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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

Eric J. Hagen

BTIG, LLC, Research Division

Presentation

Operator

Good afternoon, and welcome to loanDepot's Third 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

Thank you. Good afternoon, everyone, and thank you for joining our third 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 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'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 Dominick Marchetti, Chief Digital Officer, 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. During the 5 months since I returned to loanDepot as CEO, we made significant changes to our business that align with our objective of growing our market share profitably.

Before I speak to these achievements, let me first talk about our strategy and positioning in the marketplace today. We continue to believe strongly in our diversified business model with best-in-class origination capabilities across multiple channels that provide access to purchase, refinance and home equity lending opportunities across market cycles. These origination capabilities are complemented by our in-house servicing platform and recapture capabilities, all of which are enhanced by our technology assets and our nationally recognized brand. This diversified strategy enables loanDepot to grow from a de novo start-up in 2010 to at one point become the second largest retail lender in the country.

We are confident this strategy will win in today's highly fragmented market and are committed to profitably regaining share. The key is execution, and our team is laser-focused on our plan. Our actions in the third quarter reflect this focus. In the third quarter, we initiated a business transformation that included naming new leadership across all of our origination channels, consumer direct, retail and partnership lending as well as our in-house servicing platform. We also transformed our technology and innovation functions under new leadership.

In our consumer direct channel, we realigned our sales leadership team to catalyze new sales

strategies under our next-generation lending initiatives. We also announced the formation of a revenue operations and strategy function to be led by our returning Chief Strategy Officer, Rick Calle.

On the marketing side, in October, our brand lit up on the national stage during the MLB post season, which through the League Championship Series enjoyed the highest viewership since 2017, including the ALCS and NLCS post-season viewership averaged 4.5 million views per game. Looking beyond the baseball season, loanDepot Park will soon host some of the biggest events in professional sports, including the NHL Winter Classic and the World Baseball Classic, providing our brand with continued strong national exposure.

In our retail and partnership channels, we announced new channel presidents, Tom Fiddler and Dan Peña, respectively. Tom is reigniting the energy of our retail channel, emphasizing profitable organic growth and helping ensure our loan officers have access to the best-in-class products, tools and operations in the industry. Dan is doubling down on our commitment to providing value to our homebuilder partners, most recently leading a new relationship with Betenbough Homes.

In September, we announced the addition of Adam Saab to lead our servicing business. Our servicing capabilities and portfolio of customers are key parts of our strategy, particularly the flywheel effect of recapturing our existing customers for refinancing or purchase at no additional acquisition cost.

In terms of innovation, our Chief Digital Officer, Dom Marchetti, and Chief Innovation Officer, Sean DeJulia, who rejoined the company in August, have already made an impact by introducing AI capabilities to some of our most repeatable and scalable call center functions, both improving performance and driving down cost. Right now, we are pivoting the use of new and emerging technologies across sales, operations and software engineering with an expectation that these innovations will improve the customer experience while driving improved productivity and lower our cost of production. We are just scratching the surface of what this team can do.

And last, but certainly not least, in terms of leadership talent, just yesterday, we announced Nikul Patel as our Chief Growth Officer. He will be responsible for growth opportunities, acquisition activities and customer engagement, helping the company capitalize on AI disruption and accelerate our momentum. Nikul is a significant hire that brings a proven track record of success, deep fintech expertise and a strategic mindset, completing the company's leadership transformation.

To recap, the third quarter was a period of significant change for our organization, focused on establishing the leadership team that will execute our plan for profitable market share growth. We believe in our strategy and the positioning of our assets in this highly fragmented market. Our focus is on execution, which we look forward to sharing our progress along the way. With that, I will now turn the call over to Dave, who will take us through our financial results in more detail. David?

David R. Hayes
Chief Financial Officer

Thanks, Anthony, and good afternoon, everyone. The third quarter reflected the benefits of higher revenue and contained expense growth from positive operating leverage. We reported an adjusted net loss of \$3 million in the third quarter compared to an adjusted net loss of \$16 million in the second quarter of 2025 due primarily to higher lock volume, higher pull-through weighted gain on sale margin, higher servicing revenue, offset somewhat by higher expenses. During the third quarter, pull-through weighted rate lock volume was \$7 billion, which represented a 10% increase from the prior quarter volume of \$6.3 billion. Pull-through weighted rate lock volume came in within the guidance we issued last quarter of \$5.25 billion to \$7.25 billion and contributed to adjusted total revenue of \$325 million, which compared to \$292 million in the second quarter of 2025.

Our pull-through weighted gain on sale margin for the third quarter came in at 339 basis points, within our guidance range of 325 to 350 basis points and compared to 330 basis points in the prior quarter. Our higher gain on sale margin primarily reflected a channel mix shift with a higher contribution from our direct channel and a lower contribution from our joint venture channel compared to the prior quarter. Our loan origination volume was \$6.5 billion for the quarter, a decrease of 3% from the prior quarter's

volume of \$6.7 billion. This was also within the guidance we issued last quarter of between \$5 billion and \$7 billion. Servicing fee income increased from \$108 million in the second quarter of 2025 to \$112 million in the third 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 and 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.

Our total expenses for the third quarter of 2025 increased by \$19 million or 6% from the prior quarter. The primary drivers of the increase were due to onetime benefits in salary and general and administrative expenses recognized in the prior quarter. Recall that during the second quarter, salaries benefited from approximately \$8 million in lower stock-based compensation from equity surrenders and G&A benefited from \$5 million insurance recovery of legal fees related to the successful outcome of litigation.

Excluding these nonrecurring items, our total expenses would have increased by approximately 2%, demonstrating the positive operating leverage we are striving for as volumes and revenues increase.

Looking ahead to the fourth quarter, we expect pull-through weighted lock volume of between \$6 billion and \$8 billion and origination volume of between \$6.5 billion and \$8.5 billion. We expect our fourth quarter pull-through weighted gain on sale margin to be between 300 and 325 basis points. Our guidance reflects market volatility, seasonality in purchase volume, affordability and availability of new and resale homes and the level of mortgage interest rates.

Our total expenses are expected to increase in the fourth quarter, primarily driven by higher volume-related expenses from the increase in funded volume as we close the pipeline that started growing through the third quarter. We remain laser-focused on our commitment to profitability and continue to work with a discipline to grow revenue and manage costs while maintaining ample cash and a strong balance sheet. We ended the quarter with \$459 million in cash, increasing by \$51 million from the second quarter.

With our reshaped management team focused on leveraging loanDepot's unique collection of assets, high-quality in-house servicing, scalable origination capabilities and operating leverage, we are positioned to profitably grow volume and market share in the current environment. Assuming a sustained decrease in mortgage rates, we believe we will materially improve our bottom line as the benefits of our scaled branded direct origination platform comes to bear while our investments in technology-enabled efficiency-generating initiatives will provide the foundation for additional momentum into 2026 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 was hoping you could talk about your outlook for the ability to fund the growth with capital given the upcoming debt maturities and kind of the upfront capital that some growth might take and just how you're thinking about that in the current environment?

David R. Hayes

Chief Financial Officer

Doug, David Hayes. Yes, we feel really good about the opportunity to fund additional growth opportunities. We largely have already worked our way through sort of our renewal season for warehouse lines. We've got a great lender group there that have been very supportive of the business. And we also think there's opportunities to upsize as needed. So from the daily funding of the warehouse lines, we're in great shape from our perspective. From a capital structure perspective, we do have an -- the need to take a look at that capital structure in the coming 12 to 18 months, and that's something we're focused on, but nothing that's really going to impact how we operate day-to-day as we sit now.

Anthony Li Hsieh

Founder, CEO, Chairman & President

Yes. Doug, it's Anthony Hsieh. Let me just add to what Dave is saying, and that is once we return to the standard of operations that has led this organization since 2010, we're very confident that we'll be able to grow market share profitably. I just want to remind the audience that we started this company with \$70 billion of capital and have grown 38% year-over-year for the first 11 years of our life. So we understand what it takes to grow market share and grow profitably. This market is still highly fragmented. There is a ton of room chasing the leader in the space. So we're very enthusiastic, and we are laser-focused to stay on plan to get back into a standard of operations that allows us to be an industry-leading mortgage bank. At which point the mortgage IQ here and the origination IQ here and then having a fully diversified origination muscle in both builder, joint venture, in-market retail and direct lending, direct-to-consumer model really gives us an edge to scale up, particularly as we all hope that there'll be some growth in volume due to a more favorable interest rate cycle next year.

Douglas Michael Harter

UBS Investment Bank, Research Division

And I guess how do you think about the size of the MSR servicing book in that context? Is that something that you would look to grow over time -- regrow over time?

Anthony Li Hsieh

Founder, CEO, Chairman & President

Yes. This is one of our strategic advantages, Doug. The fact that we made an investment to bring servicing in-house. And my mind desires what that was 5 years ago. So we made that investment to bring it in-house because having a direct-to-the-consumer model, our retention recapture is at an industry-leading number. So any time we put a loan in our servicing portfolio, there's an opportunity for us to double dip or have a second bite of the apple without any marketing costs or acquisition cost. So our desire is to continue to mount and increase our MSRs. But at the same time, that is -- that puts pressure on cash. So in order for us to do so, we're going to have to be able to drive down the cost of our production while waiting for the volume of this market to return.

Operator

[Operator Instructions] Your next question comes from the line of Eric Hagen with BTIG.

Eric J. Hagen

BTIG, LLC, Research Division

Maybe following up on that last point because there's all these moving pieces. Have you guys sensitized the portfolio to what the minimum level of originations might be in order to return to profitability?

Anthony Li Hsieh

Founder, CEO, Chairman & President

So let me just make sure I have your question right. Can you rephrase your question again, please?

Eric J. Hagen

BTIG, LLC, Research Division

Yes. Have you guys sensitized the portfolio or your business to what the minimum level of originations would be in order to return to profitability?

Anthony Li Hsieh

Founder, CEO, Chairman & President

Well, a lot of that has to do with margins, right? Margins are highly dynamic. And in our industry, as soon as that volume returns, then your margins will widen out. So if you look at our Q3 performance, it doesn't take much. So not only does when margins return, when volumes return, we're going to get both the benefit of increased volume and increased margin. So it doesn't take much at all. So we are well positioned for any sort of return.

Eric J. Hagen

BTIG, LLC, Research Division

Yes. Okay. That's helpful. When the stock got up to \$4.50 back in September, did you guys consider any sort of capital raising to help maybe stabilize the capital structure a little bit more? And then if the stock got back up to that level in the future, I mean, are you prepared to put an ATM in place? Or how would you think about potentially raising capital in order to, again, stabilize the capital structure a little bit more?

David R. Hayes

Chief Financial Officer

Eric, it's David Hayes. So yes, of course, when the stock traded up, the valuations were at those levels, it was obviously an attractive place to look at raising capital. So we're actively looking at all sorts of ways to shore up the capital structure from potential debt refinances down the road to opportunities for an ATM or follow-on. But those discussions are in flight. So nothing we can share at this point.

Anthony Li Hsieh

Founder, CEO, Chairman & President

Yes. It's Anthony Hsieh. So I mean the best way to combat that is with profitable market share growth. We're just going to get back to our level of comfort and what we've done in this company since 2010. So the market is well positioned for loanDepot to continue to capture market share. And we are obviously always looking at opportunities for capital. But as we continue to reposition our organization for increased originations, I think that will solve a lot of our issues going forward.

Operator

[Operator Instructions] There are no further questions at this time. I will turn the call back over to Anthony Hsieh for closing remarks.

Anthony Li Hsieh

Founder, CEO, Chairman & President

Thank you. On behalf of Dave, Jeff, Dom and the rest of our team, I want to thank you for joining us today. The pieces are in place. We're executing a bold strategy to compete at the highest levels by returning to our core strength. Our approach is centered on retaining top talent with exceptional attitudes, deploying leading-edge technology and drive operational efficiency and innovation, delivering superior product and service levels to our customers and leveraging these assets to drive profitable market share growth. This is how we win. The disciplined focus positions us to create sustainable value for our shareholders while accelerating growth in a competitive landscape. So thanks again, everybody, and I appreciate your support.

Operator

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

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