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loanDepot, Inc.

Q1 2021 Earnings Conference Call

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CORPORATE PARTICIPANTS

Nicole Carrillo, *Chief Accounting Officer*

Anthony Hsieh, *Chief Executive Officer and Chairman*

Patrick Flanagan, *Chief Financial Officer*

Jeff Walsh, *Chief Revenue Officer*

John Lee, *Chief Analytics Officer*

Jeff DerGurahian, *Chief Capital Markets Officer*

CONFERENCE CALL PARTICIPANTS

Ryan Nash, *Goldman Sachs*

Robert Napoli, *William Blair*

Brock Vandervliet, *UBS*

Kevin Barker, *Piper Sandler*

Ryan Carr, *Jefferies*

Timothy Chiodo, *Credit Suisse*

Mark DeVries, *Barclays*

Trevor Cranston, *JMP Securities*

John Davis, *Raymond James*

PRESENTATION

Operator

Good morning, and welcome, everyone, to loanDepot's First Quarter Conference Call. All lines have been placed on mute to prevent any background noise.

I would now like to turn the call over to Nicole Carrillo, Chief Accounting Officer. Please go ahead.

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Nicole Carrillo

Good morning, everyone, and thank you for joining our call.

Today we will discuss loanDepot's first quarter results. We are excited to share the financial information and other highlights of our quarter with you.

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. 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 risk factors that are described in the Risk Factors section of our filings with the SEC.

On today's call, we have loanDepot Founder, Chairman and CEO, Anthony Hsieh, and our Chief Financial Officer, Pat Flanagan, to provide an overview of our quarter, as well as our financial and operational results, and to answer your questions. We are also joined by our Chief Capital Markets Officer, Jeff DerGurahian, our Chief Analytics Officer, John Lee, and our Chief Revenue Officer, Jeff Walsh, to help address any questions you might have after our prepared remarks.

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

Anthony Hsieh

Thank you, Nicole, and good morning, everyone.

I'd like to begin by highlighting aspects of our results from this past quarter, and then I will address the evolving market conditions we are seeing across the mortgage industry more broadly, and how loanDepot is uniquely positioned to thrive.

This quarter, we reported record loan originations of $41.5 billion and adjusted diluted earnings per share of $0.98 per share. This was driven by an 11% increase in quarterly originations across our Retail and Partner channels, reflecting the diversification and our strategy, and strong consumer recognition of our brand. Yet another signal of the overall strength of our business and performance and our commitment to our shareholders, we recently announced a special dividend of $0.61 per share.

Our continued success is due to the innovative and purposeful way in which we built our Company. Thanks to our direct-to-consumer and market Retail and Partnership channels, we are able to serve customers where and how they want to be served. And importantly, because of our unique at-scale model, and the balance and diversification it offers, we are known to be incredibly nimble and strategic. We are well-positioned, able to add new products and services and consider acquisitions no matter the market environment.

We are also known for a track record of creating strategically beneficial joint ventures, and Q1 was no exception. Recently, we entered into a partnership with Schell Brothers, a premier builder of energy-efficient homes in Delaware and Virginia. This new joint venture, named Henlopen Mortgage, pairs Schell Brothers' innovative, highly-personalized home office with loanDepot's highly efficient, robust lending platform, powered by our proprietary mello technology to ensure customers' experiences are seamless and rewarding.

We take our responsibility to customers very seriously, which is why our mello technology and data enrichment capabilities help set us apart. Thanks to our proprietary tech innovations and our unique approach to data, we are able to quickly match our customers with the right loan officer and the right

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product, at the right price and right time, ensuring our customers are being served how they wish to be. This customer-centric approach and technology-driven mindset has been honed over the past 11 years and has allowed our brand to become one of the most recognized in the industry today.

loanDepot delivered on a promise I mentioned a few moments ago: the promise of an extremely satisfying loan experience. Our net promoter score remains well above the industry average, and on par with nationally-recognized, best-in-class consumer technology goods and service providers, and that's something we are extremely proud of. Our brand is special, and we consider it to be one of our Company's most valuable and differentiated assets. This quarter, we initiated national partnerships with Major League Baseball and the Miami Marlins. It was an exciting quarter for us to say the least. loanDepot became the presenting sponsor of the American and National League Championship Series, and the official mortgage provider for both Major League Baseball and the Miami Marlins. We also unveiled loanDepot Park, the home of the Miami Marlins and world-class special events.

In addition, we believe our position as the second most recognized mortgage brand grew even stronger this quarter, through our ongoing national television ad campaign, which has delivered more than 12 billion household impressions since its launch in 2020. Our extensive data analytics allows us to capitalize on the 1.8 million average monthly website visits and 582 million online media exposures during the first quarter of 2021.

At loanDepot, we measure engagement in multiple ways. Of course, engagement is an important marketing metric. But for us, engagement as a team and engagement within our communities is also extremely important. It's one of the reasons we are so passionate about contributing to the local communities where our team members and customers live and work. This quarter, we announced several key initiatives that exemplify our strong commitment to communities nationwide, including the Home Means Everything Major League Baseball campaign, whereby loanDepot was to donate $25 to the Boys & Girls Clubs of America from each RBI during the 2021 regular season. We expect that this will generate a donation of more than $500,000 to an organization that does a tremendous amount of good for children, families and communities nationwide.

Pivoting from our strong Q1 results, I'd like to spend some time addressing the recent shifts in the mortgage market and further outline why we are confident and well-positioned to further grow and succeed in any mortgage environment.

Across the country, the first quarter was marked by rising interest rates, as well as the continuing slowdown in refinance volumes. Interest rates began to rise in late Q1, and there has been a corresponding reduction in market opportunities and gain on sale on margins as a result. While we anticipated the rise in interest rates, the shift began earlier in 2021 than generally expected. Competitive pricing strategy pressures from other market participants also had a market-wide impact on margins.

Finally, we continue to see strong demand from purchase transactions, fuelled by interest rates that, while rising, remain at historically low levels, coupled with continued constraint on supply.

loanDepot's differentiated model and diversified offering is built exactly for these shifting market conditions. For more than 11 years, we have helped customers achieve their home purchase and refinancing goals with solutions that fit their needs. Our suite of products and services, and powerful data and analytics capabilities are intentionally constructed to account for changes to the market environment.

Our dual focus on our Retail and Partner strategies enables us to raise awareness and generate leads, broadening our top-of-the-funnel consumer reach. These strategies position us to thrive despite changing rate cycles. This is exemplified by our industry-leading organic recapture rate that grew to 72% during the

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first quarter, demonstrating that we have the right product for our customers, and are able to offer it to them at the right time because of our powerful data and analytics.

Our technology-enabled platform allows us to scale our operations for changes in volume in a highly efficient manner. This platform, coupled with our continuous focus on expenses, means we can continue to deliver value while adjusting to a changing market.

Through our multiple sources of liquidity, including loan funding warehouse facilities, MSR facilities, off balance sheet (inaudible) facilities, mello securitizations and cash-on-hand, we have established a sophisticated, flexible financing approach that allows the Company to fund its own origination business and protect against foreseeable market risk. We are well-positioned and capitalized on what we believe will be a period of consolidation in the market, and we have the capabilities to efficiently integrate teams and build on our existing business momentum.

I'd now like to turn things over to our CFO, Pat Flanagan, who will take you through our financial results in more detail. Pat?

Patrick Flanagan

Thanks, Anthony, and good morning, everyone.

We spoke to all of you a few days after our IPO as loanDepot completed a significant milestone in its 11-year journey and successfully entered the public markets. Then, thanks to the continuous hard work of Team loanDepot, we've achieved another quarter of excellent results.

As Anthony mentioned, in the first quarter, our strong financial performance was highlighted by record loan originations of $41.5 billion, representing an increase of $4.1 billion or 11% from the fourth quarter of 2020. Our Retail and Partner strategies delivered $7.9 billion of purchase loan originations and $33.6 billion of refinance loan originations during the first quarter.

Of similar significance, our Retail channel accounted for 81% of our loan originations and our Partner channel accounted for 19% of our total loan originations. The increase in originations across both channels are a result of loanDepot's unique and diversified business strategy and strong brand recognition.

Within our Partner channel, our joint ventures contributed fee income of $2.2 million in the first quarter of 2021, reflecting the wide variety of industry partners we work with. In fact, we entered into two new joint venture relationships with homebuilders, and added one new joint venture relationship with a federally-chartered savings bank offering banking and insurance services, during the first quarter of 2021. Our rate lock volume of $45.8 billion for the first quarter resulted in total revenue of $1.3 billion, which was an increase of 1% from the fourth quarter of 2020.

We reported Adjusted EBITDA of $458 million and adjusted net income of $319 million, as compared to $530 million and $376 million in the fourth quarter of 2020. The decrease is driven by the decline in gain on sale margins and increased variable expenses from higher loan originations volume in the first quarter.

Our total expenses for the quarter increased by $119 million from the prior quarter, primarily due to IPO-related expenses of $64 million, of which $59 million was stock-based compensation expense related to the IPO stock grant. The additional increase in expenses is mainly related to higher direct expenses from record loan originations, additional personnel expenses to support the growth in our business and marketing costs associated with expanding our national brand campaign. As we focus on the long-term growth trajectory and build on our momentum, we will continue to invest in brand, people and technology.

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Importantly, our disciplined and purposeful investments in loanDepot's technology enabled a 2% decline in cost per loan for the first quarter of 2021 as compared to the fourth quarter of 2020.

Complementing our origination strategy is our growing servicing portfolio which ensures we can serve the customer through the entire mortgage lifecycle. The unpaid principal balance of our servicing portfolio increased by 26% to $129.7 billion compared to the fourth quarter, driven by an increase in servicing retained loan sales. This also resulted in a 28% increase in servicing income quarter-over-quarter.

As of March 31, 2021, approximately 1.4% or $1.9 billion of our servicing portfolio was in active forbearance. This represents a decline from 2.4% or $2.4 billion as of December 31, 2020, and as mentioned during our previous Earnings Call, we are optimistic about the improvement in these trends as we move further into 2021.

The fair value of mortgage servicing rights increased by $644 million during the first quarter to a record $1.8 billion. This increase was driven by $530 million of new additions and a $231 million increase in fair value due to decrease in prepayments fees and increased interest rates during the first quarter of 2021. This was partially offset by runoff of $118 million.

We have established a sophisticated and flexible financing approach that allows loanDepot to fund its loan origination business and protect against foreseeable market risks. Our total funding capacity with our lending partners increased to $10.3 billion at quarter-end, up from $8.1 billion at December 31, 2020. The increase was due to the addition of one new long-term facility with a funding capacity of $500 million, as well as the increases to our existing facilities. Our available borrowing capacity was $2 billion at March 31, 2021.

We also completed an offering of $600 million of 6.125% unsecured senior notes due 2028, before the close of the quarter, the proceeds from which will be used for general corporate purposes, including to pay a special dividend and reduce other debt positions.

As part of our capital allocation strategy, we make it a priority to return value to shareholders when appropriate for our leverage and liquidity levels. We declared a $200 million special cash dividend on our Class A and Class D common stock, and to holders of Holdco units. The special dividend will be paid on May 8, 2021 to the Company's stockholders and LD Holdings members of record as of the close of business today. As we've previously stated, we intend to begin paying a quarterly dividend after the completion of the second quarter.

Now let me turn it back over to Anthony for closing comments.

Anthony Hsieh

Thank you, Pat.

I'll use this platform to reiterate what I have always said and strongly believe: we've gotten where we are today by thinking and doing differently.

In terms of our path forward, we are excited about the challenges and opportunities that this shift in market conditions brings to our business. We have the experience and are confident that our differentiated offering and diversified operating model positions loanDepot for success in any environment. We are also extremely grateful for all of the hard work and relentless efforts of Team loanDepot, and we'll continue to make investments into our people, brand and technology as we forge ahead.

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With that, we are ready to turn it back to the Operator for Q&A. Operator?

Operator

Your first question comes from the line of Ryan Nash with Goldman Sachs.

Ryan Nash

Hi, good morning, guys.

Anthony Hsieh

Morning.

Ryan Nash

Maybe we could just start off, given the shifting market, Anthony, with maybe just a broad outlook about how to think about the remainder of 2021. Can you maybe just talk about how gain on sale margins progressed by channel over the quarter? And just given the backup in rates and increasing competition, can you maybe just talk about what your expectations are for margins by channel? Thanks.

Anthony Hsieh

Ryan, let me back up a little bit for everyone on this call and just remind everyone that mortgage origination is volatile but predictable. During times with rising interest rates and decreasing volumes, this is the best opportunity for companies of scale and with differentiated assets to properly go through the pressure point and to increase market share. This is where customer acquisition cost is key, and your scale and efficiency will get you through this type of market condition.

Competitors with less scale and less efficiency will have overwhelming higher costs to burden through this cycle. It's important for everybody to understand, the more pressure as this market presents itself for the rest of the year, the better it will be for loanDepot to extend our reach and our market share, and to flex our differentiated assets.

Now, the pressure to margins and earnings will be evident, and this teeter-totter has been the same exact way for the 36 years that I've been in this business. The lower the margins, the higher the opportunity for market penetration and market share. We also need to understand that we are in a whole new world here post-Countrywide of 2008 and 2009. That company gave up 22% market share. We are now top three overall as an 11-year-old Company, and as third retailer-focused originator in the country, we have less than 3% market share. This is still very, very early. In a baseball game, it's top of the second inning in this cycle.

We need to understand here that, quarter-over-quarter, month-over-month, week-over-week, a good company, a good operating company will detect the pressure points and adjust accordingly, and our objective is to maximize and leverage market conditions. Interest rates drop; should it do that, we will continue to scale and maximize our profitability. If the market continues to tighten up, volumes decrease as higher interest rates are evident, there's still plenty of market share. There are tons of opportunities for cash-out refinances. Keep in mind that the second mortgage market is now gone, post Dodd-Frank. Americans are enjoying record low loan-to-value and high equity; there's lots of consumption, through all types of purchases, as we all know, in today's market. We're seeing a tremendous demand and increase in cash-out refinance, and as you know, purchases continue to be very, very healthy.

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What do we expect? Keep in mind that we are only one month into Q2. One thing that I stopped doing is I stopped anticipating what this market's going to do, and be prepared for the pressures to come, but those pressure points is an opportunity. Because the more the pressure, the harder it becomes for our competition.

Ryan Nash

Got it, thanks for the color.

If I could just throw in a follow-up. You mentioned lower margins would create greater opportunity for penetration. Can you maybe just talk about some of the leverage you have on the volume side to open up some of your funnels? You just talked about cash refi as an example.

Then second, you mentioned M&A several times in the prepared remarks. I'm just curious, what is your appetite to acquire now that you have a public currency, and if we are considering deals, what would be the priority? Thanks.

Anthony Hsieh

Yes, Ryan, understand, we purposefully built this organization to be the most well-diversified originations model in contemporary times. We have in-market loan officers; one of the only, arguably two, direct-to-consumer scale sophisticated technology platforms; as well as developed the brand over the last 11 years. We also have an organically-built, top 10 wholesale lender within loanDepot, and we are the largest joint venture new homebuilder lender in the country.

All of these levers allow us to fish in different ponds as compared to our modern-day competitors. It's important for us to know that, because out of the $11 trillion outstanding market, we certainly have more hooks out there in the marketplace, and it gives us tremendous opportunity to really pull on each one of these different levers as the market continues to change.

Ryan Nash

Got it, thanks.

Operator

Your next question comes from the line of Bob Napoli with William Blair.

Robert Napoli

Thank you, and also good morning.

I guess, Anthony, I mean, are you continuing to add in-market loan officers? Moving into a higher interest rate market with less refi volume expected, are you investing into that, or are you focused on—while you're looking, I know you're very clear on the opportunity to gain market share, I mean, are there areas where you're pulling back, or where are you investing more aggressively?

Anthony Hsieh

We are full-court press in the refinance market, and I'll tell you why. There is plenty of refinance volume to go around. Understand, even if the refinance volume gets hair cut by 20% or 30%, there's still 70% left. What's going to adjust is that supply and demand curve, and your capacity is going to reduce simply

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because the two highest costs in a refinance transaction to a mortgage company is the cost to acquire that customer. Many of them, most of them, do not have brand or the data and analytics to properly evaluate how to capture a customer at the top of the funnel and properly convert it and get the ultimate leverage on your marketing investment.

Second is your labor cost, which is still significant in a mortgage. Utilizing technology to drive efficiencies to lower cost and to fulfill at scale: these two pressure points will be difficult for our competition. This is why we were able to grow so much over the last 11 years, is because of these two fundamentals that we look at to drive costs down. As the mortgage market shrinks, we actually become more aggressive, simply because of the pressure points. This is where cost separates market share.

Now, I also want to go back to the previous question that Ryan asked, and I apologize, I skipped it on M&A, and that is, we are very active there. We are looking at, both in and outside of the direct mortgage offering. I think looking at our brand and knowing that the home purchase and refinance transaction is more than just a mortgage. We continue to evaluate our opportunities and are currently very active in that sector.

Robert Napoli

Thanks. Maybe in line with that, you talked about adding new products and services. Which new products and services are likely to be developed organically? And what, when you say outside of the mortgage market, are you talking about the personal loan market? Or what other products and services would you look to acquire versus develop organically?

Anthony Hsieh

Yes, what I'll say is, we're not prepared to discuss anything specific, for obvious reasons, but what I will say is that, as the digital age continues to evolve in transition, adding adjacent products and services, or bundling a service and understanding that the ultimate objective for a customer is to buy and sell a home and to finance it. All of that becomes one outfit rather than singular pieces of clothing as we move forward.

As a branded organization and a trusted brand that consumers identify with, it becomes a bit easier, and it becomes more opportunistic for us to add adjacent products as we move forward, because we have an embedded customer acquisition cost.

Robert Napoli

Thanks. Maybe just last question. I guess based on your comments, you would expect that, on a steady basis over the second quarter through this year and next year, you would expect to see steady market share gains. I don't know if you could quantify that at all, and the market share trend?

Anthony Hsieh

Yes. In this industry, you have to prepare yourself with differentiated assets and wait for the market to come to you. The market is predictable in the sense that it's going to change, and when it does, you have to capitalize on it, as we've seen with 2020 and the scale and profitability loanDepot was able to achieve. Prior to COVID in 2020, you've seen a company that started organically in 2010 have grown, on the average, 50%-plus year-over-year and has become the top three Retail originator in the country.

What we continue to look at and be very focused and disciplined at is, we don't live for next quarter, we don't live for today. We live for the next decade, and that's how we have developed our assets throughout

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our 11-year cycle. This is why we're extremely bullish and excited about the pressure points that are coming up.

Robert Napoli

Great, thank you.

Operator

Your next question comes from the line of Brock Vandervliet with UBS.

Brock Vandervliet

Hi, good morning, thanks for taking my question.

I wanted to kind of go back to Ryan's initial one. Just as investors try to dimension the earnings profile here, I think what we're all looking for is some kind of guardrails on the gain on sale. Margins, the volume seems to be holding in better than expected; we could have a record year for purchase volume. All that's good. Can you give us anything really on gain on sale, either Partner or the Retail channel?

Anthony Hsieh

Brock, it's Anthony.

I understand what you're asking, but it's just not something that I think that, number one, we can predict. We don't know where the pressure point to come is. It depends on this fragmented market that we're in and how much competition decides to lower price to try to preserve its capacity.

Last year, obviously everybody's still counting, but we're looking at $4 trillion of capacity last year. This year, we're looking at $3 trillion. There's a trillion dollars of excess capacity that the industry needs to shift, and everyone is always stubborn about shedding capacity, until they understand they must. When capacity is shed, margins return.

It's hard to say; we have a highly, highly fragmented market. Our number one competitors and us have an 11% or 12% market share, and the rest of it is highly, highly fragmented. You have some pricing wars between the top two wholesale lenders that are fueling mortgage brokers, which is now 15%, 20% of market. It'll be interesting to see what type of pricing pressure that creates.

We just don't know. We don't know what the pricing pressure is going to do to GOS. But at the end of the day, nobody can sell a dollar bill for $0.90 for long, and this is where it's important for us all to understand that the pricing point and the pricing pressure is a dynamic development that nobody can predict. That's the mortgage business. But at the end of the day, you'll know that there's going to be a chance, there's going to be pressure points.

But exactly how much GOS is going to come down, it is coming down. Why? Because we've seen the best GOS I've ever seen in 36 years last year; so, is it going to remain that high? I hope so. Highly doubt it.

Brock Vandervliet

Regarding some of the price war you mentioned, do you think there—is there any sort of a silver lining here in terms of that activity being able to pull forward some of this price erosion so that we're not

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worrying about it for the next six quarters, that it happens relatively quickly? Or is that too soon to know at this point?

Anthony Hsieh

It's too soon to know. The good news is, the longer the price war lasts, the harder it is in competition, and the better it is for our market share gain. That's generally how it works. It's pretty simple that way, but it does create lots of earnings pressure. Do I anticipate pricing wars to continue? No, but it generally happens at the start of a trend change, is what we're seeing today.

You have too much capacity out there. Last year, we were under-capacity because originations were on fire. Now originations are starting to take ROTH and the entire industry hired up, and now you have excess capacity. That excess capacity has to work its way through the system.

Brock Vandervliet

Got it, okay. Appreciate your candor.

Operator

Your next question comes from the line of Kevin Barker with Piper Sandler.

Kevin, your line is open.

Kevin Barker

Yes, thank you. Sorry about that.

Could you help us understand how you can transition towards focusing on a purchase origination market and start to dominate, versus becoming a purchase-dominated market, if rates were to continue to move higher? You do have the distributed retail loan officers, which appears to be an advantage, but you've been focused mostly on the refi opportunity. How do you get those loan officers to refocus on the purchase volume and go after that part of the market as we transition here?

Anthony Hsieh

Kevin, great question, and again, I don't want to monopolize all the answers here, but look, this is naturally natural to me. I've been in this market for a long time. Let me just say that we look at the purchase and refinance markets almost as separate industries. When I amass (phon) what my purchase to refi ratio is, I completely ignore that question because it's completely two separate penetrations, the way I look at it.

The purchase market, we are one of the largest in-market loan officer platforms today, and that is driven off of a brand and driven off the fact that it's delivered through our proprietary technology. The consumers benefit from that. We see tremendous momentum in this business. We made the decision to be in this business back in 2012, when the world thought that we were nuts by going back into what you want to perhaps call brick-and-mortar, but it's not. These are in-market loan officers that are remote, that work and live in the communities that they serve. We have tremendous momentum here, with organic growth, and we have some conversations with potential meaningful acquisition targets. In addition, we are one of the largest joint venture homebuilder lenders in the country and we'll continue to have a healthy pipeline of other large institutions in the works.

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Our direct lending platform is a manufacturing plant, and the way that I like for folks to understand is that this manufacturing plant, it is the hardest to build in mortgage lending. Arguably, there's only two at scale: ours, and our number one competitor. The way to look at a direct lending operation is, what types of raw materials you feed at the top of the funnel in order for the manufacturing machine to make a final widget at the bottom. Whether we throw in second mortgages, personal loans, cash-out refi's, refinance or purchases, it becomes an opportunity for the Organization as we evaluate the different types of financial return.

Refinances will continue to be very, very attractive. As I stated earlier, even if we hair cut refinances by 30%, we're still looking at well over a trillion, $2 trillion of refinance opportunities. As we continue to go through this trend change, the next two, three, four, five months, we'll see pressure to margins. But as capacity is squeezed and pushed out of the industry, margins will return. You have to remember, the industry is not here to sell a dollar bill for $0.90. Margins will return. It always does.

But when there is a change and there's over-capacity, everyone starts to get aggressive because they don't want to shed capacity. It happens every time. As we look at purchasing refi's, we look at both of them separately because they're really different opportunities.

Kevin Barker

If we look at your purchase originations now and the run rate you're at, is that what we should expect to continue and potentially grow significantly, just given your focus on that, and separating out between the refi and purchase?

Jeff Walsh

Yes, this is Jeff Walsh.

We would anticipate that number increasing. We've maintained a really strong focus on our purchase business through our in-market channel, and through the first quarter, have actually really aggressively stepped up our hiring of what we call qualified in-market originators, which is specifically focused around the percentage of purchased business that they've historically done.

In the first four months of the year, we've added over $4 billion of net origination through organic hire of in-market originators. Truthfully, even though it was a highly robust refi market last year, we always focus heavily on purchase in the in-market Retail channel because those originators know that's their long-term success of their business, is to maintain those referral relationships that drive that purchasing.

It's April, and traditionally we see the seasonality, the upswing of the purchase market, and as we add that critical mass of in-market originators, we anticipate to gain a larger market share of that, and as you mentioned, very robust purchase market that we anticipate in 2021.

Kevin Barker

Okay. Anthony, real quick on the M&A opportunity. What type of size should we consider, or what type of size of organization would you consider bringing in-house?

Anthony Hsieh

We're looking at it in two different categories for mortgage plays. One is a rollup strategy, which are smaller, tuck-ins. As far as M&A is concerned, it has to be meaningful. It takes quite a bit to integrate any

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acquisitions, and we've done a few in our Organization now. We've done one in 2013 and another one in 2015.

What we're sensing is, obviously with low margins coming in, sellers' expectations are a bit more realistic. Number two, the fact that we have a recognizable brand becomes very attractive to those loan officers that may on-board to us, both through acquisitions or organic growth. We are very active there and we are having lots of discussions.

Kevin Barker

Thanks for taking my questions.

Anthony Hsieh

By the way, just to differentiate here, our number one competitor is not in this market. Again, going back to having different hooks in different ponds, this is a different opportunity as compared to our primary competitor.

Kevin Barker

Thank you.

Operator

Your next question comes from the line of Ryan Carr with Jefferies.

Ryan Carr

Hi, good morning, guys, thanks for taking my question.

Anthony, the first question here is for you, specifically on rate sensitivity of borrowers in this market and the purchase side; curious to hear what trends you're seeing with respect to that. We saw, in this quarter especially, rates rise significantly. It doesn't seem like the purchase demand has tapered off as much as one would think in a normal market, so curious to hear your thoughts on that.

Anthony Hsieh

Yes, I'm sorry, Ryan, so your question is what happens to consumers' take on rates? Was that what your question is?

Ryan Carr

More so on what trends you're seeing specifically related to the rate changes and maybe how this time may be different than previous mortgage markets.

Anthony Hsieh

Ryan, any time interest rates start to move up, consumers get a little sticker shock. It's kind of like when you're evaluating buying something that's on sale and all of a sudden the sale price is over. That doesn't mean that it's not valuable today. Interest rates are still fantastic. But if they started shopping before rates went up, they have a little bit of a sticker shock.

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Many consumers sit on the sidelines, especially if it's a rate-and-term, because there's no sense of urgency for rate-and-term refi. Cash-out refi, yes. If you're waiting to take money out of your house and your equity to remodel your kitchen, there's certainly a sense of urgency. But if you're looking at rate-and-term, if you're refinancing out of an ARM or any other purpose, you can wait a little bit. But many times in the past, as the consumer waits and they understand rates are not coming down, today's rates are still extraordinarily attractive, and there's still a lot of mortgages that are in the money, given where rates are today.

But there's generally a little bit of a pause, just because rates are not on sale anymore, but consumers usually will come back around again, going back to my original comment earlier. Whatever the refinance market is, whatever the volume of originations is for this year and next year, capacity will adjust margins to the right size. It just takes a while to get there, and we just came off, arguably, the largest mortgage volume market ever. There was about $4 trillion in 2003, so last year was the biggest year since 2003.

Now, the industry just has a ton of capacity to shed, and shedding that capacity will take some time. As the capacity sheds, your margins will return because no one likes to sell a dollar bill for $0.90.

Ryan Carr

Thanks. Then kind of going off of that, margins in the Retail channel held up a lot better this quarter than they did in Partner, but curious to here where you're adding capacity or you're trimming it, moving forward, just given where the direction of the market is.

Patrick Flanagan

Sure. Hi, Ryan, it's Pat Flanagan.

I think when you look at our Partner channel, the margin compression that you're referencing was much more concentrated in the Broker channel, the JV channels that are primarily purchased business with our joint ventures, and as was noted, there's been way less margin compression in the purchase side of the business overall. I think that's what you're seeing as the effects of the price war on the Broker channel.

Ryan Carr

Awesome. Then just lastly, any view on that price war, directionally where you see things may be heading for at least the foreseeable future?

Patrick Flanagan

It's hard for us to tell where that shakes out. I agree with what Anthony said, which is that selling at a loss doesn't last long, generally, and sheds capacity. It's largely a question of pain tolerance for how long do they want to keep that going on. For us, like we said, we're well-positioned to continue to make money. Our other channels haven't seen that level of price compression, and also when we'll see if there's a contingent effect that bleeds over into the other parts of the business. But we're still seeing, as you just mentioned, record high demand for purchases. The housing market is alive and well. We're adding new joint ventures on the Partner side which support higher margins. There's still a tremendous refi opportunity as we expand products and opportunities into cash-out and HELOC and other products that fill that demand need. We still think we're in great shape to continue to be profitable and take market share.

Ryan Carr

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All right. Thanks, guys, very much.

Operator

Your next question comes from the line of Timothy Chiodo with Credit Suisse.

Timothy Chiodo

Great, thank you, good morning.

I wanted to change gears a little bit and talk a little bit more about the combination of brand marketing and the performance marketing, in light of not only the MLB partnership that you have, but also the recent stadium naming rights with the Marlins. Maybe you could just briefly touch on some of the benefits you expect longer-term from those branding efforts, and then also how that helps with your marketing efficiency on the performance side.

Then, at the risk of asking a little bit too much here, if you could just talk about how you expect that marketing efficiency on the performance side to look, sort of in the next few months or so, and how the branding might support that to an extent.

Anthony Hsieh

Yes, sure, great question. It is really a comprehensive strategy when it comes to a customer acquisition overall strategy. I'll come back to how we view performance marketing and building our brand and how we look at recapture, as well as conversion, in a second. But what I will comment on is building this brand over the last 11 years has been a key focus for us.

As we moved into the different diversified origination platforms such as in-market, joint venture as well as wholesale, one of the surprising benefits that we received is building the brand and how much it has lifted our in-market business. Not only did it lift at our partners, whether as a builder or a real estate institution, as they introduced customers to loanDepot, the brand being so well-recognized really cements and develops even a stronger relationship with us and our homebuilder and our real estate partners. In addition, it allows us to aggressively recruit additional in-market loan officers, because that's a differentiated asset for an in-market loan officer that has typically either worked for a bank or worked for another nonbank with little or no brand. The brand build has given us more lift than what we actually planned for.

Back to direct lending and the lead that we are currently producing. We constantly evaluate and monitor our brand momentum, and the brand is experiencing a very attractive build over the last two years specifically. We are now generating hundreds of thousands of digital mortgage leads on a monthly basis. What that allows us to do, through performance marketing, is the recognizable brand and image that ultimately increases our opportunity of conversions and pull-through, that top-of-the-funnel data and analytics, and John Lee, our Chief Analytics Officer, is on the phone, and maybe he wants to chime in after I'm finished with my comments, is a very sophisticated approach on how we look at the top-of-the-funnel.

Through sophisticated algorithms and contact strategies, we're able to increase our conversion and ultimately drop the cost of customer acquisition. This is one of the primary difficulties of building out a direct lending platform, and this is why after 25 years or arguably 30 years of direct lending model innovation, there is arguably only two direct lending models out there at scale, that's able to find customers on an offensive basis instead of just portfolio defense.

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John, if you're on the phone, if you want to chime in, please do so.

John Lee

Yes, absolutely, Anthony.

Brand is very important, especially as the refi lead market gets more competitive. You fill out a lead form today or generate, respond to an advertisement, it's likely you're going to get a lot of phone calls in this environment. Brand helps to weed out that noise for loanDepot, and allows us to get a higher, really, contact rate and pull-through on our leads.

As the market gets much more competitive, I see branding becoming more and more important to loanDepot. It allows us to get through the noise of the rest of the market in this very highly fragmented market with lots of lenders out there. In addition, brand is going to play a role in helping us drive demand.

As the market transitions out of a rate-and-term refinance market into a more hybrid market with cash-out and other opportunities, we'll be able to help build some of that demand by educating borrowers on the product availability, and then obviously attracting those borrowers through high brand awareness and consideration.

It's a very simple strategy but it's very effective as the market gets very competitive.

Timothy Chiodo

Thank you for all the context, appreciate it.

Operator

Your next question comes from the line of Mark DeVries with Barclays.

Mark DeVries

Yes, thanks.

Just had a follow-up question on that topic. Your pull-through rate was already pretty high, but it was up pretty significantly this quarter. How much of that do you attribute to all the investments you've made in brand? Can you also give us some context on the arc of that on your recapture rate over kind of the life? Are you seeing accelerating benefits now as you put more and more into your brand?

Anthony Hsieh

Do you want to take that, Jeff DerGurahian?

Jeff DerGurahian

Sure. This is Jeff DerGurahian.

The recapture rate has continued to trend positively for us. I think it's largely due to two reasons. One is the brand spend that you've mentioned, and the effect of the consumer coming back for another positive experience on another transaction, and also the enhanced surveillance of the portfolio that we've put in place to really monitor consumers' activities and see where there's incremental opportunities to reach out

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to them to help them with a home purchase if they're doing that, or again, with the cash-out refinance, if they have the appropriate amount of equity.

Mark DeVries

Got it. Are you seeing benefits from just retaining more of your servicing also, kind of having that look into your customers? Is that helping your recapture as well?

Jeff DerGurahian

Yes, I mean, we continue to look to add consumers where there is a clinginess, so to speak, or a consumer is likely to come back and want to transact with loanDepot again. We continue to tailor that servicing portfolio to really lend itself to future opportunities.

Mark DeVries

Okay, got it. Then just one last question on spend on brand. How should we think about that being impacted, if at all, by kind of receding refinance activity and maybe lower revenues?

Anthony Hsieh

The brand and performance marketing, as we get through this change, is actually going to improve. Now, I know that sounds illogical, but it actually does, and I'll tell you why. That is, as the industry continues to shed capacity, one of the top-of-the-funnel things that they decided to do, at first, is to cut marketing. Your supply and demand curve actually starts to get ripe at the top of the funnel first, meaning that the industry is going to shed marketing before it sheds labor.

Understanding that, which means that if the refinance market drops by 30% and your marketing, in the industry, drops by 30% or 40%, you're playing par golf, it doesn't change. We're going to start seeing that relatively soon, and then you're going to see the labor shed within the next 60 to 120 days. That's generally the timing, and that's what we're forecasting.

Mark DeVries

Got it, thank you.

Operator

Your next question comes from the line of Trevor Cranston with JMP Securities.

Trevor Cranston

Hi, thanks. Most of my questions have been asked and answered already, but I guess to add one more in.

You guys mentioned the opportunity for maybe increasing cash-out refi's. We also saw the FHFA announce a new option for lower-income borrowers to be able to take advantage of the current market last week. I'm curious of your thoughts on new programs like that, allowing people who may not have been able to access the market yet, are likely to have a material impact, and if you think there could be other sort of programs or products that come out over the course of the year that help maybe keep refi demand a little bit higher than where we might expect it, just given (inaudible)?

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Anthony Hsieh

This is one of the reasons why we put our head down and created and built several components to the mello tech stack. When it comes to our point-of-sale origination platform, our proprietary pricing component, our proprietary eligibility engine, the program that you just mentioned allows us to program into our offering and have that available to over 2,000 of our employee loan officers, without relying on outside third parties to input new programs and input new eligibility and input new guidelines.

This is one of the punch lines that allows us to be agile. Although we're large, we've got to run around like a ski boat, and this is one of the things that we do and do well, is we understand that when the market changes, we have to be in control of that change. Programs such as this, along with 25 other programs that's about to be announced in a changing market, all of those combined as an offering will have a material impact, because it allows us to widen our funnel to offer more products and services to the consumer that we work very hard to get at the top of the funnel. Whether we drive 100,000 leads or 200,000 leads on a monthly basis, the more products we produce at a better branded opportunity gives us a higher percentage of conversions.

Trevor Cranston

Got it, that makes sense. Appreciate the comments, thank you.

Operator

Your next question comes from the line of John Davis with Raymond James.

John Davis

Hi, good morning, guys.

One for you, Pat. You mentioned that you guys would pay a dividend on a go-forward basis. Just curious if you guys have a strategy or target, maybe a percentage of net income, just how you think about dividends and mixing in with the M&A strategy you've already talked a good deal about.

Patrick Flanagan

Yes. As we've stated previously, the recurring dividend we're targeting currently is $0.08 per share on a quarterly basis starting after the second quarter. As far as any opportunities to pay additional special dividends in the future, we're primarily focused on trying to grow the origination business and continue to gain market share. We look at special dividend opportunities where we have excess cash buildup and can deploy it in a way that will lead to returns that we want to provide to our shareholders, so we always look at that as an option. But our first option is to continue to grow the business on a go-forward basis, and then we'll look at the size of the quarterly dividend probably after a year or so to see if it's appropriate to what we expect would be the right kind of dividend yield, along with the total value of the Company.

John Davis

Okay, so there's no defined X percent over, not necessarily a quarter, but a year basis where you expect to return a certain percentage, 20% or 30% to shareholders. It's just going to be on an as-needed, go-forward basis, depending on what the organic growth opportunities are?

Patrick Flanagan

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Well, yes, I think that's a fair statement with regards to any kinds of special dividends on a go-forward basis. On the current dividend, we've sort of established what we think it should be for this year. We think it's a nice enhancement to return capital along, but we think we're compelling in our ability to build shareholder value through growth in the franchise and expansion of the multiple as we continue the journey towards kind of bundled services and other products and services to activate the consumer brand.

John Davis

Okay. Then one quick one for you, Anthony. We talk a lot about the near-term pricing dynamics, and as you've kind of said many times, we've seen this movie before. But just curious, do you see any sort of structural changes? If I look out over a long enough timeframe, that there would be material changes to what gain on sale would be over a two, three, four-year period?

Anthony Hsieh

No, that's a great question, and the simple answer is, I don't know. This market is truly unique because of the fact that capacity with nonbanks specifically has been built up over the last 12 years, post Financial Crisis and Dodd-Frank. You have a highly, highly fragmented market with lots of Tier 2 and Tier 3 nonbanks out there today.

There's more power in nonbanks today than any other previous market, meaning collectively, because it's a fragmented market. I think that's unique. I think it is also unique coming off a pandemic. That's not something that any one of us has witnessed before. I think that we need to keep a close eye on the current Administration and what happens to interest rates and inflation. It's hard to determine, but one thing I can tell you is that we've done the hard work to be prepared. We continue to be very bullish and very confident about our positioning.

The $11 trillion addressable market does not go away. Pressure will. We just need to have confidence that we've built the right Company to handle the pressure with rates, and that, during the pressure and coming out of the pressure, we're going to win with additional market share.

John Davis

Okay, great. Thanks, guys.

Operator

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

Anthony Hsieh

Okay, thank you all again for these great questions and for joining us. We look forward to continue building a relationship with all of you over the long term and are excited about where we go from here.

Thank you again and have a great rest of the day.

Operator

This concludes today's conference call.

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