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FQ3 2026 Earnings Call Transcripts

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Call Participants

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Chief Financial Officer

Gerhard Erdelji
Senior Vice President of Investor Relations

ANALYSTS

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Presentation

Operator

Good morning, everyone, and welcome to loanDepot's Third Quarter 2026 Earnings Call. [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

Good morning, everyone, and thank you for joining our third quarter 2026 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. For more information about factors that may cause actual results to differ materially from forward-looking statements, please refer to the earnings release that we issued earlier today, which is available on our website at investors.loandepot.com.

Our presentation today contains certain non-GAAP financial measures that we believe provide additional insight into analyzing and benchmarking the performance and value of our business and facilitating company-to-company operating performance comparisons. For more details on these non-GAAP financial measures, including reconciliation to the most directly comparable GAAP measures, please refer to today's earnings release. A webcast and a transcript of this call will be posted on our website after the conclusion of this call.

On today's call, we have loanDepot's Founder and Chief Executive Officer, Anthony Hsieh; and Chief Financial Officer, David Hayes. They will provide an overview of our quarter, a review of our operating results and our outlook. We are also joined by Chief Investment Officer, Jeff DerGurahian; and Chief Digital Officer, Dominick Marchetti, to help answer your questions after our prepared remarks.

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

Anthony Li Hsieh
Founder, CEO, Chairman & President

Thank you, Gerhard. I appreciate everyone joining us on the call today. Over the past year, we have remained disciplined in executing our turnaround strategy, which has focused on four priorities: expanding product diversification, increasing market share in attractive origination segments, driving productivity improvements through technology and automation and strengthening our overall financial profile.

We believe the progress we made this quarter demonstrates that these initiatives are working despite a significantly more challenging mortgage market that continue to pressure housing activity and industry origination volumes throughout much of 2026. In the third quarter, our team remained focused on executing the strategic initiatives we put in place to strengthen our business across market cycles. As a result, we delivered meaningful improvements across many of our key operating metrics and continue to gain market share in important areas of the mortgage market.

Periods like the current market environment are when competitive advantages begin to reveal themselves. Despite higher rates and lower industry volumes, we grew originations, increased purchase market share, expanded our home equity business and improved operating efficiency compared to a year ago. Since my return last year, we increased origination volume by 8%, grew unit volume by 33%, increased purchase volume by 10%, improved return on marketing by 14% and reduced our cost to produce by 16%. These results reflect the success of our ongoing efforts to diversify revenue sources, increase operating efficiency and improve the scalability of our platform.

One area where we continue to see significant opportunity is home equity lending. Our expansion into home equity lending is diversifying loanDepot beyond traditional rate-driven refinance activity while allowing us to better serve homeowners seeking liquidity without giving up historically low first mortgage rates. Combined with our growing purchase business, these products allow us to serve customers across a broader range of housing and interest rate environments. It also demonstrates the power of our direct-to-consumer channel, which we believe is one of only two scaled branded fintech model direct-to-consumer mortgage platforms in the marketplace.

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Our success in home equity reinforces that loanDepot is more than a mortgage originator. We have built a marketing, sales and distribution platform capable of delivering multiple products to customers throughout the homeownership life cycle. As a result of our investments in this business, home equity lending has become an increasingly important contributor to our overall production platform. Based on our analysis of publicly available industry data and internal estimates, we believe loanDepot ranked among the top 3 nonbank home equity lenders during the third quarter based on volume. We accomplished this in less than a year.

We believe home equity remains a durable long-term opportunity even if interest rates decline and refinance activity returns. Millions of homeowners with ultra-low pandemic era mortgage rates are unlikely to benefit from a traditional refinance, and they continue to view home equity products as the preferred way to access liquidity. Importantly, we view home equity as a permanent strategic growth category that complements, rather than replaces, our existing mortgage platform. It expands customer relationships, creates additional revenue opportunities and allows us to engage borrowers regardless of where they are in the interest rate cycle.

At the same time, we remain deeply committed to the purchase market. Purchase mortgages continue to represent a critical long-term growth strategy for loanDepot, and we have taken deliberate actions throughout the year to strengthen our position. We added loan officers and expanded partnerships across both our retail and joint venture channels. These investments contributed to a 9% year-over-year increase in our purchase mortgage market share during the quarter and further strengthened our presence in local communities nationwide.

We are also seeing the benefits of our continued investment in technology and process improvement. Our technology investments are delivering measurable operating leverage by automating routine workflows, reducing cycle times, improving customer experience and enabling loanDepot to focus on higher-value activities. These include expanded use of automated underwriting capabilities, digital closing technologies and workflow automation. The combination of greater scale, improved productivity and disciplined expense management continues to enhance operating leverage throughout the organization.

With that, let me turn the call over to Dave to review our financial results in greater detail. Dave?

David R. Hayes
Chief Financial Officer

Thanks, Anthony, and good morning, everyone. The third quarter reflected continued progress against our strategic priorities of improving operating efficiency, expanding revenue opportunities and strengthening our path towards sustainable profitability despite persistent pressure on industry mortgage volumes driven by mortgage rates topping 7%. We reported an adjusted net loss of $31 million in the third quarter compared to an adjusted net loss of $29 million in the second quarter, due primarily to lower adjusted revenue, offset somewhat by lower expenses. Importantly, adjusted net revenue less total expenses improved sequentially, reflecting continued progress in operating performance despite lower volumes.

During the third quarter, our loan origination volume was $7.0 billion for the quarter, a decrease of 12% from the prior quarter's volume of $8.0 billion. This was within the guidance we issued of between $6.25 billion and $8.25 billion. The decline in dollar volume reflects the continued shift toward our 5x5 HomeLoan product, which carries a smaller average loan balance than traditional first lien mortgages. On a unit basis, we increased volume 7% during the quarter, reflecting the success of the product and the investment in our loan officers.

Pull-through weighted rate lock volume was $5.6 billion, which represented a 15% decrease from the prior quarter's volume of $6.6 billion. As a reminder, pull-through weighted rate lock volume is down primarily due to the product mix shift to HELOC, which does not record a lock. Pull-through weighted rate lock volume also came in within the guidance we issued last quarter of $5.25 billion to $7.25 billion and contributed to adjusted total revenue of $302 million, which compared to $307 million in the second quarter.

Our pull-through weighted gain on sale margin for the third quarter came in at 399 basis points, exceeding our guidance range of 360 to 390 basis points and up compared to 345 basis points in the prior quarter. Our higher gain on sale margin primarily reflected the product mix shift. The higher rate environment continued to suppress demand for first trust deed loans, but demand for higher-margin 5x5 HomeLoan HELOC products increased. Their contribution can be seen in the 24% increase in origination income from the prior quarter.

Servicing fee income increased from $112 million in the second quarter to $113 million in the third quarter, primarily due to an increase in collections and higher interest credits on escrowed funds. 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 helps protect 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.

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We continue to proactively manage liquidity and our balance sheet. During the quarter, we completed the sale of approximately $10 billion of Agency MSRs. And in October, we sold an additional $9 billion of Government MSRs. Looking forward, we expect for our servicing fee income to decline, reflecting the settlement of these trades. Finally, adjusted revenue was adversely impacted by approximately $10 million due to higher interest rates, resulting in lower fair value marks on our investment in trading securities and increases in our repurchase reserves.

Our total expenses for the third quarter decreased by $8 million from the prior quarter and fell to a greater extent than the decrease in adjusted revenue, reflecting the results of our investment and productivity initiatives. The primary drivers of the decrease from the quarter were lower personnel-related costs and the benefit of debt repurchases during the quarter. Our operating improvements, productivity initiatives and disciplined expense management drove meaningful efficiency gains across the platform. As Anthony mentioned, our cost to produce improved by 16% year-over-year. Meanwhile, our investment in technology is making us more efficient, demonstrated by a unit production per FTE increasing 28% since last year.

As part of our ongoing cost management strategies, we increased the amount of our previously announced productivity initiatives from $12 million to $25 million annualized and taking effect through the remainder of the year. We're continuing to evaluate opportunities for additional productivity improvements. Looking forward to the fourth quarter, we expect pull-through weighted lock volume of between $3.25 billion and $5.25 billion and origination volume of between $4.5 billion and $6.5 billion.

These ranges reflect the impact of the seasonal decrease in purchase activity and our belief that the market estimates and the industry volumes are overstated and remain under pressure from the higher interest rate environment. HELOC volume is not reflected in lock volume, but it is reflected in closed loan volume. It is also worth noting that the shift to HELOC resulted in higher unit volume and contribution margins, albeit at a smaller average loan size.

We expect our fourth quarter pull-through weighted gain on sale margin to be between 425 and 465 basis points and our gain on sale margin to be between 315 and 355 basis points. Our total expenses are expected to decrease somewhat in the fourth quarter, primarily due to lower volume-related costs and the impact of our previously announced productivity initiatives.

We ended the quarter with $214 million in cash, decreasing by $15 million from the second quarter. However, we repurchased $87 million of senior notes at an average purchase price of 88% of par during the quarter. Those repurchases, plus the previously announced Agency MSR sale during the quarter, contributed to the reduction in our net debt obligations by $114 million. Finally, we continue to actively work to address our upcoming debt maturities and are pursuing several financing alternatives to refinance or extend our debt with financing counterparties. Our focus is on extending our debt maturity profile, and we'll provide updates as appropriate.

We're keenly focused on managing our balance sheet, continuing to focus on maintaining strong liquidity, prudent capital management and operational flexibility. Looking ahead, we remain committed to driving further efficiency gains while continuing to invest in strategic growth initiatives, including home equity lending, purchase market expansion and technology enhancements.
With that, we're ready to turn it back over 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 Mihir Bhatia with Bank of America.

Mihir Bhatia
BofA Securities, Research Division

Maybe to start, just on the debt refinancing. Just on the upcoming maturities, is the base case that you extend or refinance those without issuing equity or selling more MSRs? How should we think about the potential increase in interest expense? Any early indications that you can talk about, just from that debt maturity?

David R. Hayes
Chief Financial Officer

Thanks for the question. Yes, unfortunately, I don't think we can elaborate on that too specifically. We -- as I noted in my prepared remarks, we are very actively engaged with our advisers on coming to resolution on that, and we're pursuing several different avenues to make sure we get to the best outcome for the company overall. We're looking at it very holistically. And so it's unclear or we can't share with you at this point how that ultimately resolves, but we hope to have an update in the near term.

Mihir Bhatia
BofA Securities, Research Division

Okay. Understood. Maybe just going to the business and getting to sustainable profitability in this type of interest rate environment. At the midpoint of your fourth quarter volume and margin guidance, how close are you to profitability? And if you're not there, just -- can you talk a little bit about the remaining revenue or expense gap that you need to close? What are you planning for, for next year and to be on a sustainable path if interest rates remain elevated?

Anthony Li Hsieh
Founder, CEO, Chairman & President

Thanks for the question. This is Anthony. So what we witnessed starting at the end of Q3 was the market backing up further into volume decay, with the 10-year rising above and getting to 5% and above 5%. That, along with seasonality, what we witnessed was an unexpected decline in purchase lending as consumers went into a bit of a sticker shock.

Of any particular homebuyers that are out there, some homebuyers actually even canceled their contract as a result of it. So that certainly did not help our momentum. We have been very focused on growing market share since the last year. And I want to rewind a little bit, just to remind everyone, the organization unfortunately lost quite a bit of market share in recent years.

This company was never designed to carry this type of cost structure with the little volumes that we currently enjoyed last year. So we've been heavily on scaling the organization. And our origination channels over the last year, all are pointing very positive and achieving greater market share. Our 3 significant origination channels are builder, which is our joint venture channel. We currently still enjoy being the largest homebuilder financing partner as an independent mortgage bank. We have our retail in-market business that is enjoying positive momentum and growth. And our fintech consumer direct business has really improved our market share. And we, over the last 6 months, have added the home equity market to the mix, which is completely incremental volume there.

So the end of Q3 was both a challenge from a higher interest rate market that presented a surprise. And over the course -- since the conflict started in Iran in March, we've been chasing the market. And even with the market decay, we continue to drive additional revenue and additional market share. So getting over the seasonality of Q4 and Q1, and of course, not knowing where the market will end up next year. But if it stays at this level, we are very confident that we'll get to a breakeven or profitability by first half or mid next year.

Operator

[Operator Instructions] Your next question comes from the line of Mikhail Goberman with Citizens JMP.

Mikhail Goberman
Citizens JMP Securities, LLC, Research Division

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I was wondering if you could speak just broadly on what you're seeing in terms of the competitive landscape out there at the moment? And also, what you're seeing in terms of the credit quality of the borrower, noticing that 60-day plus delinquent rate kind of edging up a little bit? And sort of wondering if there's any wobbles on the horizon that you are seeing and if there are any geographic aspects to that?

Anthony Li Hsieh
Founder, CEO, Chairman & President

I'll start. Mikhail, great questions. I'll start with answering the credit side, and perhaps if the team has additional comments. We have not or I have not seen any significant changes or deterioration in credit. This is the strongest consumer credit profile that I have witnessed in my career. The overall equity position and credit score is enormously favorable. So we have not seen a change at all, very good thus far.

Your question on the competitive side, we're starting to see an adjustment to capacity out there. As volumes continue to shrink and decay, the mortgage industry will adjust. In this capacity, we're seeing competitors either close down locations, offer itself up for sale or shrink their teams, and we're seeing that in many of our markets today.

So that is a healthy process. That just means that margins will most likely act responsibly. And we're seeing some of that stabilize as far as margin, particularly on first mortgages, while second mortgage margins are largely unaffected by interest rate movements.

Operator

There are no further questions at this time. I will now turn the call back to Anthony Hsieh for closing remarks.

Anthony Li Hsieh
Founder, CEO, Chairman & President

On behalf of Dave, Jeff, Dom and the rest of our team, I want to thank you for joining us today. Since returning as CEO, I have remained focused on accelerating our digital transformation, improving operating efficiency and positioning loanDepot for long-term growth. As we look ahead, we recognize that elevated interest rates continue to present challenges for the broader housing and mortgage market. While the timing of any meaningful improvement in mortgage demand remains uncertain, we are encouraged by the significant progress we have made over the last year. Today, loanDepot is a more diversified, more efficient and more resilient company than it was 12 months ago.

Importantly, we are not simply managing through the current cycle. We are building a stronger platform designed to generate sustainable growth and profitability today while positioning loanDepot to capture significant upside when housing activity and mortgage demand eventually recover. Going forward, our priorities remain clear: grow market share, improve profitability, enhance shareholder value and continue building a differentiated homeownership platform that can succeed through all phases of the housing cycle.

I'd like to thank Team loanDepot for their continued dedication and execution, as well as our customers, partners and shareholders for their ongoing support. The progress we've discussed today reflects the commitment of our people and the momentum we are building across the business. Thank you again for joining us. We remain confident in our strategy, encouraged by our progress and look forward to updating you on our continued execution next quarter. Operator?

Operator
This concludes today's call. Thank you for attending. You may now disconnect.

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