guess, whether M&A could factor into that at all.

Jeff Walsh

Hi, this is Jeff Walsh. Thank you for the question. We're going to continually look to surgically add products, as we have done already as we've seen the loan purpose shift in the fourth quarter. We have the capability due to our diversification to be surgical in terms of specific markets as well as specific channels, where products can enhance our opportunity for profitable market share growth, and that includes some potential non-QM, but we're going to be very mindful about our operational efficiency and the impact that that might have to our expense structure, so we want to have very efficient products in the mix.

In terms of M&A, we always are open to the M&A opportunities, always curious about M&A, but we want to be responsible there as well. They have to be the right deals and in a realistic context of value, and we just haven't seen that as of yet but hoping to see something in the future for sure.

Stephen Sheldon

Got it. Thank you.

Operator

Next we'll go to Mark DeVries with Barclays.

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Mark DeVries

Yes, thanks. Was hoping you could give us a sense of where your gain on sale margins trended in January and where that is relative to the guidance range you provided for the first quarter, and also, are you seeing any difference in the levels of margin resiliency across your different distribution channels, or are they all kind of under similar pressure?

Patrick Flanagan

In January, I don't have good answers for you since the month ended just yesterday, so we haven't had a chance to do it, but we're comfortable with the range that we provided of 200 to 250. I will tell you, just in the last couple of weeks, we've seen a little more resiliency in margins across all of the channels, and so we haven't really provided guidance specifically, but that resiliency is in both the partner side and the retail side that we're starting to see.

Mark DeVries

Okay. Got it.

Anthony Hsieh

Mark, it's Anthony Hsieh. Let me just add my two cents on top of that.

Generally, and this year is no exception, January looks better than December from a revenue standpoint, but it's too early to tell whether this trend is going to continue all the way into tax season. Typically, what we look at is January all the way through April if the revenues hold up, and then beyond April 15 tax date, generally is when you as a mortgage company start to earn greater profits from a seasonality standpoint, but as of this point, I think it's still—I'm still saying it's very early to detect.

I wanted to just go back to letting everybody know that the pressure is going to be on customer acquisition. Relationship selling in mortgage business has been the vast majority of the method through how a homeowner or a customer is found in the last few decades, but as digital disruption and devices change the consumer's behavior, many consumers are now looking at advertising, branding to select their mortgage companies, so originators, whether they're doing direct mail or participating on Google Search, without a brand it's a much harder effort for them to acquire customers digitally without scale, without an infrastructure of a performance marketing team, but in a year like 2020, everybody is a winner when it comes to customer acquisition.

This year, a few will win when it comes to customer acquisition exercises, so the pressure point is more at the front end, and that's what we pay most attention to. Acquiring a customer, just like in any business, is still the hardest thing to do, so that is what we watch carefully and we won't really know until the end of the first quarter, but so far in January, we're seeing the same pattern as previous years.

Mark DeVries

Got it. I appreciate it's still quite early, but Anthony, what are you seeing from your competitors' efforts to start removing capacity, and what's your optimism that we can get to some new equilibrium sooner rather than later?

Anthony Hsieh

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The pressure today is already allowing the industry to shed capacity, so as that accelerates, the faster that accelerates, the faster you're going to see the return on GOS, so it depends on what the 10-year yield does. If you look at what happened last year, we had a little blip and drop in rates, and that gave the industry a little bit more life, and capacity adjustments stopped during those times, but it's very active now.

As the industry is shedding capacity, everyone is sorting through what they need to do. Some companies will shrink more than others, but eventually it's going to get to a point where it right-sizes with the $3 trillion or whatever the volume is this year. To answer your question, it depends on if the rates drop. If the rates drop, there's going to be a delay but profits will return in the short term, and once profits go away and that GOS gets pressured, you're going to have capacity management again.

Mark DeVries

Okay. Got it. Appreciate it.

Operator

Next we'll go to John Davis with Raymond James.

John Davis

Good morning guys. Two quick ones.

First, just on purchase versus refi, how do you see that playing out this year? Obviously purchase will be a much bigger percentage of the market assuming rates stay here or grind higher, but how does that impact loanDepot's market share gains as we shift to more of a purchase market? I'll start there.

Anthony Hsieh

It's Anthony Hsieh, John. This is one of our advantages as we have such a diversified origination strategy. Our in-market loan officer, in-market strategy, along with our joint venture partners, primarily drive purchase business. The refinance business is a nice-to-have in those channels, but the purchase business is our primary focus. We made the decision to be in this business back in 2012 and made our first acquisition through 2013, successfully integrated, and then we had our second acquisition through in-market model in 2015 and successfully integrated that.

We've grown both of those businesses successfully over the last few years. We continue to be very disciplined and very committed to this business along with our joint venture business, and then on the consumer direct side, it gives us an opportunity to surgically go after noninterest rate-sensitive business, such as debt consolidation, cash-out, and we have seen that shift over the last quarter as well. It gives us the opportunities to shift because of the different types of origination channels that we have.

John Davis

Okay, that's helpful. Then this has been asked a couple ways, but from a capital allocation perspective, the $0.08 dividend, maybe we can just start with how was that level of $0.08 decided upon at the time? Would you guys target on a multi-year basis a certain percentage of payout of earnings, and in the form of dividend there's some sort of payout ratio? How should we think about that going forward, and may it make sense to buy back some of the bonds that are trading at similar or higher yields with that capital? Just maybe the push and pull of how you guys think about capital allocation more broadly.

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Patrick Flanagan

Sure. This is Pat. I can take that. We originally established the dividend in the range of a payout ratio and believe it's important to maintain a consistent dividend over time. We understand the yield changes as a result of that, but we're comfortable with returning that level of capital back to our shareholders.

We think we can do all the things that we talked about, which is that we can continue to grow organically, we can continue to invest strategically in the balance sheet, and we can continue to return value to shareholders in the form of regular dividends with the capital base and the business that we've constructed.

John Davis

So if I'm reading between the lines here, you guys feel comfortable with an $0.08 dividend yield, not just for the quarter but going forward as we go through the rest of '22 as well? Am I going too far there?

Patrick Flanagan

No, we expect to and intend to maintain our quarterly dividends.

John Davis

Okay. All right. Thanks guys.

Operator

Next we'll go to Ryan Nash with Goldman Sachs.

Ryan Nash

Hey, good morning, Anthony. Good morning Pat.

Patrick Flanagan

Morning, Ryan.

Anthony Hsieh

Morning.

Ryan Nash

A lot of questions asked regarding cost, profitability and margins, so maybe just to go at it in a little bit of a different way. Anthony, despite the pressures, you seem to have some degree of confidence in margins improving over, I think you said one to three quarters, but when I think about the competitive dynamics in the industry, we obviously have some in the wholesale channel that are trying to shift capacity to that channel, and that could mean that as this is prolonged, you could end up with pressure on margins lasting for longer.

How do you think about those competitive dynamics getting factored in, and then second, if this doesn't prove to be one to three quarters but it's six or eight or lasts longer, what's plan B in terms of managing the profitability of the Company?

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Anthony Hsieh

Ryan, all great questions and comments. I'll just tell you this. I've been doing this since 1986, so the confidence that you hear in my voice is not from any sort of a (inaudible) exercise. I've seen this before many, many, many times, and this is very early. We also need to understand that as much as respect I have for all of you, this is a whole new community understanding this industry post financial crisis, so we're all getting educated together on this particular cycle.

This is a very unique industry. It is a phenomenal, very exciting industry, but look, when you have an industry that can adjust 30% year-over-year, you're going to have to work on your manufacturing plant, you're going to have to squeeze the efficiencies, and you're going to have to work on your costs, you're going to have to work on your machines and the overall size of your manufacturing plant.

Now that said, the way I look at it and what I believe is you get right-sized and work on your efficiency in order for you to maintain and penetrate additional market share, and you need to survive, but the ultimate in this business is your ability to scale when the market comes back, because as soon as it goes down 30% one of these years or one of these quarters, it's going to go up by 20% or 40%, or in the year 2020 we can look at how much volumes went up in 2019 to 2020, and you have to maintain that optionality and you have to be ready to scale.

As our first year as a public company in 2020, we printed $2 billion in pre-tax earnings of a Company that was organically started just 10 years ago, so not too many companies were created de novo as an organic start-up and 10 years later print $2 billion in profitability. We maintain that optionality, and next time when the market comes back, and it will, and that total addressable market is going to be larger, and the barrier to entry is going to consolidate this market and we're going to be ready.

Now in the meantime, we need to continue to be very disciplined quarter over quarter, week over week, morning over morning as we look at our pricing structure, but that is a bit of a noise for me because I look at cycles and I look at trends, and we have to be ready for the next cycle as this trend continues to develop.

Ryan Nash

Got it. Appreciate the color. Go ahead, Pat.

Patrick Flanagan

Yes, what I wanted to add is the strength in the balance sheet, so we made a lot of money in 2020, we elected to reinvest a lot of that in growing the servicing book, and so if you look at we're now over 500,000 customers and over $162 billion on the servicing, and so growing the balance sheet and having countercyclical revenue streams, including other non-mortgage originations, so growth in title and other things, help insulate that, and that earnings per power from the balance sheet is starting to be significant for us.

Ryan Nash

Got it. That makes sense. Just as a follow-up, Anthony, just one comment. I think a lot of us are looking at the economic backdrop, potential for higher rates, and I think we're having trouble just seeing how do the cyclical pressures and competitive pressures abate in this type of environment, so maybe any color you could give on that.

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Then a more specific question for Pat, can you maybe just talk about the level of revenues or margin to be cash flow breakeven, and maybe can you just remind us of some of the levers you can use to generate cash flow in the short to medium term, and what's a comfortable level of cash to run at? Thank you.

Anthony Hsieh

Ryan, let me take that, and I don't want you or anybody to think that I'm ever being slippery with my answers, because I'm not, and I'm going to be always very direct and very transparent. Let me just give you an example.

The most—the highest level of analyst in our industry is the Mortgage Bankers Association. They are obviously the trade. The Mortgage Bankers Association over the course of the last six years have provided guidance in December of what they believe the mortgage origination market is for the following year. They have missed it by 36%—actually no, 40%-something for the last six years, so forecasting mortgage volume is very, very difficult to do, and even the MBA and Fannie and Freddie get that wrong every single year.

What is consistent about controlling our business is to be able to pivot with a low-cost structure and then having the optionality to penetrate market share. That's why when we came back in 2010, we purposely went after all of these different assets, diversify origination channels, building a brand. None of this happened by mistake or an accident. All this was purposely built, so as the trend continues to deepen, pressure is good. Pressure is what allows a great company to be better positioned when the trend changes.

It's very difficult for us to tell you exactly what the expense structure is going to be because if I was just a wholesaler, I could just tell you what it would cost once the mortgage broker gives me the loan, when I set it up, when I fund it, when I underwrite it, capital market costs, but I am not just a wholesaler. We are a digital business that all day long, we look at how to acquire a customer. Customer acquisition is an art and a science. That's what gives us our unique competitive edge is that customer acquisition ability. That makes us a disrupter, but that's also hard to forecast. We're not trying to be slippery, but we need to understand that our model is uniquely different.

Ryan Nash

Got it. Thanks for that.

Patrick Flanagan

Ryan, I can give you some numbers to answer—yes, so some of the numbers. If you look on the investor deck on Page 16, for the year we had 223 basis points of expenses. Most of that is cash expense, and so that gives you a fairly good proxy to understand where cash flow breakeven would be without the balance sheet, just on origination activities.

We have a lot of levers, so safe to say that if you were keeping 100% of your servicing, you'd have to have the cash portion of the securities sales or home loan sales be above that to be cash flow breakeven. but the reality is we don't keep—you know, we retain somewhere, and it depends on market conditions and our need for cash, we keep a good portion invested in, but that's one of the levers we have is what are we selling in whole loans, what are we selling in (inaudible) deals on a monthly basis to generate cash flow, and then we have very modest leverage against the $2 billion in servicing assets and we have elections for cash flow.

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Two ways there. One is in short term borrowings secured by our MSRs, in which credit is readily available, and secondly is sales in the MSR market and it's a very robust MSR market. We continuously look at capital management and we have ratios that we look at as far as MSRs to tangible net worth and leverage and liquidity and the minimum amount of cash, and so just as a benchmark, and it's not a hard guideline, we feel like if we have cash on hand plus immediately available liquidity in the form of lines of credit that's equal to at least 5% of our total assets, we're in good shape.

Ryan Nash

Thanks, Pat.

Operator

We've hit time, and those with any additional questions should reach out to Gerhard Erdelji.

I'll now turn the call back over to Anthony Hsieh for any additional or closing remarks.

Anthony Hsieh

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

Operator

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

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