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loanDepot, Inc. NYSE:LDI

Earnings Call

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Call Participants

EXECUTIVES

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Jeff Alexander Walsh
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ANALYSTS

Derek Sommers
Jefferies LLC, Research Division

Douglas Michael Harter
UBS Investment Bank, Research Division

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

Presentation

Operator

Ladies and gentlemen, good afternoon, and welcome to loanDepot's Year-end and Fourth Quarter 2024 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 afternoon, everyone, and thank you for joining our year-end and fourth 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 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.

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, which is available on our website at investors.loandepot.com. 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 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. I appreciate everybody taking the time to join us on this call today. 2024 was a year of significant progress for loanDepot, particularly with the completion of our Vision 2025 strategic program. Vision 2025 was born from the fires in one of the most significant contractions in the housing and mortgage markets in recent memory. As you may recall, total market originations fell nearly 50% from 2021 to 2022, led by refinance volumes falling almost 75%. Mortgage market continued to remain depressed in 2023 and 2024 with volumes approaching generational lows.

The strategic imperatives of Vision 2025 served as our roadmap for successfully navigating this historic downturn. While a portion of Vision 2025 was successful -- was focused on fundamentally resetting our cost structure, and organization to better align with a much smaller market, the strategy also address important investments in people, process, product and technology. I expect that these investments will enable loanDepot to emerge from the market downturn, a more efficient and durable company.

The company's return to profitability during the third quarter marked the successful completion of Vision 2025. With the announcement of a new 3-year plan, Project North Star, it is the logical time for me to

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make way for a new leader. We recently announced the details of the transition, which confirmed that I will step down as CEO and Board member effective with our Annual Meeting of Stockholders on June 4.

After annual meeting, I will continue to support loanDepot as an adviser to the Board. During my remaining time at loanDepot, I look forward to working tirelessly to support our Founder and Board Chair, Anthony Hsieh, who has agreed to return to the company as Executive Chairman of mortgage originations, leading our origination, servicing, operations and related activities.

The successful completion of Vision 2025 was a critical step in the company's evolution. I'd like to express my deepest appreciation for team loanDepot for all their hard work and effort over the past several years executing the plan. We have a truly exceptional team that approaches every single day with the goal of making a dream of homeownership a reality for our customers. As we look forward, we believe that we are positioned to accelerate revenue growth and continue our progress towards sustainable profitability as we pivot toward the next chapter in loanDepot story. The housing and mortgage markets remain challenged, no doubt, but they are substantial in size and hold many opportunities for loanDepot to grow and to realize its strategic objectives.

When the market inevitably recovers, I believe the company is well positioned to become the lender of choice to the American homeowner to buy and manage and optimize their homeownership journey.

In closing, I want to thank every member of team loanDepot, our critical business partners and our Board of Directors for their support, without which we could not have achieved a substantial critical progress the company has made over the past 3 years.

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. In the interest of time, I'll focus my comments on the quarterly results. We reported an adjusted net loss of \$47 million in the fourth quarter compared to an adjusted net loss of \$27 million in the fourth quarter of 2023 due primarily to higher volume-related expenses, offset somewhat by higher adjusted revenues. As you might know, the accounting for loan origination is subject to timing with much of the revenue recognized at the time of the interest rate lock and much of the expense recognized at the time of the origination, a meaningful increase or decrease in volume from quarter-to-quarter, such as we saw from the third to fourth quarter, can have a noticeable impact on our financial results.

During the fourth quarter, pull-through weighted rate lock volume was \$5.6 billion, which represented a 27% increase from the prior year's volume of \$4.4 billion and reflected the impact of our investment in recruiting and developing our loan officers. Rate lock volume came in within guidance we issued last quarter of \$5.5 billion to \$7.5 billion and contributed to adjusted total revenue of \$267 million compared to \$251 million in the fourth quarter of 2023.

Our pull-through weighted gain on sale margin for the fourth quarter came in at 334 basis points, above our guidance of 285 basis points to 305 basis points and compared to 296 basis points in the prior year. Our higher gain on sale margin primarily benefited from wider overall margins across our product set and a channel mix shift away from JV toward our retail and direct channels.

Our loan origination volume was \$7.2 billion for the quarter, an increase of 34% from the prior year volumes of \$5.4 billion. The increase reflected the pickup in lock activity during the third quarter, stemming from a temporary decrease in market rates.

This increased lock volume was concentrated in September and therefore, resulted in closings during the fourth quarter. This is also within the guidance we issued last quarter of between \$6 billion and \$8 billion. Servicing fee income decreased from \$132 million in the fourth quarter of 2023 to \$108 million in the fourth quarter of 2024 and is in line with the increase in the size of the portfolio resulting from the second quarter bulk sales.

We hedge our servicing portfolio, so we do not report the full impact of the changes in fair value and the results of our operations. We believe this strategy protects against volatility in our earnings and liquidity. Our strategy for hedging the servicing portfolio is dynamic, and we adjust our hedge positions in reaction to changing interest rate environment.

Our total expenses for the fourth quarter of 2024 increased by \$39 million or 13% from the prior year. The primary drivers of the increase were higher volume-related commission, direct origination and marketing expenses.

Looking ahead to the first quarter, we expect pull-through weighted lock volume of between \$4.8 billion and \$5.8 billion and origination volume of between \$4.5 billion and \$5.5 billion. Volume guidance reflects the seasonal decrease in purchase activity. We expect our first quarter pull-through weighted gain on sale margin to be between 320 basis points and 340 basis points. Expenses are expected to decline in the first quarter, primarily driven by lower volume-related expenses and also lower G&A expenses.

Our cost reset focused on creating positive operating leverage and balance sheet management activities have significantly reduced our risk profile and charted the path towards profitability while allowing us to maintain a strong liquidity position. We ended the quarter with \$422 million in cash. We grew revenue, expanded margins, reduced our corporate debt and made important investments in productivity initiatives that benefited both the quarter and the year. Importantly, during the third quarter, we demonstrated our significant operational progress by achieving profitability during a period of modest market improvement, and we believe we are well positioned to capture the benefits when the market eventually recovers. Our investments in products and operating leverage will provide the foundation for additional momentum in 2025 and beyond.

With that, we're ready to turn it back over to the operator for Q&A. Operator?

Question and Answer

Operator

[Operator Instructions]

And your first question comes from the line of Doug Harter with UBS.

Douglas Michael Harter

UBS Investment Bank, Research Division

Can you talk about how you're viewing your current cash liquidity situation? And kind of as part of that, what you would expect for servicing balances over the course of '25?

David R. Hayes

Chief Financial Officer

Yes. Doug, it's David Hayes. As you guys know, we've talked about this over the past quarters that we have maintained heightened levels of liquidity, considering the challenging mortgage market. And we expect to maintain heightened levels of liquidity over that period. We think we're running at excess liquidity levels. And so we've talked before about maintaining at least a 5% -- around 5% of assets of liquidity is sort of a target in this challenging market. And I think that's something we'll aim to do over the course of 2025.

Douglas Michael Harter

UBS Investment Bank, Research Division

Got it. And I guess just on the MSR outlook, kind of how you think that will play out? Do you expect more sales or kind of regular way kind of flow agreements?

David R. Hayes

Chief Financial Officer

Yes. No, I think our view is we're going to try to maintain and build the servicing asset. We view that as a very strategic asset for the company. But obviously and periodic times over the course of the last few years, we've had to sell that from time to time to meet some liquidity needs. But for now, we're going to continue to try to invest and grow that asset.

Operator

And your next question comes from the line of Derek Sommers with Jefferies.

Derek Sommers

Jefferies LLC, Research Division

Could you speak to what the drivers of the sequential increase in the G&A expense and servicing expenses were?

David R. Hayes

Chief Financial Officer

Yes. The biggest is that G&A was a little bit kind of subsidized last quarter. We had a big insurance recovery related to -- in the third quarter related to the cyber event. We took a large reserve in the second quarter and got the insurance recovery in the third quarter. So that was kind of understating expenses. So that's kind of a return to normalization in the fourth quarter. And then generally, just in the expense profile. We talked about investing in LOs and operations and carrying excess capacity. So that's also impacted a little bit of the fourth quarter. That's largely the explanation for the sequential change on that front.

From a servicing perspective, I think it's just the normal seasonality of the portfolio. We have seen a little bit of a tick up in our delinquency rate, which is attracting a little more expenses from a servicing perspective. But they're still well below historical norms. They're kind of coming off a historical norm perspective. So no concerns from that perspective on our end.

Derek Sommers

Jefferies LLC, Research Division

Got it. And just in terms of the volume guidance for 1Q, kind of what kind of backdrop are you embedding in that guidance? And how does that compare to third-party estimates.

David R. Hayes

Chief Financial Officer

Yes. So we're obviously setting our guidance plus our expectations on sort of our LO counts and a lot of the investments we've made into the business. So we are expecting locks to come down sequentially, kind of in line with normal seasonality in the business. That being said, I think if you look at some of the third-party estimates, they're showing a more significant decline sequentially. And so we are hopeful that we can pick up some share gain in that period.

Operator

[Operator Instructions]

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

Taylor DeBey

Raymond James & Associates, Inc., Research Division

This is Taylor on for JD. Maybe just to start on your hiring expense plans in '25 with the expected rebound in mortgage originations, just how should we think about operating leverage of the business going into next year, assuming the increase in mortgage originations does, in fact, pay out -- play out.

David R. Hayes

Chief Financial Officer

Yes. Yes. Like I said, we're -- we've been investing strategically over the course of the third and fourth quarter into our kind of revenue-generating expense side or LOs in our operations team. And if we play that against, let's say, the MBA or the mortgage growth expectations in some of the third party, we would naturally expect the operating leverage to increase and LO productivity to get more productive as refinance markets start to materialize. So we should see better pull-through on revenue to profitability perspective in that regard. And then just generally speaking expense perspective, that's where the hiring will be for the course of 2025. We're not expecting any significant back office or G&A expenses, in fact, modest reductions on that front.

Taylor DeBey

Raymond James & Associates, Inc., Research Division

Okay. Got it. And then just one more. On Project North Star, just obviously early days here, but just curious if you -- if there's any updates with any of the initiatives, whether that be traction in expanding geographies, JVs, cost saves or anything else.

Frank D. Martell

CEO, President & Director

I'll handle that. Look I think Project North Star, as you know, was unveiled last quarter. So it's in formative stages, but we're already investing in the technology platforms that will enable a lot of our operating efficiency and reduced cycle times and improved customer experience. So a number of those are in flight, and we expect those to be progressively more impactful as we get into this year and certainly next year. So I think that's all in good order. I think we've also announced 2 new JVs. And maybe, Jeff can talk a little

bit about those because we expect those to come online over the course of next year as well. But Jeff, why don't you...

Jeff Alexander Walsh
President of LDI Mortgage

Yes. We're -- this is Jeff Walsh. We're actively onboarding now our partnership with Smith Douglas and with Onx Homes, and we fully anticipate having those onboarded in 2025 fully and fully ramped in 2026 and also looking for additional opportunities in that space aggressively.

Operator

[Operator Instructions]

And with no further questions at the time, Mr. Frank Martell, I will turn the call back over to you.

Frank D. Martell
CEO, President & Director

Thanks, Debbie. Look, on behalf of Dave, Gerhard, Jeff Walsh and Jeff DerGurahian and the rest of our team, I want to thank everybody for joining us again today. I'm proud of the dedication, resiliency and accomplishments of team loanDepot. The completion of Vision 2025 represents a significant and hard-fought victory for the company. And Project North Star, I believe, lays the foundation for a brighter future as the mortgage market comes back, and it will certainly come back. It's a big market.

Home means everything and is central to the American Dream. I believe the company is really well positioned to meet the needs of a changing demographic of homeowners and homebuyers through our unique products and team loanDepot's direct engagement with our customers. So thanks again to everybody for joining the call. I appreciate your support and the call will conclude now.

Operator

And ladies and gentlemen, this concludes today's call. We thank you for your participation. You may now disconnect.

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