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loanDepot, Inc. (LDI)

Business Update Call

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MANAGEMENT DISCUSSION SECTION

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

Gerhard Erdelji

Senior Vice President-Investor Relations, loanDepot, Inc.

Good morning, everyone, and thank you for joining our call. I'm Gerhard Erdelji, Investor Relations Officer for loanDepot. Today, we will discuss our announcement this morning of loanDepot's Vision 2025 plan to address current and anticipated market conditions and position the company for long term value creation.

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, statements reflecting loanDepot's current views with respect to evolving economic, financial and real estate market conditions, the company's operations and financial performance and the execution and expected impact of its plan to refocus the company's operations and cut costs to position the company to address evolving conditions. 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 transcript of this call will be posted on the company's Investor Relations website at investors.loandepot.com under the Events & Presentations tab. On today's call, we have loanDepot President and Chief Executive Officer, Frank Martell, and Chief Financial Officer, Patrick Flanagan.

I will now turn the call over to Frank. Frank?

Frank D. Martell

President, Chief Executive Officer & Director, loanDepot, Inc.

Thank you, Gerhard. I appreciate everyone joining us this morning to discuss the launch of our Vision 2025 plan. Vision 2025 is a comprehensive program focused on addressing current and anticipated mortgage market conditions and positioning loanDepot for a return to run rate profitability by the end of 2022. Vision 2025 also establishes our three years strategic plan, which we believe will be a platform for long-term value creation.

As Pat and I will cover in our prepared remarks this morning, our Vision 2025 plan is focused on four main areas. First, aggressively rightsizing our business to address current and anticipated market conditions; secondly, addressing – increasing our focus on purchase transactions and supporting diverse and underserved communities across the country; and third, investing in our servicing business and launching innovative digital consumer lending solutions; and finally, simplifying our organization structure with an emphasis on client service, quality, automation and operating leverage.

As we all know, the mortgage market is experiencing extraordinary and rapid change in 2022. Coming off two unprecedented years where originations totaled approximately \$8 trillion, which were fueled by ultralow interest rates, home price appreciation and supply and demand imbalances, among other factors, the market decline in 2022 has been particularly sharp and abrupt, compared with past cycles. The Mortgage Bankers Association is projecting total originations to be down by approximately 40% in 2022 from 2021 levels. Refinancing transaction, which composed the majority of loanDepot's origination business in both 2020 and 2021, are projected to be down almost 70%. The purchase market this year is expected to remain largely in line with last year, although volumes are expected to be somewhat below prior year levels over the final two quarters of this year. Looking ahead to next year, the Mortgage Bankers Association is currently projecting lower origination volumes in 2023, compared with 2022 levels.

Similar to most mortgage originators, loanDepot scaled up its operations to support record 2020 and 2021 volumes. Like other market participants, loanDepot is now reducing its costs in the first half of this year to address market conditions as they have evolved. The launch of the Vision 2025 expand the scope and scale of our transformational efforts and cost reduction programs. In the coming months, we expect to take aggressive action to improve profitability and position the company to gain greater share of purchase transactions. We will rightsized the business, including head count reductions, the use of normal attrition, business process optimization, lower marketing and third-party spending as well as real estate consolidation.

The combination of cost management efforts taken in the first half of this year, plus our Vision 2025 plan, is expected to generate an annualized \$375 million to \$400 million in run rate expense savings by the end of 2022. The cumulative effect of these actions underpins our commitment to a return to run rate profitability as we exit this year. Pat will provide more color on how we plan to achieve these targets shortly. I think it's also important to note that we were [ph] actually into (00:05:49) Vision 2025 on a foundation of a very strong balance sheet and ample liquidity. As I just outlined, the plan has a short-term dimension, which is adapting to radically changing market conditions, and a longer term dimension, which is positioning loanDepot for long-term value creation. I want to emphasize that Vision 2025 is far more than a cost cutting exercise. It's an important next step in our strategic evolution.

Let me provide a little more color on some of the important strategic pillars underlying Vision 2025. First, we will focus mortgage lending on purchase and certain cash back market transactions while serving increasingly diverse communities across our country. As our country becomes more diverse, home buyer demographics across our total addressable market are shifting and we will support this trend through the implementation of Vision 2025. We intend to pivot to becoming more purpose-based lending organization, building on our existing foundation to do it even more to meet the needs of first time homebuyers and the underserved communities across the country.

We expect to increase our focus on addressing persistent gaps in equitable housing through initiatives that expand access to credit, such as the Special Purpose Credit Programs. I do want to make it clear that this does not mean we plan to lower our credit standards or employ practices that adversely impacted our industry in the past. We intend to expand our participation in programs sponsored by the GSEs and other government entities that promote these goals. At the same time, we will work to continue growing our existing geographic reach, particularly in our retail channel, to meet the needs of our more underserved borrowers.

Secondly, we will simplify our organization and leverage our operating scale for the benefit of our customers and other key stakeholders. Our loan origination unit and fulfillment functions are currently organized by market channel. We believe centralizing the management of these functions is appropriate to help us to streamline our structure and enable us to increase our share of lending for purchase transactions and achieve top quartile quality, increased automation and better operating leverage.

Going forward, all mortgage origination functions will be led by LDI Mortgage President, Jeff Walsh, while digital lending and mortgage-adjacent products and services will be led by LDI Digital Products and Services President, Zeenat Sidi. All fulfillment and servicing functions will now be led by LDI Managing Director of Operations and Servicing, Dan Binowitz. Jeff, Zeenat and Dan have extensive experience in our industry and we have a very deep bench of leadership around them, which will help us to reorganize in these critical areas.

Third, and finally, we will continue to invest in our servicing business and launch innovative digital consumer lending solutions. We have grown to become one of the 15 largest mortgage servicers in the US. We plan to continue to invest in our in-house servicing business to complement our origination strategy and serve our customers through the entire mortgage journey.

Finally, as part of our strategy to build innovative digital consumer lending solutions and invest in mortgage-adjacent products and solutions, our team is working hard on the launch of a unique, all-digital home equity line of credit, or HELOC, product for launch in the second half of this year.

To close out my remarks today, I want to recognize and thank the entire team of dedicated professionals that make loanDepot a customer-focused, market-leading enterprise. Our entire industry is working hard to adjust to the current realities of the mortgage market. Here at loanDepot, we are laser focused on addressing the challenges in front of us, as well as building on our strengths with an eye towards capturing growth opportunities and market leadership to the full implementation of Vision 2025.

With that, I'll now turn the call back to Pat, who'll provide more details and color.

Patrick J. Flanagan

Chief Financial Officer, loanDepot, Inc.

Thanks, Frank. As noted in the release, we continued to reduce our costs significantly in the second quarter, and over the next two quarters, we expect to accelerate these efforts and take aggressive actions to fully drive down

our costs. I'll provide a bit more color on the non-operating expenses we outlined in the release and how we plan to achieve our target of approximately \$375 million to \$400 million of annualized expense savings by the end of 2022 and achieve run rate operating profitability exiting 2022.

Let's first go through the non-operating expenses for the second quarter. We expect to record severance and benefit-related payments of \$3.5 million to \$4.5 million in Q2 in connection with our rightsizing action. As we noted in the release, our implementation of Vision 2025 and previously taken actions are expected to reduce staffing levels from 11,300 at year end 2021 to approximately 6,500 by year end 2022. For context, head count was 8,500 on June 30 of this year. In Q2, we also anticipate approximately \$2 million real estate exit costs and approximately \$2.5 million to \$3 million of outside service expenses in connection with our downsizing efforts.

Also, as part of the company's regular and ongoing reporting process, management determined it was necessary to complete an evaluation of its goodwill and intangible assets during the second quarter and recorded a non-cash impairment charge of \$42 million as of June 30, 2022. We also expect to incur additional non-operating expenses during the second half of 2022 as we reduce our cost structure, including additional severance and benefits-related payments of approximately \$25 million to \$28 million, charges related to the exit of real estate leases of approximately \$2.5 million to \$3.5 million, and \$7 million to \$9 million of outside service expenses.

Our target of achieving approximately \$375 million to 400 million in annualized savings by the end of 2022 includes the planned head count reduction as well as saving in certain other expense categories, business process optimization, including centralizing our loan underwriting, processing and fulfillment workflows, reduce marketing and third-party spending, reflecting the smaller expected market opportunity, and reduced focus on refinance transactions, and real estate consolidation, reflecting the lower employee head count and post-pandemic distributed workforce.

As already noted, we continue to target a return to run rate operating profitability exiting 2022. We will provide additional information in our second quarter earnings press release and investor call currently planned for August 9, 2022.

And with that, we will now open the line to questions. Operator?

QUESTION AND ANSWER SECTION

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

Douglas Harter

Analyst, Credit Suisse Securities (USA) LLC

Q

Thanks. Just as far as looking forward in terms of head count and expenses, you mentioned that you expect to return to kind of operating profitability. I guess what type of return on equity can you generate in this type of environment, with the current head count, or would there need to be further expenses if the revenue environment doesn't improve?

Frank D. Martell

President, Chief Executive Officer & Director, loanDepot, Inc.

A

Yeah. Good morning, Doug. This is Frank. I think Pat can cover that question.

Douglas Harter

Analyst, Credit Suisse Securities (USA) LLC

Q

Sure.

Patrick J. Flanagan

Chief Financial Officer, loanDepot, Inc.

A

Yeah. Doug, I think the goals in the near term are obviously to size the organization appropriately for the market side and continue the work in centralization and simplifying our business. And we think that we can return then in 2023 to return on equity levels that are appropriate for the industry. We don't provide specific ROE targets.

Douglas Harter

Analyst, Credit Suisse Securities (USA) LLC

Q

Great. But I guess this plan would get you there in 2023 when kind of the work is – when the work is done?

Patrick J. Flanagan

Chief Financial Officer, loanDepot, Inc.

A

Yeah. That's like the market needs to stabilize and we need to continue the work that we're doing to right size the organization. And then we think that we'll be an attractive – a business that provides attractive return on equity.

Douglas Harter

Analyst, Credit Suisse Securities (USA) LLC

Q

Great. And one of the goals you mentioned was kind of investing in servicing. I guess, in connection with the \$1 billion of cash that you said you had, can you just talk about current plans for selling MSR and kind of how you're thinking about MSR retention in the current environment?

Patrick J. Flanagan

Chief Financial Officer, loanDepot, Inc.

A

Yeah, Doug, I can provide a little color. So our strategy when it comes to retaining MSR's and both at the point of sale and through bulk sales has always been driven by our desire to both continue to invest in servicing, but also to appropriately manage our balance sheet. So as I've stated in previous earnings calls, we have leverage targets and liquidity targets that govern the amount of servicing sales. So obviously, in times where we are working on right sizing our expense base, we will sell more the less strategic MSR's into the market to make sure that we maintain adequate liquidity to see us through the other side of the expense cuts, but – and also to manage within the leverage targets that we've discussed previously. So as we return to run rate profitability and eliminate cash burn, then we're able to [audio gap] (00:16:18) invest in the servicing over the long haul.

Douglas Harter

Analyst, Credit Suisse Securities (USA) LLC

Q

Great. Thank you.

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

Brad Capuzzi

Analyst, Piper Sandler & Co.

Q

Good morning. This is Brad Capuzzi on for Kevin Barker. Just want to ask question on, does the cost cutting plan involved exiting any of the origination channels or is there a concentration of expense cuts in certain channels?

Frank D. Martell

President, Chief Executive Officer & Director, loanDepot, Inc.

A

Yeah, Brad, this is Frank. So right now, our multichannel strategy remains our strategy. And what we're announcing today is optimizing the organization and becoming more centralized where it makes sense, particularly from an operational and a fulfillment point of view. But we are putting all of the channels under the leadership of Jeff Walsh, who is a senior executive here and a long time industry veteran.

Brad Capuzzi

Analyst, Piper Sandler & Co.

Q

Okay. And then you highlighted the marketing reductions. Do you guys have a percent of marketing you expect to cut? And then how much of that is like contractual in nature versus variable?

Frank D. Martell

President, Chief Executive Officer & Director, loanDepot, Inc.

A

Yeah. I can let Pat follow up with the contractual piece. But in general, it's more about the effectivity of the spend. We have flexibility to a degree in that spending. So we're certainly using that flexibility. But it's about the conversion and the effectivity of the spending, which has become more of a challenge, obviously, with market conditions being what they are. So we're just trying to make sure that we get a return on those dollars that we invest in lead gen and marketing. Pat, I don't know if you want to follow up with any more specifics on the contractual side.

Patrick J. Flanagan

Chief Financial Officer, loanDepot, Inc.

A

Sure. So a couple of things. As Frank mentioned, a lot of the marketing spend is also focused on specific market segments. So for example, purchase, so a lot of our growth initiatives are still around our retail network, which is primarily purchase, and the majority of our originations at this time are purchase. And as far as contractual spend,

the majority is not long term in nature. We have specific longer term contracts mostly related to our baseball initiatives. That's a very small percentage of marketing and so most of it is variable in expense. So we can toggle that both up and down pretty rapidly and pretty dramatically.

Brad Capuzzi

Analyst, Piper Sandler & Co.

Q

Awesome. I really appreciate it. And then just one last question. Does the change in vision involve any structural changes in the balance sheet? And thanks for taking the call.

Patrick J. Flanagan

Chief Financial Officer, loanDepot, Inc.

A

No, no significant structural changes in the balance sheet. As I've said, we adjust the level of inventory assets to meet our leverage and liquidity targets, but there's no other contemplated balance sheet actions that we're taking at this time.

Brad Capuzzi

Analyst, Piper Sandler & Co.

Q

Thank you.

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

James E. Faucette

Analyst, Morgan Stanley & Co. LLC

Q

Good morning. Thanks for the details on doing this call this morning. Wanting to just verify is that if you're looking at reaching operating profitability late this year, but expecting a further decline in the size of the market next year, should we anticipate you'd be able to maintain that operating profitability into 2023? Is that the plan or are you going to need to stabilize the revenue and hence essentially gaining share via your purchase initiatives, et cetera? Just wondering how we should think about that trajectory into 2023.

Frank D. Martell

President, Chief Executive Officer & Director, loanDepot, Inc.

A

Yeah, James, this is Frank. So yeah, I think I stated in my prepared remarks we've sized the plan based on best available information, including internal analysis about market conditions in both 2022 and 2023. So this plan factors in lower volumes next year. But we do have some growth factors we think that will help to compensate for some of that, but the sizing of the company and how we manage the structure and the efficiencies we think will help us to offset the additional projected decline in 2023. So that's – this plan does address the currently anticipated market decline in 2023.

Patrick J. Flanagan

Chief Financial Officer, loanDepot, Inc.

A

And [indiscernible] (00:21:30) the point was that we don't – yeah. The 2023 plan doesn't assume that we're going to be taking significant amounts of market share. It'll be orderly growth in market share, but we're – we will consistently defend margins and size the organization appropriately to what we expect the size of the market to be next year.

James E. Faucette

Analyst, Morgan Stanley & Co. LLC

Q

And I know we're focusing a lot on marketing, your own operating expenses, but what's – can you give us some assumptions around gain on sale and kind of the pricing dynamics of the resale market for loans generally that are going into your targets?

Patrick J. Flanagan

Chief Financial Officer, loanDepot, Inc.

A

Yeah. I think, I would point you back to the gain on sale margin guidance that we provided at the end of the first quarter and – where we don't believe there will be material changes from – in that range kind of going forward. And we were – I'm cautious because we're – about how I answer this because we're near earnings release, so I can't really provide much more [indiscernible] (00:22:53)...

James E. Faucette

Analyst, Morgan Stanley & Co. LLC

Q

Okay. Thanks for that.

Patrick J. Flanagan

Chief Financial Officer, loanDepot, Inc.

A

...until the earnings.

James E. Faucette

Analyst, Morgan Stanley & Co. LLC

Q

Yeah. No, I understood. Thank you.

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

Mark C. DeVries

Analyst, Barclays Capital, Inc.

Q

Yeah. Thank you. Just had a follow-up question on kind of the cost cuts across channels. Do you expect it to fall fairly evenly across your different distribution channels, are there any where you're going to look to take out more expense than others?

Frank D. Martell

President, Chief Executive Officer & Director, loanDepot, Inc.

A

Yeah. I don't – this is not a vanilla action. It's a very – Mark, it's very planned, so it's really addressing cost actions as appropriate by channel. And so, that's the short answer to your question. I think as we mentioned, this plan is comprehensive structurally. It simplifies the organization. It has centralization that that will impact a broader – really all the channels. That's currently contemplated. But there's no cookie cutter being applied here. We are going to use attrition where that is happening and where we can to reduce the total number of reductions. And so we're going to put all of those techniques to try to minimize the impact, but get the savings and the structure in the right direction to meet the market that we're facing in the next couple of years.

Mark C. DeVries

Analyst, Barclays Capital, Inc.

Q

Okay. Got it. And then just a question on the HELOC product, is that something you expect could become a meaningful contributor to earnings as you look out to 2023? If you can just talk a little bit about the funding strategy for that product.

Frank D. Martell

President, Chief Executive Officer & Director, loanDepot, Inc.

A

Yeah. I'll hand that over to Pat. But I think we believe it'll be launched over the balance of this year and we do believe it will contribute in a positive manner in 2023 based on what we see in terms of market demand for this type of solution. We think it's a little bit innovative and quite innovative, actually, and something that is more digital, much quicker turnaround times, et cetera. So from that point of view, we think there will be demand for the product as we get into the market in a big way in 2023.

Patrick J. Flanagan

Chief Financial Officer, loanDepot, Inc.

A

Thanks, Frank. And then as you may have read in your most recent 8-K, we have lined up warehouse financing with one of our existing warehouse partners and have several others that are interested in providing it. And the current strategy is for us to sell the HELOCs away. And we're developing that capability of [ph] hold on (00:25:46) sales. We ultimately will build the capacity and the capability to service and keep the relationships in-house. But it's not our intention to keep credit risk on balance sheet.

Mark C. DeVries

Analyst, Barclays Capital, Inc.

Q

Got it. Okay. Thank you.

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

Robert Napoli

Analyst, William Blair & Co. LLC

Q

Yeah. Thank you, and good morning. Just maybe a little more color on your confidence in your capital and liquidity. At the end of the first quarter, you had \$1.5 billion in total shareholders' equity. I think tangible book value per share was about [ph] \$4.60 (00:26:29) I think. Just how – that is, maybe just give a little more color on why you're very confident in your liquidity. What are the risks, what are you protecting against on downside? Because obviously, the key is that you maintain a strong business running into when the market eventually normalizes as it historically has always done.

Patrick J. Flanagan

Chief Financial Officer, loanDepot, Inc.

A

Sure. Thanks. Good question. So as we mentioned in the release, we have about \$1 billion of unrestricted cash on the balance sheet. We have a very high quality balance sheet that is primarily composed of pretty newly originated, very high quality MSR, loans and loans held for sale. And we think that we have modest leverage on the balance sheets. So we also have been working throughout the year with all of our lending and trading partners. We have outlined a very clear and achievable path to return to profitability by the end of the year, and so we're in good standing with all of our funding sources.

And we think, if you just look at the first quarter loss and compare that to \$1 billion cash, we think we have ample liquidity to see us through the cost cutting measures, especially if we return to run rate profitability by the end of

the year. So that – we're very confident that we've done the appropriate thing, which is to build and probably carry more cash than some people would think is necessary on the balance sheet. But we're willing to sacrifice net interest margin in the near-term to make sure that we have a balance sheet that is rock solid and a plan that's clear so that we can get through to the other side and return to profit.

Robert Napoli

Analyst, William Blair & Co. LLC

Q

Thank you. And then, I guess, long-term, five-year plan. But, theoretically, having a large servicing portfolio should be very profitable in this kind of environment. Is it the goal over the long term, to balance servicing with the origination business, such that you reduce the cyclical of the earnings stream? And how long does that take?

Patrick J. Flanagan

Chief Financial Officer, loanDepot, Inc.

A

Yeah, that is the...

Frank D. Martell

President, Chief Executive Officer & Director, loanDepot, Inc.

A

Yeah. [indiscernible] (00:28:58).

Patrick J. Flanagan

Chief Financial Officer, loanDepot, Inc.

A

Okay, Frank, sorry.

Frank D. Martell

President, Chief Executive Officer & Director, loanDepot, Inc.

A

No, Pat, [indiscernible] (00:29:04).

Patrick J. Flanagan

Chief Financial Officer, loanDepot, Inc.

A

Yeah. I would say I think in the [audio gap] (00:29:12) highlight of the segments of the business that we're going to continue to invest and grow in. so the purchase transaction, the cash out markets and continued growth of the balance sheet from – with high quality servicing assets. And we think that we will balance the needs of leverage and liquidity and growth along with servicing, but it is a bigger point of emphasis and we do recognize and understand that a larger balance sheet of high quality MSRs does insulate us in the long term from as much earnings volatility [ph] that (00:29:49) you would have without it. And so it is our intention to responsibly grow that side of the business.

Robert Napoli

Analyst, William Blair & Co. LLC

Q

Thank you. And then just lastly, do you expect any material write-downs to mortgage servicing rights? And you called the write-downs of goodwill and some of the charges and severance and things like that, but do you expect that with your derivative assets or your servicing rights, any material write-downs or substantial write-downs, I guess, in – when you report second quarter results? And if I heard you correctly, I think you kind of reiterated your gain on sale margin forecast that you had given last call.

Patrick J. Flanagan

Chief Financial Officer, loanDepot, Inc.

A

Yeah. We're not providing anything that's specific to second quarter results here other than what we announced previously in the first quarter and we don't expect any impairment outside of the normal fair value changes with respect to hedging and a market strategy for the balance sheet assets.

Robert Napoli

Analyst, William Blair & Co. LLC

Q

Okay. Thank you.

Operator: Your next question comes from the line of Priya Rangarajan from RBC. Your line is open.

Priya Rangarajan

Analyst, RBC Capital Markets

Q

Hey, guys. Thank you so much for the call. One question was in terms of your MSR book. Are you trying to maintain the size of the MSR book and/or fair value? Or have you used a little bit of the book to generate the cash that you're reporting? Thanks.

Patrick J. Flanagan

Chief Financial Officer, loanDepot, Inc.

A

So we're not going to preview the second quarter results yet. We still haven't closed. But as I mentioned, we've historically used combinations of bulk sales of MSRs and the percentage of servicing that we retain at the point of origination to manage the liquidity needs of the company as well as the leverage of the balance sheet. And so as you saw in our first quarter, we did do a bulk MSR sale and we have, from time to time, used that as the primary means in which to cover liquidity shortfalls when we're suffering operating expenses. So, there's no stated change in that strategy at this time.

Priya Rangarajan

Analyst, RBC Capital Markets

Q

Got it. Thank you.

Operator: And your final question comes from Doug Harter from Credit Suisse. Your line is open. Again, your final question comes from Doug Harter from Credit Suisse. Your line is open.

Douglas Harter

Analyst, Credit Suisse Securities (USA) LLC

Q

Sorry about that. I know you just mentioned holding higher levels of liquidity in the current environment. But I guess in picturing the long term balance sheet, how are you also thinking about debt repurchases kind of given where debt is trading today, given that you bought some back in the first quarter? Just thoughts on kind of how that factors into overall liquidity and leverage levels long term.

Patrick J. Flanagan

Chief Financial Officer, loanDepot, Inc.

A

Sure. So as I mentioned in the short to medium term, we're very protective of liquidity and defensive in nature. And then as we've stabilized the company and as the market stabilized, and we're back – return to operating

profitability, then we will continue to use the same kinds of tools and thoughts about balance sheet construct going forward. So, I would say, one, we'd be opportunistic in looking to reduce our interest expense through a combination of tools. But the near-term focus is really on – it's on rightsizing the organization, understanding the market conditions and returning to run rate profitability.

Douglas Harter

Analyst, Credit Suisse Securities (USA) LLC

Q

Great. Appreciate the answer.

Operator: And we have a couple more questions that just popped into queue. Your next question comes from Shanna Qiu from Bank of America. Your line is open.

Shanna Qiu

Analyst, BofA Securities, Inc.

Q

Hey, guys, thanks for the call. I was wondering if you could just provide a little bit more color on the buckets that you guys broke out for the \$375 million to \$400 million of cost savings. Could you just give a little bit more color on how much is associated with the head count reduction, which I believe would be the majority of it, versus marketing and third party spending, et cetera, that you guys would set out? Thank you.

Patrick J. Flanagan

Chief Financial Officer, loanDepot, Inc.

A

Sure. Yeah, I would – we're not going to provide specific levels, but the majority of the savings is – comes from the reductions in head count and simplification and centralization of the operations with this – the non-head count related additions being less than 50% of that cost reduction. And then there is a portion of revenue increases that come through to get us back to run rate profitability that are mostly centered around the HELOC business becoming a meaningful contributor and stabilization in the gain on sale margins of the business going forward.

Shanna Qiu

Analyst, BofA Securities, Inc.

Q

Great. Thank you. And then lastly for me, could you just talk about kind of the MSR bulk market right now? Now, we're seeing multiples in the 5.5 times for conventional MSR. How do you see that demand for bulk MSR acquisitions trending right now?

Patrick J. Flanagan

Chief Financial Officer, loanDepot, Inc.

A

I would probably need to refer that question to our Chief Capital Markets Officer, who trades that market more readily than me. But obviously, there's more servicing that's being sold. But we haven't seen anything that would lead us to believe that there's either lack of liquidity or substantially lower valuations that are happening in the near term. But we can provide – follow up with our Chief Capital Markets Officer.

Shanna Qiu

Analyst, BofA Securities, Inc.

Q

Okay. Great. Thank you, guys.

Operator: Your next question comes from Courtney Bahlman from Barclays. Your line is open. Your next question comes from Courtney Bahlman from Barclays. Your line is open.

Courtney Bahlman

Analyst, Barclays Capital, Inc.



Hi. [Technical Difficulty] (00:36:52) announcing the plan guys, this is great. Just a quick one for me. The HELOC strategy, we know it's a lower principal loan. Could you talk just a little bit about the margin opportunity there and how we should think about that as it compares to gain on sale that you're recording through your standard [indiscernible] (00:37:12) refinance purchase originations?

Frank D. Martell

President, Chief Executive Officer & Director, loanDepot, Inc.



Pat, you may want to address that, what our current assumptions look like at least at a high level.

Patrick J. Flanagan

Chief Financial Officer, loanDepot, Inc.



Yeah. Well, I think the plans that we've announced from HELOC are that the product is substantially digital in nature and requires very little human touch, and therefore we can manufacture that loan at significantly reduced cost compared to first mortgages. And that digital aspect of it is what makes it an attractive product from a margin perspective. The gain on sale margins for that product are reasonably close in basis points to what we expect the first mortgage market to trade at. But the margins are acceptable based on the digital nature and the low touch approach to it.

Courtney Bahlman

Analyst, Barclays Capital, Inc.



Okay. That's helpful. And then just one more quick one for me. With regards to MSR retentions, we know we're wading into a lower originations environment. So the opportunity for retention, you're going to be retaining a smaller quantity than you have in the past, but how are you guys thinking about this kind of moving forward? I know you're going to be strategic with the sales, but in terms of origination to retention, how are you guys thinking about that strategy?

Patrick J. Flanagan

Chief Financial Officer, loanDepot, Inc.



Well, as we mentioned, we look to manage the balance sheet appropriately. So we will continue to retain as much servicing as we can. And particularly, we evaluate the nature of the customer relationship and the characteristics of the loan and then – and try to keep as much of it as we can, but within the constraints of both leverage and liquidity available to us on the balance sheet. But that – the lifetime value of the customer and the servicing businesses is one of the strong emphasis of the plan moving forward.

Courtney Bahlman

Analyst, Barclays Capital, Inc.



All right, awesome. Thank you guys so much. See you in a bit.

Operator: And there are no further questions at this time. Mr. Frank Martell, I turn the call back over to you for some closing remarks.

Frank D. Martell

President, Chief Executive Officer & Director, loanDepot, Inc.

Well, thank you, operator. And we appreciate your time today. It's an important announcement for the company. I would like to amplify that we believe Vision 2025 is the right plan, not only for the near term to address the challenges that every company in the mortgage market is facing right now. And we think that we will achieve our plan [ph] at the back end (00:40:16) this year with a run rate profitable profile. And we believe the plan sets us up to achieve profitability in 2023 for the full year. We are managing and looking at the market closely, because it is changing. We want to make sure that we're ahead of the game. So, we think Vision 2025 allows us to do that. And so, again, I want to thank everybody for the support of the company. We are a market leader. We do have a strong balance sheet and we're confident in our plan and the team is committed to executing it. So, we look forward to providing additional updates on our second quarter call, which is coming up in a couple of weeks.

Operator: This concludes today's conference call. Thank you for your participation. You may now disconnect.

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