loanDepot

First Quarter 2002 Conference Call
May 10, 2022

Operator: Good morning. And welcome everyone to loanDepot's First Quarter 2022 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: 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 first quarter 2022 results. 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 and expenses. 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 Web site at investors.loandepot.com under the Events and Presentations tab.

On today's call, we have loanDepot Founder, and Executive Chairman, Anthony Hsieh; President and Chief Executive Officer, Frank Martell; 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; and our Chief Revenue Officer, Jeff Walsh, to help address any questions you might have after our prepared remarks.

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

Anthony Hsieh: Thank you, Gerhard and good morning. 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. The results from the first quarter reflected in an environment that may turn out to be one of the most challenging that our industry has ever experienced. The increase in mortgage rates during the quarter happened much more quickly and sharply than anyone anticipated when the quarter began, and result in significant and rapid decreases in profit margins. Environments such as these are why we built loanDepot the way we did. Our diversified channel strategy, scale, balance sheet strength, and ample liquidity allows us to be nimble and adapt to changing market conditions. We have

pivoted our business to generate more purchase loan volume and are adding new products and services to meet the financial needs of our customers in today's market.

Intense competition, lower volumes and decreasing profit margins are putting pressure on the entire industry, which I believe creates long-term opportunities for loanDepot to outperform less efficient and less diversified competitors. To accelerate execution on that goal, we have recently announced a major addition to our executive management team. Going forward, I will assume the role of Executive Chairman, overseeing company strategy. Frank Martell has joined us as President and Chief Executive Officer of loanDepot. Frank has over 30 years executive leadership experience, most recently as CEO of Core Logic, and has also served on the Board of Directors of the Mortgage Bankers Association. Frank will drive daily operations with the company's executive management team, reporting to him. Along with George Brady, our Chief Digital Officer driving the technology and innovation and Zeenat Sidi, President and COO of our operating unit, mello. Frank continues the enhancement of our C-suite. The addition of these industry leaders will allow us to accelerate on executing the strategies for the next stage of the company's journey to innovate and disrupt the mortgage industry, to serve our customers in their home ownership journey and to create long-term shareholder value. I am excited for this opportunity, both personally and for the company.

With that, let me introduce Frank Martell, loanDepot's President and CEO. Frank?

Frank Martell: Thank you, Anthony. Before I begin, on a personal note, I'd like to thank you and the rest of team loanDepot for a very warm welcome. I'm excited about the opportunities ahead of us to drive significant employee, customer and shareholder value creation in the medium to longer-term. Since its founding 12 years ago, loanDepot has grown rapidly by employing diverse origination strategies, innovative and proprietary technologies that drive customer acquisition, service and satisfaction and introducing exciting new products and services that meet the evolving needs of the marketplace. Our growing service business and diversified multichannel origination strategy, as well as our nationwide marketing reach is unique within the industry. Under Anthony's leadership team loanDepot has become the scale leader, which provides the company with a durable platform to bolt on profitable solutions and adjacencies, which over time can drive further scale and help to reduce cyclicality. Along these lines, last week, we announced the third quarter launch of our mello HELOC solution. This all-digital HELOC will let homeowners quickly and efficiently access record levels of home equity while preserving the historically low interest rates of their first mortgages.

While we remain focused on profitable growth opportunities, the recent sharp downturn in refinancing volumes required a very aggressive focus on cost levels, as well as productivity. In a few minutes, Pat will provide some around our progress resetting the cost structure during the first quarter. As we move forward this year inline with our goal of achieving a profitable run rate exiting 2022, we will redouble our efforts to rightsize our costs inline with market conditions, ultimately leveraging our operating scale and aggressively driving quality and cost productivity will help us expand margins and importantly provide us with opportunities to participate in data and tech driven initiatives, designed to transform the home ownership and housing finance experience.

Despite its current challenges, residential housing is a $34 trillion asset class in the US with enormous opportunities for innovative customer focused firms, such as loanDepot. I believe loanDepot is poised to succeed through leveraging and expanding its unique lending and servicing solutions, driving cross productivity and process efficiency, and harnessing the collective energy and innovative spirit of the company's dedicated team.

With that I will now turn the call over to Pat Flanagan, who will take us through our financial results in more detail.

Patrick Flanagan: Thanks, Frank and good morning, everyone. During the first quarter, loan origination volume was $22 billion, a decrease of 26% from the fourth quarter of 2021. This was within the guidance we issued last quarter of between $19 billion and $24 billion. Our retail and partners strategies delivered $8 billion of purchase loan originations and $14 billion of refinance loan originations during that period. Our multichannel origination strategy has allowed us to successfully pivot our production to less interest rate sensitive purchase and cash out refinance transactions. This was partly driven by our ongoing investment in our in market retail channel. Retail loan officers increased by 9% year-over-year. These ongoing investments allowed us to increase the proportion of our purchase transactions from 19% a year ago to 37% in the first quarter, as well as increasing both cash out and purchase transactions from 43% to 83% during the same period.

Our pull through weighted rate lock volume of $20 billion for the first quarter resulted in quarterly total revenue of $503 million, which represented a decrease of 29% from the fourth quarter. Rate lock volume came in at the low end of the guidance we issued last quarter of $19 billion to $29 billion. 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 first quarter came in at 213 basis points. This also came in at the low end of our guidance for gain on sale margin that we issued last quarter of between 200 and 250 basis points, and was down from the 281 basis points in the fourth quarter. Rapidly rising interest rates and shrinking overall market size has caused significant margin compression, as the industry accelerates shedding excess capacity.

Our servicing portfolio complements our origination strategy and ensures that we can serve customers through the entire mortgage journey. Customer retention is one of our primary focuses in this channel. By controlling the entire customer experience and retaining all of their data in our in-house platform, we improve our operating efficiency by capturing additional revenue opportunities and leveraging our marketing and customer acquisition expenses across multiple products and services. This is reflected by our preliminary organic capture rate, which increased to 72% for the 12 months ended March 31, 2022, compared to the final capture rate of 67% for the same period ended March 31, 2021. The unpaid principal balance of our servicing portfolio decreased to $153 billion as of March 31, 2022 compared to $162 billion as of December 31, 2021. This reduction was primarily due to the sale of $24 billion of unpaid balance during the quarter. We're particularly pleased to note that the prices of these sales exceeded the fair value mark of the assets at the time of sale.

Reflecting these sales servicing fee income decreased from $114 million in the fourth quarter of 2021 to $111 million in the first quarter of 2022. Bear in mind that we hedge our servicing portfolio, so we do not record the full impact of the increase in fair value in a rising interest rate environment in the results of our operations. We believe this strategy is designed to protect against volatility in our earnings and liquidity. Our strategy of hedging the servicing portfolio is dynamic and we adjust our hedge positions in reaction to changing interest rate environments. We have invested in our in-house servicing capabilities and by growing the portfolio and bringing more servicing in-house, including our recently announced Ginnie Mae servicing. We leverage the infrastructure and create the scale to increase the earnings contribution from this recurring counter cyclical business line.

As of the first quarter, we service 67% of our portfolio in-house compared to 44% at the end of the fourth quarter of 2021. This increase was primarily due to the transfer of approximately $33 billion in unpaid balance from our sub servicer to in-house, resulting in $2.4 million of deboarding expenses during the first quarter. As part of our balance sheet and capital management strategy, we repurchased $98 million of our senior notes due 2028 at an average purchase price of 88% at

par. These transactions resulted in a $10.5 million gain on the extinguishment of debt and will result in annual interest savings of $6 million. During our call with you last quarter, we discussed our outlook for the market this year being between $2.5 trillion and $3 trillion. Now we expect that market will be equal to or less than $2.5 trillion, which means we need to further reduce our expense base to align with those lower expectations and accelerate our pace of reduction.

Looking ahead to the second quarter and assuming no material changes in interest rates or the competitive landscape, we expect pull through weighted rate lock volume of between $12 billion and $22 billion, reflecting the recent increase in interest rates weighing on demand. We also expect loan origination volume between $13 billion and $18 billion. We expect second quarter pull through rate and gain on sale margins of between 160 and 210 basis points, reflecting the significantly higher competitive pressure.

Our total expenses for the first quarter of 2022 decreased by $88 million or 13% from the prior quarter, due primarily to lower variable expenses on lower loan origination volume and lower marketing expenses. We are aggressively managing our cost structure to return to profitability by the end of the year. We expect to achieve this goal by further reducing marketing expenses and personnel expenses through the addition of headcount reductions. Despite these further expense reductions, given our expectations for decreasing market volumes and the competitive pressures on margins, we do not expect to be profitable for the fiscal year ending 2022. Given our expectations for lower volumes and gain on sale margins, the light in nature of our expense reductions. And as part of our balance sheet and capital management strategy, the board has decided to suspend payment of regular dividend for the foreseeable future. The board will consider resuming the dividend in the future once net income becomes consistent. But in the meantime, we believe retaining cash on the balance sheet is a better use for the long-term benefit of our investors.

With that, we're ready to turn it back to the operator for questions and answers. Operator?

Operator: [Operator Instructions] And our question will come from Doug Harter with Credit Suisse.

Doug Harter: You talked a little bit about the expense reduction being tied to more variable in the first quarter. I guess how should we think about what the fixed costs can come down and how we should think about kind of what your expense level as a percentage of volume can be kind of over the intermediate term?

Patrick Flanagan: So I think when you think about our fixed expenses, the vast majority of our expenses are people-related commission and volume-dependent. And so we'll continue to work primarily on scaling those to the current operating environment. We haven't and we don't intend to provide specific guidance towards the level expenses on go forward basis, but would point you back to our comments where we talked about the goal of returning to monthly profitability before the end of the year.

Doug Harter: And then, how are you thinking about the correct size of the MSR portfolio? How much more sales do you think you would do, the benefit of selling for liquidity versus kind of retaining and increasing your monthly cash flow?

Patrick Flanagan: Sure. We look at the balance sheet in three primary when it comes to our MSR book in a couple of combinations of liquidity and leverage, and then a ratio of the MSRs to our tangible net worth. And as I previously see stated, we like to manage the company with total non-funding debt, which is exclusive of our warehouse financing to tangible net worth in the range of 1 to 1.25 to 1. And we also like to manage our liquidity so that we have cash on hand and immediately available borrowings on our short-term MSR lines equal to at least 5% to 7% of total assets. You will see at

the end of the first quarter, we had substantially higher levels of liquidity than that. And in times of disruption, we tend to build more liquidity and guard that. And we have a couple of levers to pull so we can both decrease the level of MSRs that we book on a monthly basis and that is one of the strategies that we employ to maintain liquidity, and we can access the bulk sale market from time-to-time, and we like to stay active in both of those. So I think if you think about our balance sheet going forward within the constraints of those ratios, that's primarily where we think what we'll land. And again, I want to focus on that we believe the right thing to do in times of disruptive markets and in tighter margins is to maintain a very healthy amount of liquidity and moderate leverage on balance sheet.

Operator: Our next question will come from Kevin Barker with Piper Sandler.

Kevin Barker: So you are proactive in selling MSRs, it seems like there is still a pretty robust market for those. And then your debt continues to create a fairly sizeable discount to par. I mean, could it be possible to accelerate potential sales of MSRs in order to reduce that debt amount and potentially increase cash, would you consider going down that route?

Patrick Flanagan: As I said, I think if you look at the strength of the balance sheet at the end of the first quarter, we had very substantial amounts of liquidity. And by managing the amount of MSRs that we sell on a monthly basis, we can offset operating losses and maintain adequate liquidity in the market. We will and continue to look at the bulk sale MSR market from time-to-time. We've consistently done that throughout the years and we think it's important to be actively in that market. So we'll look at what the right combination is of co-issue deals and home loan sales versus selling the books. And we are comfortable with the leverage of where we are, as I said, non-funding debt, the tangible net worth of one to 1 and 1.25 to 1. When we start to exceed 1.25 and get near 1.5 to 1, that's when we usually access asset sales to kind of delever.

Kevin Barker: And then how much of your marketing spend is contractual in nature versus variable or discretionary? And then could you also give us a view on what production volume you've done quarter to date relative to your guide?

Anthony Hsieh: In terms of marketing, what I'd like to highlight is in a upward interest rate environment, your rating term refinances obviously disappear and the cash out refinances start to become more of the dominant percentage of folks that are acquiring refinances. This is the first time I think it's important for everyone to notice that this is the first time, post-Dodd-Frank, where the non-bank and the banking sector lasted second mortgage, because of some of the laws that were implemented post financial crisis and post-Dodd-Frank. So the marketing flow and the lead flow generated by our brand and our performance marketing machine is still very prevalent. However, the purpose and the motivation of the customers have changed, because of rising interest rate environment. So I think this is important for us to explain that the fact that we have differentiated assets, and we believe along with this change in consumer motivation. The behavior is still the same, they're still spending money. And the fact that we announced a digital HELOC, the first of its kind at a scale player is really going to allow us to monetize that lead flow and for us to continue to leverage our brand.

This is part of the benefit for operating a multi channel strategy and for us to make the necessary investments, so that we can control not only the design of product and utilizing technology where the digital HELOC is not a traditional HELOC, it's a digital HELOC. We expect to close the both on an average of seven, eight days. So we are adjusting to the market change, which everybody knows it's a rapid change, so the most substantial violent change I encountered my 36 years. So we're adjusting to that and that marketing spend will change quite dramatically, because our leverage on that marketing investment is going to change as our conversion changes as we add

additional products. So the punch line to your question on how do we control the marketing costs, it's highly variable and it's also highly dependent on the additional products that we add.

Patrick Flanagan: Let me just add on to what Anthony said just more directly most -- our marketing spend is highly variable, and only about 5% of our quarterly run rate and marketing spend is long-term and fixed in nature.

Kevin Barker: So when I think about the operating expenses and your ability to reduce those expenses, given the current state of the market. What percent of your operating expenses in the first quarter would you consider variable in nature and how many of those would be considered fixed? Obviously, I would think you're looking at it from a holistic perspective. But just if we hone into that maybe you can get an idea of like how much you can really bring down those expenses relative to some of the headwinds we're seeing across the market.

Patrick Flanagan: So again, the three major sort of categories of spend that we have high degrees of variability around our people related expenses, it's primarily commission and that lags revenue by a month or so. And it's marketing and we need to adjust our marketing to the return profiles on those marketing dollars that are spent in relation to what the market conditions are, and then how much we have or how much we choose to invest in our technology platform. And then the rest of it is we are aggressively managing expenses down and we're prioritizing our strategic initiatives for the quarter and for the rest of the year. And again, it's important to note especially in fast moving markets that expenses do lag revenues by a significant portion.

Operator: And our next question will come from Trevor Cranston with JMP Securities.

Trevor Cranston: Question on the MSR. So obviously, in the first quarter, the hedges basically offset the increase in fair value. Can you talk about how you've approached hedging it in the second quarter and how hedges have performed versus fair value increases on the MSR book so far in 2Q? And kind of what your general approach is going to be to hedging MSR position given the rate outlook today?

Patrick Flanagan: Well, Jeff DerGurahian, our Chief Capital Markets Officers is online. Jeff, do you want to take that one?

Jeff DerGurahian: Sure. As Pat mentioned in the opening statement, we're going to adjust the hedge on the MSR book to be at the appropriate level given the interest rate market and where rates are now at the present time. So we're going to continue to hedge the portfolio view to line up with whatever the risk profile of that is at any given time. And so in general, the hedging levels have been reduced just because of the change in the asset profile here into Q2.

Trevor Cranston: So are you targeting and trying to offset the entirety of the fair value change, even despite the fact that you know higher rates things had a incremental negative impact on profitability of the operating side of the business?

Jeff DerGurahian: We're looking to preserve value and liquidity that we see, that we need to and the overall view of the hedging strategy. So it is going to continue to be reevaluated as time goes on.

Patrick Flanagan: A significant portion of our MSR financing is short-term revolving in nature that’s subject the mark-to-market and margin calls. And one of the primary reasons besides value preservation for hedging the MSR book is that to limit the amount of potential cash streams due to margin calls. And kind of circles back to my earlier comments during prepared remarks about the need and our desire to continue to protect the levels of liquidity for the company.

Operator: And our next question will come from Bob Napoli with William Blair.

Bob Napoli: Just having -- and I know you guys have all been through many of these cycles. How do you feel this cycle compares? I mean, I know you said it's most difficult. But how quickly is capacity, I guess in your view training out of the industry, how long does it take, do you think before gain on sale, before GOS starts to normalize towards long-term historical levels?

Anthony Hsieh: Look, we are predicting, along with MBA and Fannie, Freddie, everyone is predicting volumes this year with the two in front of it. It could be as low as two, it could be mid twos. In any other year that would be a healthy market. And there should be a decent amount of profitability as a result of that type of volume. But when you are coming off of a two giant years of 2020 and 2021 and mortgage lending is still very much inefficient. This is where the disruption in the future five to 10 years is going to become substantial. And there is a tremendous opportunity for the leaders in the space, particularly now with all the barriers to entry to so many different components that takes a company to a level of scale. So you are adjusting down from four plus trillion to 2.5 or less in the matter of seven or eight, or nine months. So that is a tremendous and very, very violent change.

And the fact that most of the transaction on the refinance market side now because of the substantial high quality of credit that homeowners have today, they are enjoying interest rates that they do not want to pay-off. So the commerce, there is still -- there is lots of purchasing power. There is lots of need for home improvement, particularly seeing the lack of inventory on the resale size, lots of homeowners are adding on and improving. And we see this home equity market has very long legs and it's an area that we are very excited about. But it's going to take a little bit of time to adjust. How long will this take? I think it will take until the rest of the year. In my previous earnings calls, we talked about four to six quarters, and I remain pretty consistent with that because the pressure be getting any worse, possibly, but I don't think so. I think we are in the trough at this point. We are heading into the right time of the season. And I think that the pressure is good. Anytime this adjustment happens, it's great for market consolidation. And with us moving forward and Frank being here allowing myself to focus a bit more on the company and with Frank and Pat, and Jeff and the rest of the team focusing on the inside the organization creating operational leverage, I think we're excited about the future.

Bob Napoli: And then just in the mortgage market is, I guess, the good thing about a refi is best and higher interest rates as it sets up the next refi wave maybe down the road a bit. But the product set for the mortgage industry has changed radically over the last decade or so. Are there opportunities? And I know we've seen a number of subprime expansions, but are there opportunities for higher margin products? And I guess maybe HELOCs are one of those to expand, or do you just think that there is no interest from the political side to expand the base of types of borrowers and maybe could be more profitable for the mortgage industry?

Anthony Hsieh: This is one of our greatest differentiators and why we work so hard to build assets that allows us to do exactly that, to build a brand, to build a performance marketing machine and have sophisticated capital markets executions. This is why just to remind everyone back in 2015 and '16, we're the first mortgage company to develop and introduce a personal loan product into the marketplace and exit that space only when the capital markets and the liquidity were disrupted through 2018. So this market post-Dodd-Frank is uniquely different from any other market. Example, the last market, 60% of loan originations were non-Fannie, Freddie, FHA and VA. So 60% of the funding in the mortgage industry were sort of non-government product or GSE product. Today, we're looking at 12, 13 years post offering, we're still looking at 90% of the funding today, pretty much FHA, VA, Fannie and Freddie.

So the industry must look at new product opportunities that add in, that delight our customers and help us lift marketing conversion. Having the assets to drive leads at the top of the funnel and then to add products in our product mix along with adding other services is one of the key

differentiators of this organization going forward. So as we look at a digital HELOC, we also are looking at personal loans, looking at other types of products and services that ultimately allows us to increase the ability to capture and convert higher so that we can additionally lever on marketing investments.

Operator: Our next question will come from Arren Cyganovich with Citi.

Arren Cyganovich: I was curious as to what your view of the mix of purchase and refi, which I would assume is probably mostly cash out refi in the second quarter?

Anthony Hsieh: So there's one other dynamic that is happening that I like to note, and that is the non-bank market share in the last 10 years has increased significantly at a historical high. Based on the different reports that you read, it's well above 50% as a non-bank market share now as compared to previous cycles. As interest rates rise, there are a few things that make the non-bank sort of create more sort of headwinds. One, obviously, is the reduction in the overall volume, particularly around refinances and then of course the pressure on GOS, overall the industry. But once interest rates rise, hybrid ARMs return, because consumers want a lower interest rate because sticker shock, 5% interest rate is still very attractive historically. But coming off of 2% handle just eight, nine, 10 months ago, consumers are looking at the hybrid, seven year ARMs, 10 year ARMs. And that typically is a bank credit union product.

So I think the non-banks will lose some share back to the bank just because of our capital costs and the way that we originate products. So it's not just a purchase versus refinance ratio going forward, it's really how to increase product so that the customer has an opportunity to buy from you. We are in a significantly different market today than I ever have witnessed in my career. A lot of this is a combination of the pandemic. A lot of this is the rising appreciation and real estate in the last couple of years. And the fact that the non-bank market share along with bank market share has changed significantly and non-banks are at a disadvantage because of the cost of capital. So we're going to have to be very creative from loadDepot’s perspective. And we believe that we have a tremendous strategy built into the rest of the year, understanding the current environment.

Patrick Flanagan: And let me give you just a couple numbers. So purchase for the first quarter was about 37% of total resignations. And for the second and third quarter, typically we would see a slight increase and its just due to the seasonality that second and third quarters tend to be purchase season. And I think you'll see that our percentage of purchase growth has grown over time as we continue and we're adding more loan officers in our in market retail channel today than we are in our direct-to-consumer channel of our retail side, and that they typically do more purchase production. So as the market dynamics change, we continue to pivot towards purchase.

Arren Cyganovich: And then the other question I had was on, I think you made a comment that you expect to get back to profitability by year-end. Is that an assumption that gain on sale margins will increase by year-end or is it an assumption that you'll be able to lower your costs to what is closer to what's being produced, say, in the second quarter?

Patrick Flanagan: So there's a combination of factors that work in there. So we will continue to be aggressively managing our cost structure down to match the market size and market conditions. There is a lagging effect because revenue is recognized on at the time of lock and we incur significant amount of expenses in trailing months. If you think about us as a manufacturing business that work in process takes 30 to 45 days to complete. So there's always a lag in how fast you can cut expenses in a mortgage origination business.

We also are assuming some contribution from our new HELOC product and continued pivoting to more cash out and adding a little bit of additional margin through new products going forward.

And we expect, as I mentioned, to do a little higher percentage of purchase business and our purchase business has been carrying slightly higher margins than the refinance business, but that also will change as the product mix goes forward. So most of it's on the back of aggressively managing expenses.

Arren Cyganovich: And then lastly, the board deciding to cut the dividend, your stock is at very depressed levels. Have you engaged with the board or the board engaged in looking at any kind of strategic review of the company's future?

Frank Martell: I think the short answer is no, at this point, no.

Operator: Our next question will come from the line of Courtney Bahlman with Barclays.

Courtney Bahlman: Just a really quick couple for me on the balance sheet. I know that you guys bought back about $98 million of the 28 in the quarter, but your total debt balance went up. I think you were at like $1.6 billion at the end of the fourth quarter, and now you're at about $1.9 billion at the end of this quarter. I know the 10-Q hasn't been posted yet, but I'm assuming that's because you guys tapped the third facility that $300 million secured facility you entered in December of last year. Did you guys utilize that in the quarter? And if so, what's the total balance outstanding between that facility and the $268 million facility that was drawn last quarter, and where does that leave you in terms of unencumbered or unpledged MSRs?

Patrick Flanagan: Hold on, let me catch up and do some quick math here for you. Actually, why don't we back after the call, so we make sure and give you an accurate number.

Courtney Bahlman: Then also just one more with regards to the funding capacity, it seems like you guys had decreases on two of your existing facilities in the quarter in addition to the payoff of the one. Just curious if you could provide any color here, has there been any additional pullbacks post quarter end? I know you guys had about $5 billion in available borrowing capacity at the end of the first quarter. Any decreases to that?

Patrick Flanagan: So it was by our election to reduce the size of warehouse lines just to meet the current demand levels. So it's cheaper for us and reduces the amount of non-use usage fees that we pay. So we remain in full compliance and with very good relationship with all of our financing partners. And we have added additional financing partners into our lineup throughout this year.

Operator: And our next question will come from James Faucette with Morgan Stanley.

Blake Munger: This is Blake Munger on the line for James. I wanted to follow-up on the capital markets topic. So what the Fed expected to taper and begin its balance sheet run off this year. Can you walk us through how forces within the MBS market have impacted LDI and your capital markets execution, and how are those dynamics contemplated within your guidance?

Patrick Flanagan: Jeff, do you want to take that one?

Jeff DerGurahian: Yeah, so in terms of the overall hedging strategy, I think you're asking just in terms of execution into the capital markets?

Blake Munger: More of execution in the capital markets, as you look to sell your new originations into the secondary market?

Jeff DerGurahian: I think we continue to be nimble to look for opportunities where we can sell loans to help drive either increased revenue for the company or better efficiency in the sale process, so that's just an ongoing process that we go through all the time.

Blake Munger: And then switching gears to another topic. We noticed that you seeded some market share in 1Q. Was that result of you aiming to protect your margins and maybe sacrificing little volume there? And if so, how long do you think this might last, is that four to six quarter timeframe that you mentioned earlier? Does that apply here as well?

Patrick Flanagan: As we've stated previously on prior quarterly calls, we have focused on profitable market share growth. So in the near-term, while we continue to be aggressive in managing our cost structure down, we were fine in kind of treading water or even if there's slight decrease in market share during the near-term. But we believe that upon the completion of sizing our organization correctly that the investments we've made previously in brand and infrastructure will allow us to again take market share in a profitable manner going forward. And as capacity shed from the market over the next few quarters, we would expect that later in the year that we might be in position to continue that mission.

Operator: [Operator Instructions] Our next question will come from Derek Hewett with Bank of America.

Derek Hewett: So given the challenging environment, we've already started to see headcount rationalization. But when do you think we're going to see potential industry consolidation?

Anthony Hsieh: The industry is -- this is fairly early in the cycle. So as 10-year yield continues to rise and stabilize, I fully expect this pressure is going to force some additional consolidation. There's lots of firsts in this particular cycle that is new to the industry, post Dodd-Frank. So lots of variables are unknown. It's harder to predict this cycle than previous cycles because of regulatory changes. Lots of changes between different models, lots of changes in consumer behavior. We also have a digital disruption going on. We have real estate services disruptions happening as well, which is our same core customer. Real estate buying and selling services or real estate finance should be the same company. So I think you're going to see that come closer together in this cycle as well. I think, revenue, additional revenue opportunity outside of what we're talking about now in the 2 trillion to 2.5 trillion between your traditional refinance market and purchase market in non-QM and second mortgages and HELOC is going to start building some momentum. So we are very bullish on new revenue opportunities. But certainly, companies without the resources to add these products and have a marketing control is going to feel much, much more of this pressure. Personally, I believe the longer this pressure period lasts, the better it is for loanDepot, because it allows us to really strategize and continue to invest into our diversified strategy. So the consolidation is starting and it will continue on for at least the next four quarters.

Derek Hewett: And then with the new consumer loans, will those new products reside on balance sheet or are you going to find a partner, are you going to partner up with another entity?

Anthony Hsieh: I can comment to that, and if DerGurahian or anyone else wants to add to my remarks -- we are going to sell these assets. We plan to retain the servicing, as we believe that any one of these HELOCs that we put on our servicing book is going to be a refinance when the 10-year yield drops. And as long as high the 10 year yields going to go up it comes a point where it's going to drop and when it drops, we have that HELOC on our servicing book, it becomes a refinance at that point, where the customer will consolidate their second mortgage, which is on the HELOC and their first. And currently just to share with the marketplace, because we are such velocity marketers, 40% of our customers that are inbound today is asking for HELOC by day. So despite the fact that there's been very good a little marketing to the society, customers are very savvy and

starting to ask for HELOC by name, certainly because they don't want to touch the 2% to 2.5% historical low 30 year interest rate that they obtained over the last one to two years.

Operator: And that will conclude today's question-and-answer session. Frank Martell, I'll turn the call back over to you.

Frank Martell: Thank you, operator. And again, thanks, everybody for joining the call today and for your robust and comprehensive questioning. We appreciate that very much. On behalf of Anthony, myself Pat and rest of the loanDepot team, we remain laser-focused on driving profitable growth vectors, resizing and optimizing our cost structure in line with first quartile performance indicators but also, importantly, as we've discussed on this call market realities at this point in time. I think these focus areas are the right ones. And together with the unrelenting focus of a very talented team, we believe will be critical to driving shareholder value in the medium to longer-term. We are targeting to return to a profitable run rate as we exit the year. And that will involve both growth and focusing on profitability, but also on our cost structure, our productivity, our quality and our customer delivery. We appreciate and look forward to continuing to build our relationship with all of you and our investors. And we thank you for your time today and wish you all a great day.

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