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Earnings Call

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Call Participants

EXECUTIVES

Anthony Li Hsieh

*Founder, Chairman & Executive
Chairman of Mortgage Originations*

David R. Hayes

Chief Financial Officer

Frank D. Martell

CEO, President & Director

Gerhard Erdelji

*Senior Vice President of Investor
Relations*

ANALYSTS

Cory Johnson

*UBS Investment Bank, Research
Division*

Presentation

Operator

Good afternoon, and welcome to loanDepot's First 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, and good afternoon, everyone. Thank you for joining our first 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 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 Executive Chairman, Anthony Hsieh, President and Chief Executive Officer, Frank Martell; 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, Jeffrey 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 Frank to get us started. Frank?

Frank D. Martell

CEO, President & Director

Thank you, Gerhard. I appreciate everyone joining us on the call today. As we announced in early March, I plan to step down from my role as CEO and member of the Board at our Annual Meeting of Stockholders on June 4. For the next month, I will remain active in my role and fully support our founder, Anthony Hsieh, in his transition back to day-to-day leadership of the company and as he ultimately becomes our interim CEO. Since this is my last earnings call with the company, I would like to share a few heartfelt messages starting with the fact that I'm very proud to have been part of loanDepot and look forward with confidence to the company's future success.

I would also like to sincerely thank Team loanDepot for their dedication and support over the past 3 years. As a team, we address the realities of the market while investing in our critical systems, products and processes that will allow loanDepot to take advantage of our market differentiators in this and upcoming cycles as well as allow us to continue to deliver a best-in-class customer experience, which is the core to loanDepot's service-based DNA.

Before I turn the call over to Anthony, I'm pleased to share that Q1 was a quarter of positive momentum for the company with higher volume, margins and ongoing cost discipline, which drove significantly improved results, which David Hayes will elaborate more in detail later in the call. As I close, in the spirit

of expressing my gratitude, I'd like to thank our investor community and all those who participated in our quarterly calls. I appreciate your engagement, support and the time you spent evaluating loanDepot.

With that, Anthony, the floor is yours.

Anthony Li Hsieh

Founder, Chairman & Executive Chairman of Mortgage Originations

Thank you, Frank, and hello, everyone. On behalf of the Board and Team loanDepot, I want to express our gratitude for your leadership over the past 3 years. Frank, you're a man of honor and a servant leader. You care for Team loanDepot and the customers we serve is evident. Now to look forward, first of all, it's great to be back with all of you. We respect the work of the investor community and to echo Frank's comment, recognize your important role in the marketplace.

As we move ahead in the coming days and weeks, the team and I will focus on capitalizing upon the things that make loanDepot great, with the expectation being that we expand originations and drive growth. I believe our multichannel sales model, proprietary mello tech stack, wide product array, powerful brand muscle and our servicing business are foundational areas in which loanDepot can win. By leveraging this unique constellation of assets plus adding to our arsenal with new and emerging technologies and platform refinements, I believe we are well positioned to gain profitable market share and scale our business. To elaborate a bit further, our multichannel origination model is special. We have 3 distinct channels that serve as the foundation of our business.

Our end market retail and joint venture channels primarily serve the home purchase market, while our consumer direct channel primarily features refinance and home equity lending services. Purchase is generally considered to be more stable and consistent part of the mortgage market and forms the foundation of our origination strategy, while our direct channel allows us to scale and grow when interest rates drive increased refinance activity as well as capture home equity volume when customers want to access equity while maintaining their first mortgage interest rate.

Our end market retail loan officers are distributed throughout the country, working closely with real estate agents in their market, provide the financing solutions and help our customers successfully navigate one of the most important financial transactions of their lives. We believe the partnerships we have within the real estate community are incredibly valuable and one of the ways in which we drive loyalty and repeat business over time. Our differentiated joint venture channel forms partnerships primarily with homebuilders to provide seamless financing for the purchase of their newly built homes. Combined, these 2 channels give us great footprint in the new and resale purchase market.

Our consumer direct loan officers, many are licensed in multiple states, benefit from our nationally recognized brand, marketing prowess, scale and proprietary technology to quickly convert potential mortgage leads into borrowers. And with both first and second mortgage product, these loan officers can help customers access and use equity to advance their financial goals. Next is our servicing business. With \$117 billion of unpaid principal balance, servicing provides a consistent and recurring source of revenue for us. Because we service loans in-house, we directly interact with our customers, strengthening our brand and awareness, loyalty and providing important self-serve opportunities throughout our customer portal.

This improves our recapture rates, which deepens our customer relationships and drives profitability by saving marketing expenses, avoiding much of the customer acquisition cost on our recapture loans compared to those of newly originated customers. By servicing loans ourselves, we are also able to cross-sell other products and services to our existing customers, such as our home equity-linked products. We have seen growing customer adoption for these products along with investor demand, creating additional revenue at attractive margins. Introducing these products demonstrates our commitment to delivering right fit products to customers at the right time.

Our proprietary mello tech stack is widely acknowledged as a best-in-class platform in the origination space. As we move forward, we will build on our legacy of innovation by adding to our arsenal with new and emerging technologies and platform refinements. Innovation is a part of our DNA and how we built

this company from the ground up in 2010. I fully expect this to return to our roots in this way. Behind the scenes, we will also continue to focus on improving our process flow to deliver more positive operating leverage so that we can quickly and efficiently scale the business as the market improves.

What underpins all of this, in my opinion, is our brand muscle. Perhaps even better described as our brand heart. I hear over and over that people recognize our brand from the investments we made in Major League Baseball and with our presence in Miami at loanDepot Park. The team and I are proud that our brand lights up on a national scale in this way, but anyone who knows me well will tell you that I believe the most important way our brand lights up is in the interactions we have each day with our customers.

Our overall customer satisfaction scores remain incredibly high, and we consistently drive home the truism that every customer interaction, no matter how big or how small, matters. Our incredible customers and employees are the true embodiment of our brand. They are what really give our brand its power. What I just described may be a bit of old news for some of you listening to this call, especially those of you that have been following loanDepot since the beginning. That said, what I have outlined is an important reminder of who we are.

Through the groundwork that has been laid over the past several years and our constellation of unique assets, I believe loanDepot is positioned to win and poised to regain market share in the future. I continue to familiarize myself with our day-to-day operations, and I am excited to return to the company that I founded. Given our positioning, I believe we have a tremendous opportunity to make a positive impact on the lives of our customers and for all our stakeholders.

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

David R. Hayes
Chief Financial Officer

Thanks, Anthony, and good afternoon, everyone. We deeply appreciate all that Frank brought to our company and are energized by Anthony's return. Under Frank's guidance, the first quarter reflected the benefits of our investment in growth-generating initiatives despite the adverse impact of lower servicing revenue stemming from our 2024 MSR bulk sales. We reported an adjusted net loss of \$25 million in the first quarter compared to an adjusted net loss of \$38 million in the first quarter of 2024 due primarily to higher lock volume and gain on sale margin, offset somewhat by higher expenses.

During the first quarter, pull-through weighted rate lock volume was \$5.4 billion, which represented a 15% increase from the prior year's volume of \$4.7 billion and reflected the impact of our investment in recruiting and developing our loan officers. Pull-through weighted lock volume came in within the guidance we issued last quarter of \$4.8 billion to \$5.8 billion and contributed to adjusted total revenue of \$278 million compared to \$231 million in the first quarter of 2024. Our increase in adjusted revenue has accelerated and more than overcame the decrease in servicing revenue stemming from our 2024 bulk MSR sales. Our pull-through weighted gain on sale margin for the first quarter came in at 355 basis points, above our guidance of 320 to 340 basis points and compared to 274 basis points in the prior year.

Our higher gain on sale margin primarily benefited from a bigger contribution by our home equity-linked products and a higher proportion of government loans compared to the prior year. Our loan origination volume was \$5.2 billion for the quarter, an increase of 14% from the prior year's volume of \$4.6 billion. This was also within the guidance we issued last quarter of between \$4.5 billion and \$5.5 billion. The previously mentioned increase in government lending has also contributed to our unit share market gain, increasing from 145 basis points to 187 basis points over the past year.

Servicing fee income decreased from \$124 million in the first quarter of 2024 to \$104 million in the first quarter of 2025 and primarily reflects the impact of our 2024 bulk sales. 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 reaction to changing interest rate

environments. Our total expenses for the first quarter of 2025 increased by \$12 million or 4% from the prior year quarter.

The primary drivers of the increase were higher volume-related commission, direct origination and marketing expenses. Our nonvolume-related expenses decreased \$7 million over the same period, primarily through lower G&A, reflecting our ongoing cost management discipline and lower cyber-related costs. Looking ahead to the second quarter, we expect pull-through weighted loan volume of between \$5.5 billion and \$8 billion and origination volume of between \$5 billion and \$7.5 billion. We expect our second quarter pull-through weighted gain on sale margin to be between 300 and 350 basis points. Our guidance reflects the seasonal increase in purchase activity, potentially offset by recent market volatility and higher rates.

Our total expenses are expected to increase in the second quarter, primarily driven by higher volume-related expenses. The first quarter reflected the benefits of our investment in growth-generating initiatives. Our home equity linked products and investment in recruiting productive loan officers in all of our channels supported strong margin and volume increases, which resulted in growing adjusted revenue. As I work even more closely with Anthony going forward, 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 a strong balance sheet.

We ended the quarter with \$371 million in cash. We believe our multichannel strategy, high-quality in-house servicing, scalable origination capabilities and operating leverage uniquely positions us to profitably grow volume and market share when the market eventually recovers, as evidenced by our ability to capture additional volume during the third quarter of 2024 when rates temporarily eased. We believe a more sustained decrease in rates will materially improve our bottom line and our ongoing investments in growth-generating initiatives will provide the foundation for additional momentum during 2025 and beyond.

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

Question and Answer

Operator

[Operator Instructions]

Our first question comes from Doug Harter from UBS.

Cory Johnson

UBS Investment Bank, Research Division

This is actually Cory Johnson on for Doug. So you had like a wider gain on sale margin this quarter, and you mentioned how home equity-linked products helped you to increase that gain on sale. Can you maybe just talk a little bit about like what the outlook is for home equity business? Like what is that market looking like now? Is it a more attractive option than it was perhaps maybe just even a few months ago?

Anthony Li Hsieh

Founder, Chairman & Executive Chairman of Mortgage Originations

Yes. Cory, it's Anthony Hsieh. So the second mortgage product really is a proper hedge to the interest rate environment. So as rates stay somewhat elevated, we continue to scale this business by increasing our marketing and looking at cross-sell opportunities, both in terms of our first mortgage marketing leads and our servicing portfolio. As rates continue to adjust and if we hit a rally, you will see first mortgage cash out dominate more so than the home equity market.

So in short, we continue to increase our home equity market. There's a very strong demand as a result of it with record home equity out in the country, very low loan-to-value and many of the consumers protecting their 2%, 3% and 4% interest rates. This is the best way for them to leverage their cash flow. And again, as rates decrease, which is more so of when and not if, we'll be in a great opportunity with a cash out refinance.

Operator

[Operator Instructions]

There are no further questions at this time. Anthony Hsieh, I turn the call back over to you.

Anthony Li Hsieh

Founder, Chairman & Executive Chairman of Mortgage Originations

Thank you. On behalf of Frank, Dave, Gerhard, Jeff Walsh, Jeff DerGurahian and rest of our team, I want to thank you for joining us today. I look forward to sharing our progress again next quarter. I rejoined the company in an active management role with a goal of leveraging our unique assets that comprise Compressed loanDepot.

Our diversified channel strategy, which is the industry's only Scale model of this type, nationally recognized brand and top-of-funnel customer acquisition experience, in-house servicing business and proprietary tech stack allow us to maximize operational leverage, providing the foundation for accelerated growth once the market normalizes. I, along with our leadership team, am committed to house, capture, grow, protect and invest in those assets to continue loanDepot's position as a leader in home mortgage. So thanks again, everybody, and I appreciate your support.

Operator

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

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