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Market Intelligence

loanDepot, Inc. NYSE:LDI

Earnings Call

Tuesday, March 10, 2026 9:00 PM GMT

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Call Participants

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

Presentation

Operator

Good afternoon, everyone, and welcome to loanDepot's Year-end and Fourth 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 year-end and fourth 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. For more information about factors that may cause actual results to differ materially from forward-looking statements, please refer to the earnings release that we issued earlier today, which is available on our website at investors.loandepot.com.

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

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

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

Anthony Li Hsieh

Founder, CEO, Chairman & President

Thank you, Gerhard. Hello, everybody. I appreciate everyone joining us on the call today. I am pleased with the early results of our work to increase our scale and market penetration. While the fourth quarter is typically a seasonally slow quarter, we originated the most volume since 2022, gained share in an expanding market and achieved a 71% recapture rate from our in-house servicing platform. These results reflect progress in our return to the core competencies that enable the scaling to become the second largest retailer lender nationally during our first decade. Not only did we fund the largest volume of loan originations since 2022, but we also increased our market share. We expect to continue this trend as the market consolidates and large-scale diversified customer-facing originators like loanDepot benefit.

While the third-party origination and MSR markets have consolidated around scale and operating efficiency, the consumer-facing marketplace remains highly fragmented and inefficient. Post financial crisis and Dodd-Frank, no retail lender currently controls more than 5% market share, which presents a significant opportunity for a customer-facing scaled originator. Furthermore, I believe the digital migration of the customer will continue to accelerate, particularly the purchase customer as more digital advancements make the entire home buying process more automated.

We believe our assets and strategy provide us with unique competitive advantages to meet the customer as they migrate to a more digital experience as well as consolidating the market fragmentation, leveraging the most differentiated customer acquisition and retention business model in today's marketplace. First, our distribution model consisting of digitally enabled direct-to-consumer nationwide end-market retail and partnership with homebuilders bring new customers into our ecosystem across a diversity of transactions

and geographies. Combining these best-in-class origination capabilities, we provide our customers access to purchase, refinance and home equity lending opportunities across market cycles.

Second, vertical integration means we control the consumer experience from end to end, turning the flywheel from application to closing to servicing and back again through our industry-leading recapture capabilities, which are enhanced by our technology assets, relentless pursuit of customer service and our nationally recognized brand. Said simply, our primary strategy focuses on being one of the only scaled originators primarily creating and servicing our own customers as opposed to acquiring customers from third parties.

As we look ahead with expectation of a larger refinance market, our top-of-the-funnel customer acquisition advantage uniquely positions us to outperform our competition in a rapidly evolving and consolidating marketplace. Behind the scenes, we remain focused on reducing unit costs through operating leverage and automation while investing in our marketing engine to drive more opportunities to the top of the funnel.

In terms of innovation, our digital team led by Dom and Sean have made positive impacts by introducing AI capabilities to some of our most repeatable and scalable functions that improve the performance of lead acquisition and conversion, loan officer, CRA management and new underwriting processes. Each of these initiatives are having positive impact on the business with wide user acceptance, including by our customers and should drive positive operating efficiencies as volume increase.

I am proud of the work that has been accomplished since my return to a full-time operating role. We are just scratching the surface of what this team can do. As digital migration continues to gain momentum, the company is capable of deploying AI applications directly to consumers will define the productivity and efficiency standards for our industry. We plan to continue investing and growing our top of the funnel customer acquisition and origination capabilities, leveraging our brand and marketing muscle, along with introducing contemporary technologies, including AI, which should lower our costs and increase our operating efficiency. Ultimately, our goals are to deliver profitable market share growth, improve the customer experience, drive customer retention and deliver long-term shareholder value. This is our opportunity and what we are working towards every day.

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. For the sake of time, I'll limit my commentary primarily to our fourth quarter results. The fourth quarter reflected the emerging benefits of our investment in technology and operating efficiency during a period of higher volumes. We reported an adjusted net loss of \$21 million in the fourth quarter compared to an adjusted net loss of \$3 million in the third quarter of 2025 due primarily to lower pull-through weighted gain on sale margin, higher amortization on our MSR portfolio and higher expenses, offset somewhat by higher pull-through weighted lock volume.

During the fourth quarter, pull-through weighted lock volume was \$7.3 billion, which represented a 4% increase from the prior quarter's volume of \$7 billion. Pull-through weighted rate lock volume came in within the guidance we issued last quarter of \$6 billion to \$8 billion and contributed to adjusted total revenue of \$316 million, which compared to \$325 million in the third quarter of 2025.

Our pull-through weighted gain on sale margin for the fourth quarter came in at 324 basis points at the high end of our guidance range of 300 to 325 basis points, but down compared to 339 basis points in the prior quarter. Our lower gain on sale margin primarily reflected product and loan purpose mix shift.

During the fourth quarter, we originated relatively fewer higher-margin second trust deeds and FHA VA loans compared to the third quarter as part of our strategy to capture increased share of refinance volume. This resulted in larger average loan balances, resulting in decreasing our margin percentage. Our loan origination volume was \$8.0 billion for the quarter, the highest level of origination since 2022, an increase of 23% from the prior quarter's volume of \$6.5 billion. This was also within the guidance we issued last quarter of between \$6.5 billion and \$8.5 billion.

Servicing fee income increased from \$112 million in the third quarter of 2025 to \$113 million in the fourth quarter of 2025 and primarily reflects an increase in collections due to the growth of the unpaid principal balance of our servicing portfolio. We hedge our servicing portfolio, so we do not record the full impact of the changes in fair value in the results of our operations. We believe this strategy helps protect against volatility in our earnings and liquidity. Our strategy for hedging the servicing portfolio is dynamic, and we adjust our hedge positions in reflection to the changing interest rate environment.

Our total expenses for the fourth quarter of 2025 increased by \$8 million or 3% from the prior quarter. The primary driver of this increase was due to higher personnel costs. Commissions increased as a result of the higher funded volume and salaries increased primarily due to loan officer hiring and the related operations staff. However, the remaining volume-related marketing and direct origination expenses were lower quarter-over-quarter despite higher volume, reflecting some of the benefits of our investments in process improvements and technology initiatives, including some of the early benefits from the initiatives that Anthony mentioned earlier.

Looking ahead to the first quarter, we expect pull-through weighted lock volume of between \$7.75 billion and \$8.75 billion and origination volume of between \$6.75 billion and \$7.75 billion. We expect our first quarter pull-through weighted gain on sale margin to be between 270 and 300 basis points. Our guidance reflects market volatility, seasonality in the purchase volume, the affordability and availability of new and resale homes and the level of mortgage interest rates and our strategy of targeting larger average refinance loan balances.

Our total expenses are expected to increase in the first quarter, primarily driven by personnel and G&A expenses, somewhat offset by lower volume-related expenses. The increase in personnel and G&A expenses are primarily associated with our investments in growth and the automation and innovation initiatives that Anthony mentioned. We remain 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 \$337 million in cash, decreasing by \$122 million from the third quarter, reflecting the investment in our loan inventory and the full repayment of our outstanding 2025 unsecured notes. During the full year 2025, we made significant year-over-year progress in investing in operating efficiencies that translated to positive financial results for the year. We were able to increase our adjusted revenue by 10% year-over-year while limiting expense growth by less than 1%, which has resulted in shrinking our adjusted net loss by 31%.

Thanks to our progress, we are entering 2026 fundamentally a stronger company versus 2025. With that, we're ready to turn it back over to the operator for Q&A.

Question and Answer

Operator

[Operator Instructions] Your first question is from Madison Suhr with Raymond James.

Taylor DeBey

Raymond James & Associates, Inc., Research Division

This is Taylor on for Madison. Maybe just to start on your comments around profitable share gains. It was good to see the uptick in market share this quarter. Could you maybe expand on this and share where you're seeing success, whether that's in certain regions or retail direct versus partner channel? And then on the flip side, where you're hoping to see improvement in 2026?

Anthony Li Hsieh

Founder, CEO, Chairman & President

I didn't get the last statement there, Taylor, if you can repeat that.

Taylor DeBey

Raymond James & Associates, Inc., Research Division

Yes. Just to -- sorry, I don't know if my audio may be bad here, but just to expand on your profitable share gain comments and where you're seeing success, if there's any difference in certain regions or your different channels and then on the flip side, where you're hoping to see improvement in 2026?

Anthony Li Hsieh

Founder, CEO, Chairman & President

Yes, I'll try to tackle that, Taylor. You faded again towards the end there. loanDepot has a diversified retail customer touch model. So just to remind everyone, we have our digital-first direct lending business. We have our in-market retail business, and we have our builder business. So the builder business is predictable and stable, and we are experiencing steady growth. The retail business, in-market business is when we grow by hiring in-market loan officers in each of the local markets that we serve. That business is primarily resale and purchase business. Our direct lending business is where lots of opportunities are available today. We did retrace in the last few years in our market share on the direct lending side.

And there are tremendous opportunities for us to rebuild our marketing funnel, our lead management systems, our CRM, our leads scoring system and all of the functionalities that make direct lending functional. Dom and Sean, as they started over the last 6 months or so, have been asked to completely rebuild our lead funnel engine utilizing AI. So there's lots of opportunities for us to continue to push down marketing cost, which is cost per customer acquisition. And we're seeing early wins as our volume and market share on our direct lending channel is starting to improve. There's still lots of work to do, but we're very, very bullish about our ability to penetrate additional market share through our direct lending channel.

Taylor DeBey

Raymond James & Associates, Inc., Research Division

Got it. All that color is very helpful. And then if I could just squeeze in one more here just on your -- just to get a sense of your 2026 non-volume-related OpEx and profitability expectations. I know you haven't guided for the year, but can you just give us a sense on how you're thinking about the non-volume expense growth in 2026 and how we should think about operating leverage for the business in the next year?

David R. Hayes

Chief Financial Officer

Yes. Sure, Taylor, it's David. Yes, I think, generally speaking, as volume grows, you will see the scalable nature of our business given we do have a fixed cost that we get to amortize that incremental revenue over. I think from a year-over-year basis on sort of that non-volume-related growth, you'll see some modest investment into some technology initiatives and innovation initiatives that will help drive the growth for the overall profile of the company. So that's predominantly where you'll see that in. The rest of the expense growth will be volume related in the context of loan officer additions and related operations staff to support that volume.

Anthony Li Hsieh

Founder, CEO, Chairman & President

And I just want to add, Taylor, by saying that as we scale and penetrate profitable market share, which is something that is not foreign to this organization since our inception in 2010, I want to remind everyone that we did grow 38% year-over-year for the first 11 years through profitable market share gains. As we scale up, most of the cost, there will be variable cost as we add on additional personnel for funding of loans at the same time as we achieve AI efficiencies. But most of the fixed cost is pretty much already baked into the year.

Operator

Your next question is from Eric Hagen with BTIG.

John Kimbrough Davis

Raymond James & Associates, Inc., Research Division

Some housekeeping here. The pickup in amortization expense to \$52 million in the quarter, is that a good run rate to reflect the expense going forward? Or could we actually see it maybe come back down because rates have moved back the other way even just this quarter?

David R. Hayes

Chief Financial Officer

I would say, Eric, there was a pickup in the quarter related to the higher refinance volumes that came in. That was obviously offset by our kind of best-in-class leading recapture rate, but I think they could moderate a little bit into the first quarter, but it really depends on rates on a go-forward basis and where that will go.

Eric J. Hagen

BTIG, LLC, Research Division

Okay. All right. That's helpful. We're actually pretty intrigued by the level of cash-out refis in the period. Is there some overlap in the borrowers that you originated there where you also own the first lien in your MSR portfolio? And is that just the pickup in cash out refi volume in the period, would you say that's a function of your lead generation or something else? And how does the margin for cash out refis compared to the other products you guys are originating?

Anthony Li Hsieh

Founder, CEO, Chairman & President

Eric, it's Anthony. So we see customers shift over to cash out refinances rather than taking out a HELOC or a closed-end second anytime the 10-year yield or mortgage rates drop. So the good news there is we have the optionality to offer to that customer. And the volume on both sides are actually fairly similar because the CES margin has higher basis points, but lower loan amount. So we are seeing both products shift as mortgage rates do drop or climb back up.

Operator

Your next question is from Mikhail Goberman with Citizens JMP.

Mikhail Goberman

Citizens JMP Securities, LLC, Research Division

Just curious if you could maybe delve into a little bit of the thought process of the announcement the other day of getting back into the wholesale lending channel and what kind of volumes if you're targeting in that space over what kind of time frame? And what kind of margins do you expect to see in that space?

Anthony Li Hsieh

Founder, CEO, Chairman & President

So I can talk about the strategies there. So getting back into wholesale, which is a business that we were in previously, is going to allow us to achieve greater scale. It's a third-party origination, as you know. So we do not control the customer experience, but we are and we will be able to utilize the volume to help us create additional operating efficiency. And as we anticipate a volume growth and most likely a refinance volume return, we expect margins to expand, which will make wholesale model much, much more attractive. So we think this is the ideal timing for us to get back into the wholesale model.

Mikhail Goberman

Citizens JMP Securities, LLC, Research Division

All right. Great. And if I could just squeeze in one more. Is there a level of recapture that you guys are targeting? I appreciate the 71% figure for this last quarter. Is there a level you guys targeting going forward?

Anthony Li Hsieh

Founder, CEO, Chairman & President

I think we're always going to be around that level. I think with technology changing and with AI being a better predictor of any customer that potentially could be in the market for an additional refinance, I think that number could go up. But I believe that we are pretty much at the top of the house as far as our recapture percentages.

Operator

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

Anthony Li Hsieh

Founder, CEO, Chairman & President

Well, thank you, everybody. 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 are executing a bold strategy to compete at the highest levels by returning to our core strength.

Our strategy rests on 4 objectives: one, investing in the business through growth, operational efficiency and infrastructure; two, becoming a best-in-class mortgage banker or in other words, find another loan, close it faster, produce it cheaper and maintain superior loan quality.

Three, growing profitable market share by hiring and training sales professionals in each of our channels, we plan to grow our origination capacity to capture profitable market share growth across refinance, resale and new home loans. And finally, four, returning to profitability by investing in our origination and new customer acquisition capabilities, growing our servicing portfolio, improving our recapture rates, growing our brand and marketing and increasing our operating leverage. We believe we can return to consistent profitability.

This is how we will win. Executing these objectives positions us to create sustainable value for our shareholders while accelerating growth in a competitive landscape. So thanks again, everyone, and I appreciate your support. Bye for now.

Operator

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

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