# loanDepot, Inc. NYSE:LDI

*Earnings Call*

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# Call Participants

## EXECUTIVES

**David R. Hayes**
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**Frank D. Martell**
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**Gerhard Erdelji**
*Senior Vice President of Investor Relations*

**Jeffrey Michael DerGurahian**
*Executive VP, Chief Investment Officer & Head Economist*

## ANALYSTS

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# Presentation

**Operator**

Good afternoon, and welcome to loanDepot's First Quarter 2024 Earnings Call. After the speaker's remarks, there will be a question-and-answer session. [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 of Investor Relations*

Thank you, and good afternoon, everyone. Thank you for joining loanDepot's First Quarter 2024 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, the impact of the cybersecurity incident that occurred in the first quarter of 2024 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 Chief Investment Officer, Jeff DerGurahian; and 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 perspectives on the market and on our results.

We exited 2023 with positive top line momentum and continue to make important progress towards our Vision 2025 goals, including foundational investments in our people, products and technology platforms, which should serve us well as the mortgage market eventually stabilizes and recovers.

The following four strategic pillars of Vision 2025 remain our north star for enabling value creation for our shareholders:

- pillar number one, transforming the company's origination business and driving purchase transactions with an expanded emphasis on purchase-driven lending and first-time homebuyers;
- pillar two, investing in profitable growth-generating initiatives and launching innovative new solutions that form the foundation of a life cycle relationship with first-time home buyers and owners;
- pillar three, reducing complexity and simplifying our organizational structure with an emphasis on driving client engagement, quality, automation and operating leverage; and

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- pillar four, aggressively rightsizing loanDepot's cost structure to be in line with market realities while investing in our long-term goal of becoming the lowest- cost, highest-quality producer.

During the first quarter, the company was significantly impacted by a cyber incident. As we've previously reported, we were able to restore operations relatively quickly, however, lost revenue and additional expenses impacted our first quarter financial results.

I want to thank our entire team and our business partners who worked tirelessly to restore our normal business operations quickly and support our customers.

Fortunately, we do not expect this incident to further disrupt our operations nor do we expect the incident to have a material impact for 2024 as a whole. Unfortunately, we live in a world where these types of acts are increasingly frequent and sophisticated, and our industry has not been spared. We sincerely regret any concern this incident has caused to any impacted individuals.

In a moment, Dave will discuss in greater detail the financial impact of the cyber incident on our first quarter results.

Like last quarter, we generated year-over-year positive top line growth in Q1, with reported revenues increasing by 7%. This figure includes the negative impact of the cyber incident. Our growth in Q1 reflects benefits primarily attributable to higher servicing revenue and gain on sale margins. The increase in margins was due in large part to our focus on serving first-time homebuyers, which resulted in a higher mix of profitable FHA and VA loans. We also benefited from our relentless focus on loan quality, which resulted in lower repurchase reserves. Finally, the growth of our HELOC business was also a meaningful contributor to our year-over-year revenue growth and margin expansion.

In line with our continued focus on becoming an efficient operation, we reduced first quarter expenses by 2% year-over-year. This reduction came despite incurring an additional $15 million in cyber-related costs. Cost reductions were primarily from lower salaries and marketing costs.

With regards to the remainder of 2024, we expect to continue to invest in increasing our revenue-generating capabilities as well as our ongoing upgrades of key operating systems and platforms. We also expect to continue to deliver annualized productivity benefits of approximately $120 million, which we discussed on our last call. These reductions are specifically identified and related to third-party vendor spend, process and organizational efficiencies and facilities-related expenses.

In terms of market activity for 2024, since our last call, the expectations for lower interest rates have been pushed out from early to mid-2024 to later in 2024. A higher-for-longer stance by the Federal Reserve has been reflected in the recent forecast published by the Mortgage Bankers Association, which lowered their 2024 volume estimates by approximately 10% to $1.8 trillion.

I want to conclude my prepared remarks today by thanking team loanDepot and our large stakeholders for their support. Our focus on delivering against Vision 2025 imperatives is positioning us for the future while creating a pathway for market leadership and profitability as the market returns to more normal levels of activity.

Our markets remain challenging, no doubt, but I believe that loanDepot is positioned to deliver increasing value to all of our stakeholders over the course of this year and in the years to come.

With that, I will now turn the 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.

Our adjusted net loss decreased from $59 million in the first quarter of 2023 to $38 million in the first quarter of this year due both to higher revenues and lower expenses.

During the first quarter, pull-through weighted rate lock volume was $4.7 billion, which represented 11%

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decrease from the first quarter of 2023 and reflected the impact of taking our origination platforms off-line for part of January in response to the cyber incident. Rate lock volume came in within the guidance we issued last quarter of $3.5 billion to $5.5 billion. Rate lock volume contributed to adjusted total revenue of $231 million compared to $226 million in the first quarter of 2023.

We estimate first quarter revenue was adversely impacted by approximately $22 million from the time our systems were off-line and were unable to take customer locks. But bear in mind that we also did not incur associated volume-related expenses with that lost revenue.

Our loan origination volume was $4.6 billion for the quarter, a decrease of 8% from the first quarter of 2023. This was also within the guidance we issued last quarter of between $3.5 billion and $5.5 billion.

The year-over-year increase in revenue is primarily a result of higher servicing fee income and pull-through weighted gain on sale margin. Our pull-through weighted gain on sale margin for the first quarter came in at 274 basis points, within our guidance of 270 to 300 basis points and compared to 226 basis points in the first quarter of 2023. Our higher gain on sale margin was primarily due to an overall increase in the profit margins of our loan production. We also benefited from a lower loss provision due to improved loan quality and a higher profit margin and volume on our HELOC production.

Turning now to our servicing portfolio. The unpaid principal balance of our servicing portfolio increased slightly to $142.3 billion from $141.7 billion from the end of the first quarter 2023. During the quarter, we opportunistically monetized a portion of our portfolio by selling Ginnie Mae MSRs totaling $3 billion of UPB.

Servicing fee income increased from $120 million in the first quarter of 2023 to $124 million in the first quarter of 2024 due in part to higher earnings credits on custodial balances from higher interest rates.

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 us 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 changing interest rate environments. We believe our servicing portfolio is well protected against potential rising defaults.

As of March 31, the weighted average FICO was 736, 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 1% of the portfolio more than 60 days past due at quarter end and should generate reliable ongoing revenue during these uncertain economic times.

A major component of Vision 2025 is to align our expense base with the smaller mortgage market and create efficiencies to improve operating leverage and financial performance over time. Our total expenses for the first quarter of 2024 decreased by $7 million or 2% from the prior year quarter. The primary drivers of this decrease were lower personnel-related costs driven by head count falling by approximately 600 FTE during the period and lower marketing costs. Our expenses would have decreased more substantially if it hadn't been for the cyber incident, which added $15 million in net cost to our results.

Our volume-related expenses, consisting of commissions and direct origination expenses, increased by $2 million from the year-ago quarter despite lower origination volumes. Part of the cyber-related costs incurred during the quarter were to support our loan officers by compensating them for lost commissions. We expect these costs to correlate with volume again, starting with the second quarter.

Restructuring related and asset impairment charges totaled $4 million, up from $1.7 million in the first quarter of 2023, primarily due to the ongoing impact of our supplemental productivity improvement program targeting $120 million of annualized earnings improvements expected to benefit 2024.

Through the end of April 2024, we have confirmed $112 million or 93% of our targeted improvements. These are primarily achieved through decreased third-party vendor spend, salary expenses and reduced real estate-related costs. We expect to action the remainder of the planned savings in the second quarter.

During the first quarter, we also accrued $1.1 million of legal expenses related to the expected settlement of legacy litigation compared to none in the prior year quarter.

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Excluding the cost of the cyber incident, restructuring and asset impairment charges and the litigation settlement accrual, we accomplished meaningful operating expense savings, reducing adjusted expenses by 8% from $313 million in the first quarter of 2023 to $288 million in the first quarter of 2024.

Looking ahead to the second quarter, we expect origination volume of between $5 billion and $7 billion, and we expect pull-through weighted lock volume of between $4.5 billion and $6.5 billion. Volume guidance reflects the seasonal increase in activity in home-buying activity tempered by the recent increase in interest rates, increasing cost to the consumer.

We also expect our second quarter pull-through weighted gain on sale margin to be between 260 and 290 basis points, which also reflects the recent increase in interest rates.

During the second quarter, we expect expenses will increase somewhat, primarily due to higher commissions, marketing and origination expenses, reflecting increased volume quarter-over-quarter, offset somewhat by the absence of cyber-related costs after the first quarter.

As we mentioned on our last call, we are continuing to evaluate our capital structure, including options available to address our unsecured notes maturing in the fourth quarter of 2025. We believe that by addressing these notes in the near term, we will derisk the outlook for the company for the benefit of all stakeholders. We'll share more as we get closer to executing on our plans.

Our cost reset has allowed us to maintain a strong liquidity position, ending the quarter with over $600 million of cash and, at the same time, supporting reinvestment in critical platforms and programs. While the recent increase in interest rates have put pressure on market volume expectations, we continue to aggressively focus on our plan to return to profitability.

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*

Can you just confirm the expense guidance that you just gave, that expenses, you're looking for them to be up even with the absence of the $15 million of cyber-related expenses?

**David R. Hayes**
*Chief Financial Officer*

Yes, that's correct. This is David Hayes. It's just driven really by the pull-through of funded volume expectations going up from Q1 to Q2.

**Douglas Michael Harter**
*UBS Investment Bank, Research Division*

All right. I appreciate that. And then turning to the 2025 debt maturity, can you talk about any progress that you've made there and thoughts around timing as to when there could be some resolution on that maturity?

**David R. Hayes**
*Chief Financial Officer*

Sure. Again, this is David Hayes. As mentioned in my prepared remarks, we are actively looking at that. We've engaged some advisers and are working through a series of options on that front. I think we talked about this a little bit on the last quarter call, too. We don't envision seeing or wanting to see these bonds go current. So we're looking to take care of them in the second or third quarter. It's been pretty constructive markets. So we're going to transact when it makes the most sense for the company, but it's on the near-term horizon.

**Operator**

[Operator Instructions] Your next question comes from the line of Kyle Joseph of Jefferies.

**Kyle Joseph**
*Jefferies LLC, Research Division*

Just on MSR sales this quarter, you guys bleed that out over time, was that done in bulk? Or just any color on bids there, too.

**Jeffrey Michael DerGurahian**
*Executive VP, Chief Investment Officer & Head Economist*

Sure. This is Jeff DerGurahian. As we stated before, we're always monitoring the MSR market, and we'll opportunistically transact where it makes sense. It was a relatively small or immaterial amount of the portfolio where we took the opportunity to transact, and we'll continue to do the same way going forward.

**Kyle Joseph**
*Jefferies LLC, Research Division*

Got it. And then just a quick follow-up for modeling, what do you think in terms of cash balances going forward?

**David R. Hayes**
*Chief Financial Officer*

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Yes, it's obviously still a pretty challenging market, so we're going to continue to maintain this posture of having sort of heightened levels of liquidity. We kept the balances over $600 million. We'll continue to try to manage that number around similar levels for the remainder of the year.

**Operator**

There are no further questions at this time. Frank Martell, I turn the call back over to you.

**Frank D. Martell**
*CEO, President & Director*

Okay. Thank you, operator. And thanks, everybody, again, for joining us today. We appreciate the questions. And on behalf of Dave and the rest of the team, I want to thank everybody and our key stakeholders for their support. We're going to continue to keep everybody appraised as we progress through our Vision 2025 imperatives. So thank you again, and have a great day.

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

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