

loanDepot, Inc. NYSE:LDI Transcripts

FQ1 2023 Earnings Call

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Call Participants

EXECUTIVES

Frank D. Martell
CEO, President & Director

Gerhard Erdelji
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Relations*

Jeff Alexander Walsh
President of LDI Mortgage

Jeffrey Michael DerGurahian
*Chief Investment Officer & Head
Economist*

Patrick J. Flanagan
Chief Financial Officer

ANALYSTS

Kyle Joseph
Jefferies LLC, Research Division

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

Presentation

Operator

Good afternoon, and welcome to loanDepot's First Quarter 2023 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 call. I'm Gerhard Erdelji, Investor Relations Officer at loanDepot. Today, we will discuss loanDepot's first quarter 2023 results.

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 the 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. A webcast and transcript of this call will be posted on the company's Investor Relations website at investors.loandepot.com under the Events and Presentations tab.

On today's call, we have loanDepot President and Chief Executive Officer, Frank Martell; and Chief Financial Officer, Patrick Flanagan, 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 our 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 it started. Frank?

Frank D. Martell

CEO, President & Director

Thank you, Gerhard, and thank you all for joining us on today's call. I look forward to sharing my perspective on market conditions, our results and our outlook. Overall, as expected, the first quarter of this year remained challenging for the housing market as virtually all participants grappled with the impacts of higher mortgage interest rates, persistent cost inflation and a lack of available homes for sale.

Against the backdrop of these challenging market conditions, the loanDepot team has stayed focused on executing against our Vision 2025 strategic plan. As you may recall, Vision 2025, which was announced in July 2022, has 4 pillars. Pillar 1 focuses on transforming our originations business to drive purchase money transactions with an expanded emphasis on purpose-driven lending. Pillar 2 calls for aggressively rightsizing our cost structure in line with current and anticipated market conditions and internally set targets to achieve first quartile operating performance.

Pillar 3 covers investing in profitable growth generating initiatives and critical business operating platforms and processes to support operating leverage and best-in-class quality and delivery. And finally, Pillar 4 relates to optimizing our organizational structure. We are continuing to execute aggressively against our Vision 2025 plan, narrowing our losses and putting into place the essential components, which we believe will support longer-term market leadership and value creation.

Our focus on profitable revenue growth and the reset of our cost structure were the key drivers behind the substantial narrowing of our operating losses quarter-over-quarter.

Comparing the first quarter of 2023 to the fourth quarter of 2022, we grew revenues 22% and reduced costs by 9%, resulting in a 42% reduction in our net losses to \$92 million. Our adjusted net loss narrowed from \$111 million in the fourth quarter of last year to \$60 million in the first quarter of this year on higher revenues and reduced total expenses.

The impact on our focus on cost productivity and organizational optimization is clearly evident when we look at year-over-year trends. Comparing the first quarter of 2023, with the first quarter of 2022, our adjusted net loss narrowed 26% from \$81 million to \$60

million despite a market-driven reduction in our revenues of \$278 million. This performance reflects the impact of the more than \$500 million in run rate cost savings secured during 2022 as well as our first quarter reductions.

Looking ahead, although the affordability and availability of new and existing homes remains challenging for the industry overall, at loanDepot, we expect to continue to benefit from seasonally higher revenues as well as our ongoing cost reduction and productivity programs. Together, these positive trends should continue to drive improving financial results over the course of the second quarter and the third quarter of 2023.

Our focus on lowering costs and driving operating leverage should allow us to continue to remain a strong liquidity position. By maintaining a sizable cash balance \$798 million as of March 31, 2023, we believe we are positioned to continue to invest in our people, our platforms and processes and benefit from the expected reductions in industry capacity.

While we continue to reset our cost structure, we are also focused on the other pillars of Vision 2025, including capturing profitable revenue growth opportunities. A significant component of Vision 2025 is reorienting our mortgage origination footprint around purpose-driven lending to support first-time homebuyers and diverse communities. We have already garnered recognition in this area. Earlier this year, The Wall Street Journal named us Best Mortgage Lender for first-time homebuyers.

As one of the top mortgage lenders in America, we believe laser-focus on serving first-time homebuyers will enable loanDepot to build relationships with customers for life, becoming the partner of choice for future lending and other home-related transactions. Our unique multichannel origination strategy contributed to revenue growth in the first quarter.

Our direct joint venture and servicing business units all delivered growth in the quarter, while our in-market retail was impacted by seasonally lower home buying activity. Our HELOC product, which provides a powerful financial tool for our customers in managing their financing or their finances also experienced consistent growth with strong customer adoption during the quarter.

I want to conclude my prepared remarks today by thanking team loanDepot and our other key stakeholders for their support. Our markets remain challenging, no doubt, but I believe this is also a very important period of change and progress for our company.

We are continuing to significantly reset our cost structure and narrow our operating losses. We have also aggressively shifted our revenue profile towards purchase transactions, develop a new and innovative HELOC solution and built up our JV channel and our servicing platform.

With almost \$800 million of cash on hand, additional run rate cost reductions identified for action in 2023 and several new growth vectors in flight, we believe we are increasingly positioned to navigate through the market downturn and emerge as a stronger and more valuable company.

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

Patrick J. Flanagan
Chief Financial Officer

Thanks, Frank, and good afternoon, everyone. During the first quarter, loan origination volume was \$5 billion, a decrease of 23% from the fourth quarter of 2022. This was at the high end of the guidance we issued last quarter of between \$3 billion and \$5 billion. First quarter volume consisted of \$3.5 billion in purchase loan originations and \$1.4 billion in refinance loan originations primarily cash-out refinances.

Our pull-through weighted rate lock volume of \$5 billion for the first quarter contributed to total revenue of \$208 million, which represented a 23% increase from the fourth quarter. Rate lock volume also came in within the guidance we issued last quarter of between \$4 billion and \$6 billion. The increase in revenue is primarily a result of higher servicing income and higher loan origination income from an increase in pull-through weighted rate lock volume driven by lower average market interest rates.

Our pull-through weighted gain on sale margin for the first quarter came in at 226 basis points above the guidance we provided of 180 to 220 basis points. Our higher gain on sale margin was primarily due to a reduction in our repurchase provision as both the repurchase activity and discount applied decreased substantially this quarter.

Turning now to our servicing portfolio. The unpaid principal balance of our servicing portfolio increased to \$142 billion as of March 31, 2023, compared to \$141 billion as of December 31, 2022. This increase was primarily due to net additions during the quarter. We did not have any bulk sales from the portfolio during the quarter.

Servicing fee income increased from \$107 million in the fourth quarter of 2022 to \$119 million in the first quarter of 2023. This was primarily due to the benefit of higher interest rates driving increases in ancillary income earned from servicing related deposits held by custodial banks for the benefit of our customers. We hedge our servicing portfolio, so we did not record the full impact of 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 environments.

We believe our servicing portfolio is well protected against potential rising defaults. As of the end of March, the weighted average FICO was 739, the weighted average coupon was 3.2% and the weighted average loan-to-value at origination was 71%. These characteristics contributed to a low delinquency rate with only 80 basis points of the portfolio, more than 90 days past due at quarter end and should generate reliable ongoing revenue during these uncertain economic times.

A major component of our Vision 2025 plan is to align our expense base with our expectations for lower origination volume and create efficiencies to improve operating leverage and financial performance over time. As previously mentioned, we believe that the mortgage market will total approximately \$1.5 trillion this year and have been continuing to shrink our expense base for this much smaller market.

Our total expenses for the first quarter of 2023 decreased by \$29 million or 9% from prior quarter driven primarily by lower personnel expenses, including both salaries and volume-based commissions and lower G&A expenses. Our nonvolume-related expenses excluding commissions and direct origination expenses decreased by \$25 million or 9%, which reflects our ongoing work to reduce our controllable expenses.

The first quarter included Vision 2025 related charges totaling \$2.6 million, including \$841,000 of lease and other asset impairment charges, \$836,000 of personnel-related expenses and \$910,000 of Vision 2025 related professional service fees. Vision 2025 expenses incurred in the fourth quarter of 2022 totaled \$12 million.

Looking ahead to the second quarter volumes and margins, we expect origination volume of between \$4.5 billion and \$6.5 billion. We expect pull-through weighted lock volume of between \$5.5 billion and \$7.5 billion, and we expect our second quarter pull-through weighted gain on sale margin to be between 240 and 280 basis points.

We expect total expenses during the second quarter to increase primarily reflecting seasonally higher loan origination volume. Notwithstanding our expectations of somewhat higher expenses, we believe that seasonally higher lock volumes, continuing improvement in gain on sale margins and further reductions in our controllable expenses will help us to continue to narrow our losses in the second quarter.

In light of current market conditions, our balance sheet management strategy will be to maintain our capital structure and preserve cash until operating losses are reduced and industry-wide gain on sale margins normalize. As we continue to narrow our losses, we are financially sound with \$841 million of tangible equity, \$798 million of unrestricted cash and what we believe are excellent relationships and the support of our financing partners, the agencies and other investors.

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

Question and Answer

Operator

[Operator Instructions] Your first question comes from Kyle Joseph.

Kyle Joseph

Jefferies LLC, Research Division

Just a quick modeling question here. In terms of the subservicing expense, would we expect that to trend downwards towards 0 over time given the in-housing -- or is that going to -- is there going to be some sort of like left over there?

Jeffrey Michael DerGurahian

Chief Investment Officer & Head Economist

Yes. This is Jeff DerGurahian. Yes, it should go down to 0. There are some tails that are left with a couple of subservicers right now, but it should trend to 0 over time as that gets wound down.

Kyle Joseph

Jefferies LLC, Research Division

Got it. And then in terms of staffing with kind of the seasonal uptick, are you guys comfortable with the levels you need to add any more originators? Or do you think kind of the originators you have on hand have the capacity to handle the seasonal uptick in terms of originations?

Jeff Alexander Walsh

President of LDI Mortgage

Yes. This is Jeff Walsh. We're always looking to add good originators with the right profiles. But we feel based on what we're estimating the market to be currently that we're well positioned with the originators that we have today to manage that.

Kyle Joseph

Jefferies LLC, Research Division

Okay. Got it. That's it for me.

Operator

And the next question comes from John Davis.

Taylor DeBey

Raymond James & Associates, Inc., Research Division

This is Taylor on for JD. Maybe just to start on the gain on sale margin during the quarter. I heard you mention the purchase provision impact, but is there anything else to call out, whether it be mix or geographic concentration during the quarter that caused us [delever] quarter-over-quarter relative to expectations?

Patrick J. Flanagan

Chief Financial Officer

Yes. The -- this is Pat Flanagan. Yes, there was a little bit of a change in mix. So there's a smaller amount as a percentage of jumbo loans, which are lower gain on sale in basis points, and a slightly higher percentage of government originations quarter-over-quarter, which are also higher in gain on sale margins.

Taylor DeBey

Raymond James & Associates, Inc., Research Division

Okay. Great. And maybe just 1 more. Just based on your origination volume guidance for 2Q, could you just give us a sense of what you expect or assuming for refi cash out and purchase originations, just that mix there? That would be great.

Patrick J. Flanagan

Chief Financial Officer

This is Pat. For the second quarter, we would expect the mix between purchase and refi to be roughly comparable to the first quarter's results.

Operator

[Operator Instructions] Okay. So with no further questions, I will hand the call back over to Frank Martell.

Frank D. Martell
CEO, President & Director

Thank you, operator. And look, thanks everybody for joining us today. We appreciate your interest in the company as always. I want to also thank Pat and the rest of the team and really all of team loanDepot. We continue to focus on executing against our plans, and we are continuing to reduce our operating losses. And as you all hear, we expect to continue to make progress in the second and the third quarter of this year.

So with that, I will conclude the call. Appreciate your interest.

Operator

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

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