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loanDepot, Inc. NYSE:LDI

Earnings Call

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Call Participants

EXECUTIVES

Anthony Li Hsieh
Founder, CEO, Chairman & President

David R. Hayes
Chief Financial Officer

Gerhard Erdelji
Senior Vice President of Investor Relations

ANALYSTS

Douglas Michael Harter
UBS Investment Bank, Research Division

Presentation

Operator

Good afternoon, and welcome to loanDepot's Second Quarter 2025 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 second quarter 2025 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, strategies, capabilities and financial performance. 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 the 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 reconciliations 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's Founder and Chief Executive Officer, Anthony Hsieh; and Chief Financial Officer, David Hayes. They will provide an overview of our quarter as well as our financial and operational results and outlook. We are also joined by Chief Investment Officer, Jeff DerGurahian; and LDI Mortgage President, Jeff Walsh, 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

Well, thank you, Gerhard. I appreciate everyone joining us on the call today.

I'm thrilled to take the helm of the company that I, along with so many members of the team built from the ground up. My immediate focus is to return to our roots and drive profitable market share growth and technology-powered efficiency with the goal of returning to profitability.

Before we dive in, I would like to take this opportunity to acknowledge LDI Mortgage President, Jeff Walsh, who has decided to retire from loanDepot. His last day with the company will be September 5. Over the last 12 years, Jeff has played a major role in the growth of the company, most recently leading our production channels. He's deeply admired by our salespeople and respected by everyone who's had the opportunity to work with him. On behalf of the company, I want to thank Jeff for everything he's done to propel our company forward and wish him many wonderful adventures in the next chapter of his life.

loanDepot has what I consider to be a truly unique set of assets, including our brand and marketing muscle, our servicing portfolio, our tech stack and, of course, our diversified multichannel origination strategy.

I'd like to focus for a moment on our direct lending channel, which, as one of the few technology-powered at-scale models in the industry, is the asset that powers our flywheel effect and creates a significant strategic advantage for us. It starts with our nationally recognized brand and marketing prowess at the top of the funnel, where we directly engage with our customers and quickly drive leads to our highly skilled sales force.

Our nationwide reach and our broad suite of products allow us to serve every aspect of the customers' financing needs. By retaining much of the servicing for the loans we originate, we not only create another consistent source of revenue for the company, but we continue to directly interact with our customers, strengthening our brand awareness and cementing their loyalty through exceptional customer care. It is this ongoing interaction with our customers, coupled with our advanced data analytics, that allows us to capture customers for refinancing when interest rates change or new purchase mortgages as their housing needs change.

All of what I just described results in high customer satisfaction and increased brand affinity, which drives our top-tier recapture rates. This flywheel of powerful marketing, driving customer leads to our salespeople, providing them with a superior customer experience throughout their homeownership journey and creating opportunities to refinance them at no additional customer acquisition cost, makes loanDepot the partner of choice for their homeownership needs while driving profitability for the company.

After spending the past 5 months digging deep into every aspect of the business, I know where my focus needs to be. Our industry is very large, but is highly fragmented. And as one of the very few companies with a nationally recognized brand, I believe loanDepot has a strong foundation to increase lead generation, improve conversion rates and grow the top of the funnel. We need to return to growth, gaining profitable market share and penetrating new markets, and that needs to be powered by new technology and operating efficiencies, all of which I believe will position us to once again disrupt and redefine the industry.

To accelerate the company's digital transformation and our goal of returning to market leadership, this week, we announced the addition of 2 mortgage technology trailblazers to our leadership team.

Chief Digital Officer, Dominick Marchetti, is responsible for leading the company's overall digital transformation and strategy. Dom is someone that I trust deeply, who has a proven track record of delivering next-generation capabilities and with whom I am completely aligned in how we think about the business. Among the many things that set him apart are his expansive knowledge, his incredible industry relationships and his ability to harness technology and innovation to build and run an exceptional mortgage business.

Chief Innovation Officer, Sean DeJulia, is responsible for driving innovation throughout the loan manufacturing process across all channels. With a strong focus on the top of the funnel, there are very few who match the type of mortgage IQ Sean has, namely deep competitive knowledge, big-picture thinker combined with top-tier coding talent and firsthand experience as an originator.

These 2 brilliant and proven technology leaders bring a deep understanding of both the loan manufacturing process and the competitive landscape and are trusted leaders who know how to build, inspire and deliver.

I returned to the operating team on March 7, became Interim CEO on June 4 and was appointed by the Board as permanent CEO on July 27. Since March, several initiatives are already in flight that move us towards our goals of profitable market share growth, technology-driven operating efficiencies and our return to profitability. I look forward to sharing our progress again next quarter.

With that, I will now turn the call over to Dave, who will take us through our financial results in more detail. Dave?

David R. Hayes
Chief Financial Officer

Thanks, Anthony, and good afternoon, everyone. The second quarter reflected the benefits of higher adjusted revenue and lower costs.

We reported an adjusted net loss of \$16 million in the second quarter compared to an adjusted net loss of \$25 million in the first quarter of 2025 due primarily to higher lock volume and lower expenses.

During the second quarter, pull-through weighted rate lock volume was \$6.3 billion, which represented a 17% increase from the prior quarter's volume of \$5.4 billion and primarily reflected the seasonal increase in home buying activity. Pull-through weighted rate lock volume came in within the guidance we issued last quarter of \$5.5 billion to \$8 billion and contributed to adjusted total revenue of \$292 million, which compared to \$278 million in the first quarter of 2025.

Our pull-through weighted gain on sale margin for the first quarter came in at 330 basis points, within our guidance range of 300 to 350 basis points and compared to 355 basis points in the prior quarter. Our gain on sale margin primarily reflected a product mix and channel mix shift from the prior quarter.

Our loan origination volume was \$6.7 billion for the quarter, an increase of 30% from the prior quarter's volume of \$5.2 billion. This was also within the guidance we issued last quarter of between \$5 billion and \$7.5 billion.

Servicing fee income increased from \$104 million in the first quarter of 2025 to \$108 million in the second quarter of 2025 and primarily reflects the increase in our unpaid principal balance of our servicing portfolio and interest earned on the seasonal increase in custodial balances. We hedge our servicing portfolio, so we do not record the full impact of the changes in fair value in the results of the 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 changing interest rate environments.

Our total expenses for the second quarter of 2025 decreased by \$5 million or 2% from the prior quarter. The primary drivers of the decrease were 2 onetime benefits in salary and general and administrative expenses. Salaries were down primarily on lower stock-based compensation from equity surrenders and G&A was down primarily due to proceeds and insurance recovery of legal fees related to the successful outcome of litigation.

Direct origination expenses were down 7% during the quarter despite a 30% increase in origination volume, which benefited from renegotiated vendor contracts and loan origination process improvements.

Looking ahead to the third quarter, we expect pull-through weighted lock volume of between \$5.25 billion and \$7.25 billion and origination volume of between \$5 billion and \$7 billion. We expect our third quarter pull-through weighted gain on sale margin to be between 325 and 350 basis points. Our guidance reflects recent market volatility, high mortgage interest rates and affordability of new and resale homes.

Our total expenses are expected to increase in the third quarter, primarily driven by higher non-volume-related expenses from the exclusion of the onetime benefits recognized during the second quarter. The increase during the third quarter is expected to be partially offset by lower volume-related expenses.

We remain laser-focused on our commitment to profitability and continue to work with discipline to grow revenue and manage costs while maintaining ample cash and strong balance sheet. We ended the quarter with \$409 million in cash, increasing by \$37 million since the first quarter.

With Anthony's energy and focused discipline, we believe our multichannel strategy, high-quality in-house servicing, scalable origination capabilities and operating leverage uniquely position us to profitably grow volume and market share in the current environment. We believe a sustained decrease in mortgage rates will materially improve our bottom line as the benefits of our scaled branded direct origination platform comes to bear while our investments in tech-enabled, efficiency-generating initiatives will provide the foundation for additional momentum during the remainder of 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] Your first question comes from the line of Doug Harter with UBS.

Douglas Michael Harter

UBS Investment Bank, Research Division

I guess just to drill into it, Anthony, on the kind of profitable growth. What are some of the steps that you think you need to take to kind of be able to drive that market share growth? Is that kind of adding headcount? Is that adding marketing dollars? Kind of how should we think about the investment that might be needed to drive that growth?

Anthony Li Hsieh

Founder, CEO, Chairman & President

Yes. Sure, Doug. Nice to speak with you again. So there are multiple verticals that we're working on. The most important is we must achieve scale. The company, unfortunately, our market share over the last few years has shrunk. And as a result of that, we lost some scale. So you need your variable costs to kick in so that it can carry your fixed cost. So that is the first order of business.

Number two is you must utilize technology to increase your efficiency during the loan process. That is both short-term and long-term focused. With Dom and Sean coming back into the organization, it really is a wonderful opportunity for the company to pick up knowledge from 2 individuals that have a very diverse, wide and vast and contemporary look at the industry today and the type of efficiencies that we can create, not only instant improvements as well as longer-term journeys that would return us to best-in-class efficiency.

Because we have our direct lending channel that allows us to scale rapidly during any sort of a market rally, because we control the leads and not necessarily through other channels where you're relying on infield loan officers, so our order is to be prepared so that not only are we able to scale up in today's market to fight for additional market share, but to be opportunistic when the market decides to have lower rates, which will no doubt boom from a refinance market. It's not going to take much because rates have been high now for 3 years, so lots of equity, lots of debt, and there's lots of opportunities for us to refinance that customer.

Douglas Michael Harter

UBS Investment Bank, Research Division

Just one follow-up on that, Anthony. Just how are you balancing kind of that positioning for scale and driving profitable growth with kind of the current debt load and kind of the need to kind of or preserve equity capital? And kind of how are you balancing that near-term profitability with kind of wanting to kind of make those investments for growth?

Anthony Li Hsieh

Founder, CEO, Chairman & President

Doug, if you look at the way that we are structured as an organization, our strategy, and certainly, we have our servicing business that's very stable and predictable, our joint venture business with large builders, homebuilders, that is very stable and predictable. And you look at our in-market loan officers, which primarily focuses on purchases, and we have seen steady growth in that area, and we look to enhance that growth going forward, which is the purchase market.

On our direct lending business, our market share in refinances, and second mortgages, particularly, is fairly low. So the target, and our ability and our opportunity to grow into that market, is significantly high. So it is an area that we have expertise in. It is an area that we've been involved in for a long period of time. There are very, very few scaled direct lending or direct-to-consumer shops that are out there today.

That is our immediate opportunity. That's an area that we have done in the past, Doug. We've grown the company as a start-up from 2010 to the #2 retail lender inside of 11 years. And we did that profitably while we grew market share in markets that shrunk and in markets that boomed. So it's not something that we haven't done before. But obviously, we need to be very, very cautious, particularly understanding some of the tools that we have available today while we continue to enhance our technology tools.

Operator

[Operator Instructions] And there are no further questions at this time. Anthony Hsieh, I turn the call back over to you.

Anthony Li Hsieh

Founder, CEO, Chairman & President

Thank you. On behalf of Dave, Gerhard, Jeff Walsh, Jeff DerGurahian, and the rest of our team, I want to thank you for joining us today.

Our company is special, comprised of a unique set of assets. As we turn our focus to once again be the industry leader in innovative technology tools, powered by the emergence of AI-driven operating efficiency, we will return to competing at the highest levels. So thanks again, everybody, and I appreciate your support.

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