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Earnings Call

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Call Participants

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Presentation

Operator

Good afternoon, and welcome to loanDepot's Fourth Quarter and Year-End 2023 Earnings Call. [Operator Instructions] Thank you.

I would now like to turn the conference over to Gerhard Erdelji, Senior Vice President, Investor Relations. Please go ahead.

Gerhard Erdelji
Senior Vice President of Investor Relations

Good afternoon, everyone, and thank you for joining loanDepot's Fourth Quarter and Year-End 2023 Earnings Call.

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, pull through weighted gain on sale margin and expense trends. 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, Dave Hayes, 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 LDI Mortgage President, Jeff Walsh, to help address any questions you might have after our prepared remarks.

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

Frank D. Martell
CEO, President & Director

Thank you, Gerhard, and thank you all for joining us today. I look forward to sharing my perspective on the market and on our results. loanDepot made significant progress in 2023, substantially resetting our cost structure and making critical investments in our organization, technology platforms as well as business processes, which we believe position us to capture the benefits of the eventual rebound in mortgage volumes.

Our revenues were down 22% for the full year of 2023. This decline was largely the result of lower market volumes and our exit of the wholesale channel in the middle of 2022. Over the same period of time, we reduced our expenses 36% as we continued our laser focus on implementing Vision 2025. The aggressive reset of our cost structure resulted in a significant narrowing of our adjusted net loss from $458 million in 2022 to $142 million in 2023.

Together with investments in platforms and systems, our Vision 2025 productivity improvements achieved in 2022 and 2023, combined with in-flight actions expected to benefit 2024, are the necessary foundation of our planned return to profitability. As you may recall, Vision 2025 focus on 4 main areas: first, transforming our origination business to drive purchase money transactions, with an expanded emphasis on purpose-driven lending; second, investing in profitable growth, generating initiatives and critical business operating platforms and the processes to support operating leverage at best-in-class quality and delivery; third, aggressively rightsizing our cost structure to address current and future projected market conditions; and fourth and finally, optimizing and simplifying our organization structure.

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Since we launched Vision 2025 in July of 2022, we have reduced our annualized nonvolume-related expenses by over $666 million or approximately 40%. At the same time, we invested in successful growth-related initiatives such as expanding our servicing portfolio and launching our HELOC product. In addition, we achieved significantly improved quality and delivery metrics and implemented important process and platform improvements, which we expect will continue to benefit the company post market recovery. Finally, we reinvested in our team with expanded employee benefits and training programs.

In the fourth quarter, on a year-over-year basis, our revenues were 35% higher on relatively flat pull through weighted lock volume. This was primarily due to the increase in our servicing revenue and the benefit of our heightened focus on loan quality, which resulted in lower repurchase reserves. In late 2022, the launch and growth of our HELOC offering was also a meaningful contributor to our year-over-year revenue growth.

Over the same period, quarter 4 expenses decreased 12% due to the positive results of our Vision 2025 program, primarily from lower salary and occupancy costs. Regarding 2024, we expect to achieve additional productivity benefits of approximately $120 million on an annualized basis. These gains will come primarily from lower third-party spend, process and organizational efficiencies and lower real estate related expenses.

LoanDepot has continued to make significant investments in our systems, platforms and processes that align with our strategy of being the partner of choice with the increasingly diverse communities that represent a growing number of homebuyers. Looking ahead, we expect higher levels of automation and the benefit of productivity programs will support expanded operating leverage and fund important reinvestment in our servicing and origination platforms. One tangible example of recent reinvestments is our automated melloNow underwriting engine.

melloNow utilizes a digital verification process that swiftly analyzes credit reports, detects fraud and validates income and employment data at the point of sale and delivers a conditional loan approval to customers in minutes rather than hours or days. The launch of melloNow helped loanDepot earn HousingWire's 2024 Tech 100 Mortgage award, which celebrates the most innovative organizations in housing. I believe loanDepot has a longstanding reputation of forward-thinking excellence in the technology space. And with this initiative and others like it, we expect to continue to build our brand as a leading innovator in the mortgage industry.

We are entering 2024 with a more durable revenue model built around a strong multichannel origination business and an efficient, high-quality servicing platform that underpins our strategy to become a trusted partner for the entire homeownership journey. In 2023, we successfully brought our 0.5 million customer servicing portfolio in-house. Despite all the challenges that were presented by the market in 2023, we've prioritized growing our assets under management, which ended the year at $145 million, up from $141 million in 2022.

As we look ahead to this year, we believe market volumes will improve from 2023 levels. Most recently published forecast from the Mortgage Bankers Association call for a boost in 2024 mortgage unit volumes of approximately 17%. Higher mortgage market volumes, together with our successful implementation of Vision 2025 imperatives, are expected to provide foundational support as we push to achieve our goal of returning to profitability.

Before I turn the call over to Dave, I'd like to briefly touch on the cyber incident we experienced in January. As we recently disclosed, that event will have an impact on our first quarter financial results, but is not expected to have a material impact from a full year perspective. Although the company is able to recover from this event operationally in short order, sensitive personal information related to approximately 16.9 million individuals was subject to unauthorized access. We deeply regret any possible concern or impact this has on these individuals. The company has moved very quickly to provide credit monitoring and identity theft protection services at no charge to these individuals. The challenges presented by the increasing sophistication of the perpetrators of cyberattacks requires unprecedented focus and close coordination between the public and private sectors ensure that the private sector's ability to prevent these types of intrusions in the future. Due to the sensitive nature of the cyber incident, we will not take any questions related to this matter in Q&A portion of this call.

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I want to conclude my prepared remarks today by thanking Team loanDepot and other key stakeholders for their support. Our markets remain challenging, no doubt, but I believe we have demonstrated a very important positive change and forward momentum for the company.

I'll now turn this call over to Dave, who will take us through our financial results in more detail.

David R. Hayes
Chief Financial Officer

Thanks, Frank, and good afternoon, everyone. During the fourth quarter, our adjusted net loss modestly increased from $25.4 million in the third quarter to $26.7 million. This was primarily driven by the lower revenues due to seasonal slowdown in home purchase activity, offset somewhat by higher servicing fee income. Our quarterly expenses also included higher nonrecurring restructuring costs and asset impairment charges as we began implementing our supplemental cost reduction program.

During the fourth quarter, loan origination volume was $5.4 billion, a decrease of 12% from the third quarter of 2023, primarily reflecting seasonality. This was within the guidance we issued last quarter of between $4 billion and $6 billion. Fourth quarter volume consisted of $4.1 billion in purchase loan originations and $1.3 billion in refinance loan originations, primarily cash-out refinances. As part of Vision 2025, our focus on purpose-driven lending and the launch of new products and services contributed to the company's growth in market share during the quarter.

Based on data from the Mortgage Bankers Association, our unit share improved from 177 basis points in the third quarter to 180 basis points in the fourth quarter and purchased share improved even more from 132 basis points to 143 basis points quarter-over-quarter. Despite the headwinds, we are competing effectively and growing market share. Our pull through weighted rate lock volume of $4.4 billion for the fourth quarter contributed to the total revenue of $220 million, which represented a 14% decrease from the third quarter, primarily reflecting the seasonal decrease in the home purchase season. Rate lock volume also came in within the guidance we issued last quarter of $3.8 billion to $5.8 billion.

The decrease in revenue is primarily a result of lower loan origination income from a decrease in rate lock volume, offset somewhat by higher gain on sale margins and servicing revenue. Our pull through weighted gain on sale margin for the third quarter came in at 296 basis points, above our guidance of 245 to 285 basis points. Our higher gain on sale margin was primarily due to an increase in volume and profit margins of our HELOC product and wider profit margins on our conforming and FHFA production, offset somewhat by the seasonally larger proportional contribution from our joint venture channel.

Turning now to our servicing portfolio. The unpaid principal balance of our servicing portfolio increased to $145 million from $144 million quarter-over-quarter. Servicing fee income increased from the $121 million in the third quarter of 2023 to $132 million in the fourth quarter of 2023. We hedge our servicing portfolio so we do not record the full impact of the changes in fair value in the results of our operations. We believe this strategy protects against volatility in our earnings and liquidity.

Our strategy for hedging the servicing portfolio is dynamic and we adjust our hedge positions in reaction to the changing interest rate environment. We believe our servicing portfolio is well protected against the potential rising defaults. As of December 31, the weighted average FICO was 738. The weighted average coupon was 3.5% and the weighted average LTV at origination was 72%. These characteristics contributed to a low delinquency rate, with only 96 basis points of the portfolio more than 60 days past due at quarter end and should generate reliable ongoing revenue during these uncertain economic times.

Another major component of Vision 2025 is to align our expense base with a smaller mortgage market and create efficiencies to improve operating leverage and financial performance over time. Our total expenses for the fourth quarter of 2023 decreased by $3 million or 1% from the prior quarter. Fourth quarter expenses, including higher restructuring-related charges, lease and other asset impairment costs and legal expenses. Our volume-related expenses, consisting of commissions and direct origination expenses decreased by $7 million, reflecting lower origination volumes.

Restructuring-related and asset impairment charges totaled $4.3 million, up from $2.2 million in the prior quarter, primarily due to the impact of launching our supplemental cost reduction program targeting $120

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million of annualized productivity improvements expected to benefit 2024. During the fourth quarter, we also accrued $3.7 million of legal expenses related to the expected settlement of legacy litigation, up from $2 million in the third quarter.

Adjusting for volume-related expenses, restructuring and asset impairment charges and the litigation settlement accrual, our operating expenses are essentially unchanged and do not reflect the full impact of the supplemental cost reduction actions we began in the fourth quarter. Through the end of February of this year, we have confirmed $103 million or 86% of our $120 million productivity improvement plan. These were primarily achieved through lower third-party vendor spend, salary expense and real estate-related costs. We expect to achieve the remainder of the planned savings in early 2024.

Looking ahead to the first quarter, we expect both origination and pull through weighted lock volume of between $3.5 billion and $5.5 billion. Volume guidance reflects the seasonal decrease in home buying activity and the impact of the January cyber event. We also expect our first quarter pull-through weighted gain on sale margin to be between 270 and 300 basis points. During the first quarter, we expect expenses will decrease somewhat, primarily due to seasonally lower marketing expense as well as reduced restructuring and other related charges. These benefits will be partially offset by the impact of approximately $12 million to $17 million of expenses directly related to the January cyber incident, net of expected insurance recovery.

Our cost reset has allowed us to maintain a strong liquidity position, ending the quarter with over $650 million of cash and, at the same time, support reinvestment in critical platforms and programs. As the housing and mortgage markets begin to recover, we believe we had our 2024 positioned for success through a relentless focus on delivering against the pillars of Vision 2025.
With that, we're ready to turn it back to the operator for Q&A. Operator?

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Question and Answer

Operator

[Operator Instructions] Your first question comes from the line of Doug Harter from UBS.

Douglas Michael Harter
UBS Investment Bank, Research Division

On the incremental expense saves that you're talking about for 2024, can you talk about those? Are those kind of non-volume expenses? Is that a lowering of -- or increased productivity in volume-related expenses? How should we think about those?

David R. Hayes
Chief Financial Officer

Yes. It's David. The vast majority of those are non-volume related, approximately $100 million of the $120 million.

Douglas Michael Harter
UBS Investment Bank, Research Division

Great. And then, I guess, along those lines, how do you think about the scalability of the expense base kind of if when industry volumes start to ramp back up?

Frank D. Martell
CEO, President & Director

Yes, I'll take that one. So I think that a lot of what we've done the last 2 years is really invest in fundamental systems and automation so we feel pretty good about our ability to leverage those and drive the benefits of productivity and operating leverage as the market does rebound. So a good example is melloNow, for example, which is -- this is the line I discussed earlier, which automates a chunk of the underwriting process and also helps on delivery time. So we think those investments, despite the pressure of the market, we've been able to make those and we think we'll benefit for those significantly as we go forward.

Operator

Your next question comes from the line of Kyle Joseph from Jefferies.

Kyle Joseph
Jefferies LLC, Research Division

Just kind of want to get your sense for the cadence of originations quarter-to-date, how were they trending in January and then kind of post the January CPI print were ahead of your expectations in January. And also, kind of on that note, what sort of impact, if you can give us a ballpark, do you think on the data breach? How much is that impacting your guidance for this quarter?

Jeff Alexander Walsh
President of LDI Mortgage

Well, this is Jeff. In terms of kind of volume recovery, we feel we're in good shape. We did regain our ability to operate fairly quickly and did a good job of hanging on to our pipeline and pulling through the loans that we had at the time of the event. So we seem to now have kind of been stabilized and we're back on track and tracking towards our goal in Q1.

Kyle Joseph
Jefferies LLC, Research Division

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Got it. Yes. And kind of on that note, in terms of your outlook for margins, obviously, relatively strong compared with last year, particularly on a year-over-year basis and sequentially. So in terms of competitive dynamics, has the industry really gotten to an equilibrium? Or just give us a sense of the evolution of the competitive environment.

Jeff Alexander Walsh
President of LDI Mortgage

Yes. I mean we've obviously seen a good amount of capacity come out of the marketplace. And based on the recent numbers that I've seen, we're still seeing capacity come out in the marketplace. And that bodes well for those of us who are in the game for the duration and have the infrastructure and the ability to capitalize when the market turns. But that certainly plays a big role on the margin improvement as we see capacity further come out of the marketplace.

Operator

[Operator Instructions] Your next question comes from the line of John Davis from Raymond James.

Taylor DeBey
Raymond James & Associates, Inc., Research Division

This is Taylor on for JD. Maybe just to start with purchase originations. It's good to see unit market share increase over 8% quarter-over-quarter. So could you just give any additional color on what drove this relative success during the fourth quarter?

Jeff Alexander Walsh
President of LDI Mortgage

Yes, this is Jeff again. We're strong in the builder space, both in our JV partnership channel as well as in our retail channel. We're the #1 kind of non-builder, own-builder lender. So we certainly take advantage from the market share increase of newbuild as well as our end market originators where we've kind of shifted our profile over the last year and really been able to maintain our top talent in the business. And so I think all of that kind of played into our ability to kind of gain momentum in Q4 and carried into this year.

Taylor DeBey
Raymond James & Associates, Inc., Research Division

Got it. And then just on the refi consumer direct recapture rate, it looks like a decrease quarter-over-quarter to 58%. So just any color there on what kind of drove the quarter-over-quarter decline would be great.

David R. Hayes
Chief Financial Officer

Yes. It was seasonally driven as well as some operational impact in the in Q4. It was a much smaller number. So from a unit impact basis, it wasn't that big; but on a percentage basis, it looked large. But we see now that those percentages have kind of stabilize back to historical levels.

Operator

Your next question comes from the line of Doug Harter from UBS.

Douglas Michael Harter
UBS Investment Bank, Research Division

Yes. First, a follow-up question on the servicing income. Was there -- what was behind the $11 million sequential increase on what looked like a similar-sized portfolio?

David R. Hayes
Chief Financial Officer

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Yes. This is David again. So as we've said before, you will see timing variations quarter-to-quarter, depending on cash collections for the period. So some of the seasonality impact of that came in. We also saw a slight reduction in prepaid fees, which favorably impacted the number. And then finally, we did have a reclass of some interest income out of net interest margin into a servicing fee that slightly elevated that as well.

Douglas Michael Harter
UBS Investment Bank, Research Division

Got it. I guess just on the seasonality or just how to think about a normalized run rate for '24. Should we think about the 3Q or the 4Q level as more representative?

David R. Hayes
Chief Financial Officer

I would say 3Q but was slightly higher with the reclass. So probably in the 121 to 122 range.

Douglas Michael Harter
UBS Investment Bank, Research Division

Got it. And then just on the overall market size, I guess, is what you're seeing so far in the first quarter, is that kind of consistent with the up 17% that -- for MBA volumes that you're talking about? Or kind of how are you viewing kind of the overall market size given kind of where rates are versus kind of what some of those forecasts assume?

Frank D. Martell
CEO, President & Director

Yes. I think -- Doug, this is Frank. I think the MBA forecast was for roughly $2 trillion for this year. And that's against a '23 number at $1.6 trillion. So they're up on a dollar basis. You look at the units, obviously, you have DSO a little bit. But I think that a little bit slower in the first part of the year because they were assuming a more aggressive rate profile that I think is actually going to play out. But assuming that we get some moderation rates in the second half, it's going to become pretty close, we think. It may be a little bit more back-end loaded. But most of that pressure will be in the first quarter. And from what we're seeing now in our volumes, we're trending pretty closely what we had forecast. So, so far so good on that perspective. And we're still thinking the MBA number for the full year is a pretty good one. And it may be a little bit, timing-wise, a little bit more skewed to the second half than in the first half.

Douglas Michael Harter
UBS Investment Bank, Research Division

Great. I appreciate that. And if I could sneak in one more. Just you're about 1.5 years away from the first -- or a little more than 1.5 years away from the first unsecured debt issuance, debt maturity, kind of how are you thinking about your unsecured debt?

David R. Hayes
Chief Financial Officer

Yes. We're actually monitoring that. We're very closely focused on the debt markets that are quite constructive. Our goal is to get that sort of resolved probably in the second or third quarter of this year. So we'll be focused on it during those periods. We'll hit the market when it's appropriate.

Operator

We have no further questions in our queue at this time. I will now turn the call back over to Frank Martell for closing remarks.

Frank D. Martell
CEO, President & Director

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Thanks, Chrissa. Look, thank you all for joining us today, and we appreciate the questions as well. On behalf of David, Gerhard, Jeff and myself and the rest of the Team loanDepot, we really thank everybody, including our key stakeholders for their support. We look forward to improving market conditions this year, which are being forecasted, I just discussed, by the Mortgage Bankers Association and others. And certainly, we're looking forward to a constructive second half from a mortgage volume perspective as we push toward profitability. And look, we'll continue to keep everybody appraised as we progress, and we're laser focused on delivering against Vision 2025, which we think is the foundation for the future of the company as the market rebounds.

So with that, thanks again for joining us today.

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

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